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PRESENTATION

Operator

Good morning. My name is Michelle (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Empire Company Limited Fourth Quarter Results. All lines have been place 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, please press the # key.

I'd now like to turn the call over to Mr. Clinton Keay, Executive Vice President of Finance for Empire Company. Please go ahead.

Clinton Keay — Executive Vice President, Finance, Empire Company Limited

Thank you, Michelle. Good morning, and thank you for joining us today. Our comments today will focus primarily on the financial results of the fourth quarter and fiscal year ended May 7, 2016. Following our comments, we will then be open to your questions.

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

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

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

Thank you, Clinton, and good morning, everyone. Before I begin to review the financial results, I would first like to speak to the additional impairment charge that was recorded in the quarter.

The poor financial results of our Western business unit, including the impact we will discuss related to gross margin and EBITDA, deepened throughout the fourth quarter, with impact felt across additional banners in the west.

And as a result, management did advise it would be again required to review and perform the appropriate financial analysis of the value in use of the assets of the Western business unit. The specific assumptions of this analysis have been disclosed within in our financial statements and MD&A.

As a result of this analysis, management determined that an additional impairment charge of $1.3 billion would be required. Management and the Board continue to believe that our Western business unit will be a successful piece of our strategy for the future, and remain confident in our office and store employees throughout the Western business unit.

Empire consolidated sales in the fourth quarter were $6.28 billion, an increase of $512.7 million or 8.9 percent. The additional week of operation in fiscal 2016 account for approximately 461.2 million, or 8 percent of the 8.9 percent increase in sales.

Sobeys same-store sales, excluding fuel, decreased 1.28 percent for the quarter compared to last year. Our internal food inflation for the quarter was calculated at 2.2 percent.

Consolidated sales for fiscal 2016 were $24.62 billion, an increase of $690 million, or 2.9 percent compared to last year. The additional week of operation in fiscal 2016 accounts for 1.9 percent of the increase in sales. Same-store sales decreased 0.2 percent for fiscal 2016 compared to last year.

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

As previously discussed, merchandising issues, such as our private label conversion, produce supply chain issue, and people transition effort proved distracting and presented considerable short-term challenges to the business.

The economic environment, mainly in Alberta and Saskatchewan, continues to put further pressure on our sales and margin erosion, which is being felt across all banner units in the Western business unit.

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 3.6 percent in Alberta for 14 weeks and a negative 1.5 percent for the 53 weeks ended May 7, 2016.

Excluding the fuel sales and the retail West business unit, same-store sales for the 14 and 50 weeks ended May 7, 2016, would have increased 0.2 percent and 1.5 percent, respectively.

Gross margin. For Sobeys, fourth quarter gross profit increased 90.3 million, or 6.2 percent relative to the same period last year. This increase is mainly the result of the additional week of sales in the current quarter. Gross margin decreased 60 basis points to 24.6 percent compared to 25.2 percent last year.

For the full year, Sobeys' gross profit decreased $4.9 million, or 0.1 percent compared to the prior year. Gross margin decreased 70 basis points to 24.2 percent compared to 24.9 percent last year. The decrease continued to be the result of the impact of lower customer spend and more aggressive merchandising promotional activity combined with higher promotional penetration, especially in Western Canada.

Consolidated EBITDA in the fourth quarter was negative $1.05 billion compared to $236.3 million in the fourth quarter last year, a decrease of $1.28 billion. The decrease in EBITDA was primarily the result of the goodwill and long-lived assets impairment notice and the factors affecting sales. The provision related to manufacturing purchase price adjustment also impacted EBITDA.

After adjusting for certain items to better analyze trend and performance and financial results, consolidated adjusted EBITDA for the fourth quarter was $269.6 million, a decrease of $69.7 million, or 20.5 percent over the fourth quarter last year.

Adjusted EBITDA margin in fourth quarter was 4.3 percent, down 160 basis points from 5.9 percent in the same period last year.

For the full year, consolidated EBITDA was negative $1.94 billion compared to $1.22 billion last year, decrease of $3.17 billion. The decrease in EBITDA was largely due to the impairment recorded for goodwill and long-lived assets and the provision related to the manufacturing purchase price adjustment. This was partially offset by the factors affecting sales.

After adjusting for certain items to better analyze trends in performance and financial results, consolidated adjusted EBITDA for fiscal 2016 was $1.16 billion, a decrease of $160.5 million, or 12 percent over last year. Adjusted EBITDA margin for fiscal 2016 was 4.7 percent, down 80 basis points, or 5.5 percent in the same period last year.

Investment and other operations reported operating income of $24.7 million in the fourth quarter versus $29.6 million in the same period last year, a decrease of $4.9 million.

Equity-accounted earnings from Genstar were $2.8 million in the fourth quarter, a decrease of $8.3 million compared to $11.1 million recorded in the same period last year. The decrease relative to last year was primarily due to stronger operational results last year.

Equity-accounted earnings for the Company's investment in Crombie REIT were $18.1 million, an increase of $11.1 million over the same period last year. This increase was due to an increase in operating income from Crombie as a result of a group of properties sold in the first quarter of fiscal 2016. We refer you to Crombie REIT Q1 news release on May 4th for detail of its most recent quarterly results.

At the end of the fourth quarter, the fair value of our 41.5 percent equity accounted ownership interest in Crombie REIT was $786 million with a carrying value of $266.8 million.

Subsequent to May 7, 2016, Sobeys entered into an agreement with Crombie REIT to sell and leaseback the portfolio of 19 retail properties and 50 percent interest in each of our three automated distribution centres, as well as the sales of two parcels of development land owned by Empire. The transaction will result in a net cash proceed of $324.6 million, which is expected to be used to repay senior unsecured notes coming due and the receipt of approximately 93.4 million value of Class B LP units of Crombie.

For the fourth quarter, finance cost net of finance income remained consistent with the same period last year. During fiscal 2016, finance costs net of finance income decreased $17.7 million to $137.4 million. The decrease was primarily due to debt repayment in fiscal 2015.

The Company’s effective income tax rate for the fourth quarter of fiscal 2016 was 21.5 percent compared to 28.1 percent in the same period last year. The reduction is largely due to a change in estimates regarding the rate at which a tax consequence from the impairment of goodwill and long-lived assets will be realized.

The Company’s effective income tax rate for fiscal '16 was 17.3 percent compared to 25.6 percent in same period last year. This reduction also is a consequence of the impairment of its goodwill and long-lived assets. The effective income tax rate, excluding this impact, would have been 27 percent compared to 25.6 percent in the prior year.

In the fourth quarter, Empire recorded adjusted net earnings net of controlling interest of 95.3 million, or $0.35 per diluted share compared to $136 million, or $0.49 per diluted share in the same period last year, a decrease of $41.4 million, or 30.3 percent relative to the same period last year.

For fiscal '16, Empire recorded adjusted net earnings net of controlling interest of $410.2 million, or $1.50 per diluted share compared to $511 million, or $1.84 per diluted share last year, a decrease of $100 million or 19.7 percent.

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 39.4 percent compared to 27.6 percent last year.

Cash and cash equivalents at the end of the fourth quarter equaled $264.7 million. Free cash flow for fiscal 2016 was $422.8 million versus $1.4 billion last year, a decrease of close to $1 billion. The decrease in free cash flow was attributed to a decline in cash from operating activity and mainly by a reduction in proceed from the divestiture of noncore assets relative to the same period last year, combined with increased property, plant, and equipment purchased in fiscal 2016.

I will now turn the call over to Marc Poulin.

Marc Poulin — President and Chief Executive Officer, Sobeys

Thanks you, François, and good morning, everyone. Clearly, a very disappointing quarter for our organization driven by continued challenges in our business in Western Canada that we have documented over the past three quarters.

While we have made progress in executing our integration plan for our Western business, and we believe that a significant part of the integration disruption is nearing an end, our results continue to be impacted by the effect of the operational challenges we have in our West business and what remains a very difficult economic climate particularly in Alberta and Saskatchewan.

With the completion of our people transition phase of the integration completed in the fourth quarter, we are now operational as one team in the west. This is an important milestone that cannot be underestimated, and that will ensure that the right focus is now placed on the day-to-day operations of our business.

In the fourth quarter, we saw early evidence of a softening sales trend in other regions of the country. Although management remains focused on reversing these negative trends by continuing on our core strategies of cost reduction and for renewal and relevant pricing for our customers, the stabilization and eventual return to acceptable level of growth in our business is clearly going to take time.

We note the overall market continues to experience a significant shift in customer mind-set, which only serves to reinforce the approach we are taking in making significant structural changes to our business.

With that, I would like to provide you with an update on our three key areas we are focusing on to strengthen our business across the country: pricing structure, network renewal, and driving efficiencies. So let me start with pricing.

As we mentioned last quarter, we are currently in the process of redefining our relationship with buyers and our retailers under a program called Simplified Buy & Sell, or SBS, which is designed to simply, standardize, and harmonize the buy and sell structure across all of Sobeys.

Our goal is to increase cost transparency and enable better [carry] (4:26 EMP4) management, ultimately allowing us to strategically improve shelf price competitiveness and overall price perception across the country. By rebalancing customer spend from promotional to a reduced regular price, we expect to fulfill a greater share of our customers' grocery shopping needs.

In April, we introduced SBS into our Quebec stores, and the early results are starting to show a customer shift to the lower regular prices and a drop in promotional penetration.

Clearly, we remain in the early stages of this important structural change to our business model, and acknowledge that a significant amount of heavy lifting remains to ensure traction with our customers over the long term, both in the Quebec market, and as we systematically roll the program across the country throughout fiscal 2017.

We continue the rollout our new concept stores across the country, with renovations to our Albert Street Sobeys in Regina and Safeway Oliver Square in Edmonton, as well as an expansion to the Sobeys Urban Fresh at Queens Quay in Toronto and the opening of a relocated IGA extra in Bourgogne.

We are pleased with customer response to the new concept, both in the west and across the country, and we'll continue to aggressively roll out the—start moving forward.

The new concept store is open as part of a broader investment we are making in renewing our overall store network across various formats and banners that in Q4 included seven new stores, three expansions, and three relocations. And while we continue to seek ways to grow our business, we remain unwavering in our focus on driving efficiencies and taking costs out of our business.

Our focus and single largest opportunity right now remains the work we are doing to integrate our distribution and logistics network in Western Canada and Ontario.

In the fourth quarter, we finalized the future space of our entire distribution network in Western Canada with the announcement of the closure of two facilities in Calgary and Edmonton.

The process to define and integrate the network began more than two years ago. When completed in the fall of 2017, we will have a total of 10 distribution centres, down from current 18 post-Canada Safeway acquisition, providing us with the most efficient food distribution network in Western Canada.

We remain on schedule with the expansion of our automated distribution centre in Vaughan that will support the distribution of frozen dairy and deli categories in the Ontario province. The facility will be fully operational in January 2017 and will result in the closure of our Milton distribution centre. Please note that work continues on our automated facility in Rocky View, Alberta, scheduled to open in the spring of 2017.

We continued to strengthen our leadership talents with the addition of Beth Newlands Campbell, who joined us in Q4 to lead our Atlantic and Ontario business unit. Beth has more than 30 years of food retail experience, including experience as President of Food Lion in the US. And Monday we announced the appointment of Lyne Castonguay as Chief Merchandising Officer for Sobeys. Lyne will be responsible for all aspects of our go-to-market strategy. For last past 14 years, Lyne has held senior merchandising marketing operation roles in the Canadian business of Home Depot, as well as their US business.

We are delighted by the addition of both these experienced and passionate retailers, and know that they will have a positive impact on the business.

So in closing, let me simply say this: we are disappointed with our Q4 results and overall results for the year; having said that, we are confident that we have the right strategy to compete and succeed in the Canadian food retail and marketplace, and that our ability to successfully execute our strategy requires significant structural change to our business model.

We are making those changes and the associated investments, but it will take time for those changes to impact the business and be sustainable.

We are now happy to respond to your questions.

Q&A

Operator

Again, if anybody would like to ask a question, please press *, 1 on your telephone keypad.

Your first question comes from Mark Petrie from CIBC. Your line is open.

Mark Petrie — CIBC

Hi. Good morning. So first I guess with Western Canada, I guess maybe you could just talk about specifically what worsened to lead to the write-down? Was it basket? Was it traffic? And how does the right promo balance shaping up out there?

François Vimard

Maybe I can give some sense in terms of the write-down period to deepen and then in terms of if you look at our total comp store sales. As we have mentioned back in Q3, the comp store sales for the West was negative 2.7 and in Q4 they were closer to 3.7 negative, so clearly, we saw a deepen in the trend on our negative sales out west.

And like we said also on the press release, it did touch also our other banners out west. So the momentum that we have out west was—the trend was even more negative. So that's the cause.

In terms of pure business, I would say overall it depends. The reaction by banner and by market are a bit different. You can understand, Mark, that depending if it's an oil part of the country, clearly customers can do down quite a lot because there's less people. But there's also basket size impact in some of our stores, mainly because of people looking at pricing as even more than usually.

And so those two elements clearly have impacted our sales the most, and it's a bit different by different banner or different part of the country, but the overall market is affected.

Mark Petrie

Okay. And then, I guess, when you look at the first—the early results of your price action at IGA in Quebec, obviously a pretty complicated shift to execute. But what variable or piece of the equation to balance gross margin came in differently than perhaps you anticipated? And did you get the volume growth in that market?

Marc Poulin

So we're actually—it's early stages and especially the quarter was only four weeks in this quarter, and so let's take that in perspective. What we're seeing is that the customer acceptance of the new pricing strategy is in line with our expectations. Obviously it's a long-term process for people to integrate the renewed competitiveness of the regular price file, but it's building up nicely.

We're seeing that the customer behaviour is already shifting to greater acceptance of the regular price file. What's also important to note is that as we renegotiate with suppliers the way we go to market, this is also starting to drive changes in the category strategy that the supplier adapts to the new strategies, and that's going to be what's going to have a long-term impact as we will optimize each category based on customer reaction. And obviously we have greater transparency in our cost file by the way we are going to market, so that will facilitate the implementation of better strategies in the long term.

And that's the long-term impact we're looking with the program is actually building better category plants that are more customer-focused and that are more driven by an overall customer desire about their expectations in the category.

Mark Petrie

Okay. And then, I guess, connecting those two questions, I mean how important is the rollout of that type of change to the west in terms of turning around the trends in the Western Canadian business? And maybe you could just sort of give what you think are sort of the key things that you guys need to execute on over the next couple quarters, or whatever time frame you want to put on it, to be able to stabilize the Western Canadian business.

Marc Poulin

Clearly structural nature of this are important to relaunch the Western business. And this is going to be part of the effort. And we're clearly working on it.

I'd like to mention that in the Western business we've reformed the produce—the way we go to market in produce by lowering regular prices and overall prices in produce. We did that in January. And in the May too time frame we also launched an initiative of lower meat prices around a campaign better meat at lower prices that we launched in the May time frame. And as you can imagine, grocery is part of the equation as well.

So we need to reposition our Western business in the way it competes and acknowledge actually the significant shift in the economy out there and customer reaction that follows with that. So that's clearly very important that we do so and working hard on that.

I guess the other things that are very important in the next quarters for us, as we operate now as one team we believe that we'll be more agile than we've been in the past in the way we operate the business. On the cost side of things in the business we are also putting the final touch on all the systems that allow us to manage the business at store level; things such as introduced labour standards and all the processes associated with managing shrink and computer-assisted ordering. So all those systems were introduced in the Safeway business as part of the system launch.

Some took a bit of time to be implemented as we needed to introduce first the overall central system and then went to stores. And they need to be appropriate, if I want to use that word, by the people at store level. And we're seeing traction of that part too. So for us getting good control of the basic operational systems at store level, especially on the Safeway side of things as we change those systems, it's very, very key. And that's key in the next few quarters that it will allow us to have full control of our business.

And obviously when the market conditions are right and in the—we're going to keep investing in the renewal of the network. But even in markets where we're not putting investment we also work hard at enhancing the offer for our customers by the introduction of new commercial programs and harmonizing the programs that are between Safeway and Sobeys benefitting on the same reasons in both cases. So introducing successful programs that are in the Sobeys business in Safeway and introducing successful programs that are in the Safeway business into Sobeys. So getting those elements in place are key to success in the Western business.

Mark Petrie

Okay. Thanks. And then I guess just to follow up on that last point. Do you have a time line in terms of when you would expect to put more material capital into the Western business? Or is that just deferred at this point?

Marc Poulin

No, it’s on an ongoing basis. And it's we do have stores that currently that are in renovations and with a particular focus on making those changes successful, so it's an ongoing process.

Mark Petrie

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

Operator

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

Derek Lessard — TD Securities

Good morning, everybody. It's actually Derek standing in for Mike. I'll limit my questions to a couple; then I'll re-queue. Just maybe going back to the Simplified Buy & Sell initiative in Quebec, I just want to know whether you guys think that it's been effective enough to roll out to the rest of the country?

Marc Poulin

It is a structural change in the way we go to business that we believe is necessary for the Company to move to the next stage of evolution, and therefore we will roll out. You've got to realize that Simplified Buy & Sell plays at multiple levels.

It plays in simplifying our relationship in negotiations with suppliers, giving greater cost transparencies to the category manager so that they can make appropriate category management decisions. And at the same time, simplify our backhand infrastructure so that we can work more efficiently with our suppliers and, therefore, drive costs out of the business.

So it also goes to the way we go to market in changing the regular price file and the competitive of the regular price file and its interaction with the promotional program.

So it's impacted the business in more than one way, and that's why we say it is a structural change in the way we go to business that will have short-term implication on the way you communicated initially with the customers, but it will keep changing the business afterward as it impacts the way we plan each category in the business.

Derek Lessard

Okay. That's very helpful. Has this structural change started to take out west—or to the other banners, sorry?

Marc Poulin

Right now we are in Quebec with it, and obviously we're in discussion with our suppliers about the rest of the business.

Derek Lessard

Okay. You guys have implemented promotions; you've lowered shelf prices in some cases. Has there been any thought given to rolling out the FreshCo banner outside of Ontario?

Marc Poulin

Well, clearly, this is top of mind for management. As we always said, we felt that we needed a couple of years after the aggressive launch in Ontario to tie the knot, the loose ends about how the concept operates to make sure it was very efficient because that's the only way you can be successful in discount is if you get the right efficiencies out of your concept.

And we're pleased to report that we're very pleased with the overall performance of the FreshCo banner in Ontario. I think the team rose to the challenge of tightening up their concept to a point where we have a concept here that has legs and that we truly understand now.

Derek Lessard

So it has legs? So you think it's exportable outside of the province? The model?

Marc Poulin

It's a concept we're quite pleased with.

Derek Lessard

Okay. And maybe just one final one before I re-queue; share with us your rationale behind the sales leaseback transaction. Just wondering why Sobeys is actually selling the units to pay down debt rather than just refinancing?

François Vimard

It was a question of timing. If you look at the value on the Crombie REIT side, their unit price and the valuation we could get on that side, I think overall in Empire we're creating value by doing this. So we look at different options, and that option at the end was the one that was creating the most value.

Derek Lessard

Okay. Thanks for that, guys.

Operator

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

Jim Durran — Barclays

Good morning. Marc, I was just wondering like with respect to this broadening of weakness, do you view that as your pricing positioning in the marketplace? Or is that more of an industry-wide change in consumer spending? I mean we haven't seen strong economic weakness outside of the oil-producing markets, obviously, so is this kind of just you guys needing to reduce the spread? Or is this more of an industry-wide dynamic?

Marc Poulin

I think it's an overall industry-wide dynamic, to be honest. That being said, we are challenged by it and maybe more challenged than other players, so we'll acknowledge our own weaknesses through this statement.

But you currently have market growth in various parts of the country that is first unequal—that's for sure—but the customer that's clearly facing challenges on their ability to spend. Disposable income in the country is clearly not growing at the same pace as the economy. We are seeing taxes beings increases or various charges being increases on the consumers, and therefore I think that underlying is pretty good across all provinces. And I guess New Brunswick not being an oil-driven province has increased taxes recently.

So we're seeing that pressure on the consumer, and I think it's impacting the consumer psyche, whether we like it or not.

Jim Durran

And would you attribute this partly to like we've obviously had above-average food inflation for several years now, and at the same time the gas fuel price savings have now gone to almost zero in terms of the consumer's wallet.

Marc Poulin

I think those two elements you mentioned are clearly factors. While the inflation we had in the business in the last two years had a positive impact on sales, it also had an impact on how customers look at their food basket. And so we somewhat benefitted at the time from some bottom being put on the pressure, but at the same time customers starting to react differently to how they shop food.

And so the psychological impact will remain, and that's what we're seeing, while the impact of inflation on food is starting to subside.

Jim Durran

And at the same time, like outside of Alberta and Saskatchewan would you say that the discount segment has started to move prices down and so that's widening the spread versus conventional at the same time?

Marc Poulin

I'm not sure I would say so, no.

Jim Durran

Okay. The last question, just a clarification question; I think François at the beginning of his opening comments referenced some, I think, comp store sales numbers, and I just didn't get them properly. So I thought it was like minus 3.6 percent in Alberta was the comment?

François Vimard

Yeah. It was in Alberta; it was the total West business, Jim.

Jim Durran

Okay. And the minus 5.4 ending May 7, was that for what period overall?

François Vimard

Minus 5.4. Let me check, Jim. I'm not sure which number you're talking about.

Jim Durran

Yes. It was all part of the same commentary.

François Vimard

Okay. I will go back to it; then come back to you, Jim.

Jim Durran

Great. Thank you.

François Vimard

Thanks.

Operator

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

Kenric Tyghe — Raymond James

Thank you. Good morning. I wonder if I could just switch back to Western Canada for a momentum. If we were to strip out the macro discussion for a minute and sort of look at a couple of the other bucket you've previously highlighted, sort of the challenges in your private label merchandising and the experience and recognizing that those are all very closely linked. If you were to have to rank order, how should we think about how those three have impacted and continue to impact the performance in Western Canada? I'm trying sort of handicap the sensitivities around the Western Canadian business and how you're going about or how you're progressing in terms of addressing those, stepping away from the very obvious macro challenges for a minute.

Marc Poulin

Yeah. Well, I think it's a problem of one compounding on the others. And you've got to take in the sequence of how things happen.

In March of last year, we basically turned the switch on to the new systems. When we did so we started to experience issues in produce procurement, and those were related to the fact that in the past Safeway used to procure through the US systems and also through a US buying office. And as this transitional agreement expired, we took over that and therefore we had a bunch of new buyers for produce in the Safeway business in Western Canada. And to be honest, the transition didn't go as smoothly as we anticipated, and there were glitches associated with that.

We basically have for a number of months difficult replenishment of our stores in produce. The quality of what we were putting for the customers was impacted as a result of that. And then as things started to be a little bit better from our own internal process point of view, we had a pretty tough growing season last year with quality being impacted not only for us, but for the market as a whole. But that prolonged to a certain degree the self-inflicted wounds to a certain degree.

If we look at the produce situation, now we're—the team is a lot stronger doing—and it shows up in the quality of what we're presenting to our customers and the service level and sale rates are at a very acceptable level at this stage, in line with what you would see in the rest of the country. So to a certain degree that took a while, but it got resolved, and around the fall time I'd say.

In regard to private label, we introduced the Compliments brand to the customers and substituted like-for-like items between Safeway and Sobeys towards Compliments. And we faced some customer initial reaction to it not knowing exactly or not clear about what was in the product, even though in most cases it was exactly the same product, or in some cases we had switched the Compliments formulation to a Safeway formulation.

But that being said, customer reaction was not what we anticipated and it was more difficult to the introduction. But again, we put programs and promotions to get customers to look at the brand, and now we're in a position where we can say that in like-for-like items our sales in private label are actually increasing higher than what they used to be. So customers' acceptance of the private label is getting there.

But again, this happened around the spring of last year time frame, and to be honest, we had a pretty tough spring and summer last year as those two things combined to create a store experience that was not at the level our customers were expecting from us.

Then in the fall, that's when we started clearly to see signs of the western economy impacting the way customers were behaving at store. So we saw increased promotional penetration pretty sudden, to be honest, and an overall customer that was really changing the way they were shopping. So that came at the time where we were stabilizing the business, and it compounded the issues we had and started to take the forefront on the overall customer experience.

I'm not saying that we're perfect in the way we manage the stores, and we're still living through the transition at those stages, but I would argue it's a combined impact of both that really created the situation we're in. The economic crisis really hit our business at a time when we were clearly vulnerable in the way we were operating.

Kenric Tyghe

Great. Thank you. Then just two quick follow-ups; Marc highlighted earlier the private investments you're making in fresh. And I'm curious as to how effective that's been in terms of the share trends in Western Canada. Have the initiative actually positively impacted your tonnage? Have you been able to recoup the tonnage you perhaps lost with your procurement issues early last year? Or how is that trending to the extent you can comment?

Marc Poulin

So we're pleased with the way the produce initiative played up. And I think especially in the Safeway store we're seeing tonnage increases.

That being said, the overall business is impacted by—the overall produce business is impacted by the trends we're seeing for the overall store, so that's an issue. But we're clearly making progress in produce and seeing some benefits through the initiatives we launched. Is it perfect? No. But I think customers are starting to realize that we have a very good produce program with high quality and very competitive prices.

Kenric Tyghe

And was there any sort of ripple or contagion from the disruption out west in the supply chain into your Ontario base at all into the Sobeys stores?

Marc Poulin

No. No impact between the West and Sobeys and Ontario. They're self-contained businesses.

Kenric Tyghe

Great; just wanted to check. And just a final one for me, if I could; just with respect to the store experience and the renovation, what's the single biggest reason you wouldn't look to really ramp the renovation and the pace of renovations there? I mean what to your mind is the biggest barrier to really accelerate the pace of renovations of the Safeway footprint, given current market dynamics and given all the moving parts here? Or is it always that the moving parts that preclude your wanting to accelerate the renovation of the actual physical footprint?

Marc Poulin

We're actually doing an acceleration of our renovation budget in the Western business. We're although focusing our renovations in markets where the conditions are right for it, and therefore we got to make sure that we can benefit at the maximum from those investments, both in terms of ability to deliver a great experience for our customers; at the same time to have the right cost structure to do so.

Kenrick Tyghe

Thanks very much. I'll leave it there.

Operator

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

Peter Sklar — BMO Capital Markets

Thank you. First question on same-store sales; I believe you disclosed that your national same-store sales were negative 1.8 percent, but you also typically disclose your national same-store sales—I believe that included fuel. I'm just wondering if you have that number excluding fuel?

François Vimard

You're right, Peter. And I said that in the script, and that was 1.28 excluding fuel. So like you said, minus 1.8 everything included and minus 1.28 excluding fuel.

Peter Sklar

And that's negative 1.2?

François Vimard

Yeah.

Peter Sklar

Yeah. Okay. I noticed that in performance of the grocery business looking at the margins that your SG&A margin was up quite a bit relative to previous quarters.

François Vimard

Mm-hmm.

Peter Sklar

And I was wondering why that's playing out? Is that store labour? Or what is going on there?

François Vimard

I would say, Peter, I would say that the biggest impact is clearly the negative leverage with the sales, clearly, because as you know in our business, close to 80 percent of our costs are fixed, meaning at store level, as you can imagine. So there’s a bit of negative leverage going on on the SG&A when you look at percentage. So that explains a big part of it.

Peter Sklar

Okay. And I have a question on the Simplified Buy & Sell program. I believe as you implement the program through IGA in Quebec that management anticipates it would be initially somewhat margin-neutral until you’re able to change consumer behaviour and encourage the consumer and see the consumer buying more on shelf and less on promotion and if that's true? And I'm just wondering why the program is not initially margin-neutral because my understanding of the program is you're renegotiating all of the allowances that you receive from your suppliers, and rather than accepting those allowances over time rather you're initially buying it into the—you’re initially incorporating that into the shelf price. So I'm just wondering if you could talk a little bit about how the mechanics work and whether or not the impact is neutral on margin, or you need to see some change in consumer behaviour?

Marc Poulin

Okay. So I'll take the supplier side first. So for suppliers, we're not trying to get a different cost overall on if you want to use a netback basis on what we used to have, but we are asking the suppliers to fund promotions and fund regular price in a different fashion then they used to. So from that perspective that's what's happening, and it results in a lower regular price file.

And yes, the overall objective would simplify—the relevant pricing part of our initiative is to actually rebalance the mix between regular price and promotional price. And this is—it's how customers react that influences that part, but we—I don't know where you picked up that we were suffering in margins because of it.

I don't think we said anything of that nature. We're actually seeing that things are pretty much reacting the way we were expecting in our model on that front, and we're seeing raise in our on-shelf sales, which is obviously long term, but we want to do.

The next phase, as I mentioned, is now that we've redesigned the way we go to market, what we're starting to see our suppliers coming to us with a change in how they want to go—they want to go to market too on a category-by-category basis. And that's obviously going to bode well, I think, for our future growth in grocery as we will optimize the sales opportunity with this. And that's clearly the long-term benefit of this is enabling better category management and our ability to respond to customers' changing expectations.

Peter Sklar

Okay. And I just have a question about your loyalty programs and Club Safeway Card. I understand that in the Safeway business that although they had Club Safeway and Air Miles, the primary way they were collecting customer data and executing their loyalty program was through the Club Safeway Card. So now that the Club Safeway Card has been eliminated, do you still have access to all the historical loyalty data that was obtained through the card? And I'm just wondering what the impact has been in terms of the execution of your loyalty programs in terms of sending offers to your most loyal customers, et cetera, now that you've gone strictly with Air Miles?

Marc Poulin

Well, clearly we have the same ability that we used to have. We haven't lost access to data because of it. Club—the Safeway Card was mainly a pricing mechanism in the Safeway program where if you had the Safeway Card you had a lower price on shelf.

We very early in the process of transformation basically applied the Safeway Club card price to all customers, so we did that very early on. Air Miles, as you know, has a long history with Safeway. I mean they've been one the first sponsors of the program, so we have an incredibly rich experience on the loyalty side and a very long string of data. So we clearly are very well positioned to use loyalty data to influence customer behaviours.

Peter Sklar

Okay. Thanks very much.

Operator

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

David Hartley — Credit Suisse

Yeah. Hi. Thank you very much. Just back to volumes and the, I guess, weakness in volumes in the quarter, I don't know it it's been discussed yet on this call whether or not you've kind of indicated how much of the volume weakness is driven by just industry shift to discount or perhaps how you've been maybe disproportionately affected by that potential shift. Could you talk to that?

Marc Poulin

So I mean clearly there's a shift in customer mind-set and there's a—and we're not going to say that full service has to react to this and the way we're going to market needs to be changed structurally. I'm not sure I can give you exact what is what and what is that because now as we experience at the Safeway situation sometimes things combine with one another to create an overall reaction that's one feet on the other.

But we're not going to—we need to structurally change the way we go to business to address a different customer expectation.

François Vimard

Yeah. And maybe, David, the way you can look at that also, clearly the West overall, like I said, has an overall comp store of negative 3.6. And the rest of the business, even if it's not good, it's still 0.2 positive. So you see it's not the big movement everywhere say everybody's going discount. There's a big element out west and we explained what's going on out west combined with the economy and combined with the challenge we have.

So the biggest challenge we have in our sales is still what's going on out west. We mentioned many times that we need to change our structure and pricing structure across the country because we know long term that the right strategy is to bring back customers in the centre of the store. We see softness in the Eastern part of the country a bit, and we're going to work on it, but the biggest challenge we have is still what's going on out west.

David Hartley

And that 3.6, was that Alberta or Western Canada?

François Vimard

It's Western Canada; total Western Canada is 3.6…

David Hartley

Total Western Canada. Okay. Thank you for that. Yeah. I guess I'm just trying to get a sense here, perhaps like everyone else, how much of the weakness is related to customer shifts and to some of the challenges you're having…

François Vimard

Mm-hmm.

David Hartley

So I was hoping you'd prioritize that. But in absence of that, I mean if you look at, okay, 0.2 percent overall, you've got inflation—I believe you said 2.2 percent—is that just pure volume weakness? Is there a missing piece there? Or is that—is there a mixed shift that's going on that's been cited by some of your peers? Could you give me a little bit more colour there?

Marc Poulin

There's clearly a mix in terms of greater customer penetration on promotional, which obviously signals price sensitivity and there is overall reaction to price inflation. Customers are downgrading to lower-priced proteins, for example, and that's not helping the sale lines, for sure.

So there are multiple factors being at play here. High penetration of promotions, customers shifting to lower-priced proteins, are symptoms of a shifting customer mind-set being driven by the market as a whole.

David Hartley

So do you worry as we move forward here if this persists and some of the other factors like gasoline prices remain where they are, therefore the gains from that to all the consumers that aren't there anymore and you've got falling inflation, I mean what's the impact, do you think, that's going to be on your business going forward? Should I be worried about that? Should I worry about more price wars in the marketplace?

Marc Poulin

Well, I'll focus on what we're doing. We clearly need to address structurally the way we go to market, and that's what we're doing with initiatives such as Simplified Buy & Sell. We are seeing those trends, and our read on it is that this is not something that's going to last for a little while. We believe there’s been a fundamental shift in the way people want to shop their groceries, and we need to address that, and adapt to the new customer demands. And it's not simple promotional fixes that will get the job done.

It's purely more of a fundamental change in the way that we go to business that will adapt our business for the future expectations of our customers. So that's clearly the way we're approaching it. And don't take me wrong, we will address structurally the way we approach the business in order to meet the customers’ expectations.

David Hartley

Okay. Got it. And how far along are you in that process? And when do you—I know it's an evolving process, but when do you see yourself coming to the end of that process of discovery and then implementation? I mean I suspect that you could introduce discount banners; you could increase your service requirement in some of your stores. There's a bunch of things you could do. Can you give us a more defined time frame around that? And what we should expect in terms of the weight on your profitability from such initiatives before these things bear fruit?

Marc Poulin

Well, obviously we're trying to balance the changes we need to do to the business with the requirements of profitability. And it's not always an easy task [unintelligible]. Some things are clearly in motion. Simplified Buy & Sell is in motion. We're in execution mode in Quebec, which we're obviously—and learning quite a bit from that. And the learnings will influence the pace at which we introduce it to the rest of the country.

But the direction of negotiating our relationship with suppliers that's ongoing. Tweaking the way the commercial programs we put in front of the customers is always an ongoing process, but we really got to ask ourselves which programs are benefitting the expectation of customers and which programs are not providing enough value for the customers and, therefore, need either to be tweaked or eliminated.

I think we shouldn't de-emphasize the work we're doing on the supply chain from a cost perspective that will enable a lot of initiative. In fact, when you think of the initiatives we're having on distribution, I mean in this one by roughly 12 months from now we will have made significant, very significant advancement in our cost structure. And that's not going to be a one-year thing. It's going to be for structurally changing our distribution cost structure, and those changes were initiated quite a while ago.

So at the end of the day some initiatives are longer termed to prepare. Did I wish that I could equip an automated distribution centre at six months rather than the 18 to 24 months it takes? Clearly, but we—it does take that long to build and to operate, but the long-term benefits are there. And that's why we embark on those initiatives for quite a while.

So it’s not—we need to—but as a company I'll grant you that we need to be able to be a little bit more agile than we are in addressing the challenges of moving customer expectation.

David Hartley

Thanks. And just I'll throw two quick questions at you and get off. Did you mention synergies in the quarter anywhere? And secondly, gasoline stations. There seem to be a lot up for sale lately in Canada. Is there any interest in continuing to build that piece of the business? Thanks.

François Vimard

On the synergy side, we have that in press release. I think for the quarter we said it's around 79 million, if I'm not mistaken. I don't have the press release in front of me, but it's in that range. So we're over the trend of the 230 million, I think, on a runway basis.

On the gas side, clearly it's a business for us that is we're quite happy about that, but like we've said, it's more as a complement of our food business to understand—to create loyalty with our customers for even more, I would say, volume in our stores. So we're looking at any opportunity to improve our network to support our food business.

But at this stage clearly our focus is to improve our current network as much as we can. That's going to be our focus right now.

David Hartley

Thanks a lot.

François Vimard

Thanks.

Operator

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

Patricia Baker — Scotiabank

Thank you very much. I have two questions, François and Marc. The first one, just sticking with Western Canada again, and you indicated both in the press release and your remarks and you've talked about it a little bit on the call that you saw weaknesses extend beyond the Safeway banner to the other banners. And I'm just curious, so if I recall correctly as we worked through the last three quarters you actually only saw the weakness in the Safeway banner, and then Thrifty's and Sobeys outperforming Safeway in Western Canada. Can you talk a little bit about like when in the quarter that started to happen and whether you think that really reflects stuff that's happening in the marketplace? Or is there anything specific that you did? I know that you integrated your flyers, I think, in the fourth quarter. Is any of it related to that? Or is it really just extended weakness?

Marc Poulin

Well, we're seeing an overall impact on the business. Some geographies are clearly more impacted than others, and depending what kind of stores we have in the geographies it has a big impact.

The Sobeys banner, for example, has more stores in Northern rural Alberta, Saskatchewan. And you didn't mention the IGA banner that we have and the community stores in the west, but there's a lot of those stores that are in what you would consider oil town.

Patricia Baker

Mm-hmm.

Marc Poulin

And let's not kid ourselves, there are some towns in Alberta where the population dropped significantly as people moved out, given that there are no jobs anymore related to oil exploration and things like that. So that's an overall impact.

But I think throughout the quarter we're seeing a significant drop in the ability of customers in their purchasing power and things like that. So that's impacting not only the Safeway business, but the Sobeys business as well in the West. And we need to address the way we go to market so that we can meet the customers' expectations. We launched the pricing initiatives in both produce and now in meat in both banners exactly for that.

Patricia Baker

Okay. That's helpful, Marc. If I just think about your business generally, your whole national business and step back. You're undertaking three, I guess, pretty big projects. So you're completely revamping the distribution and supply chain, and you've indicated that you've got another year; in 12 months that'll be settled. But then the other two big things, you've got the big structural shift of your pricing strategy, which is a very large and long project, and then of course stabilizing Western Canada, which is a massive project that's going to take time. And I know you can't give us an end date on any of those things, except for the distribution. On a relative time line, can you just give me an indication of am I right in assuming that if things work according to plan we'll get stabilization in the West before you finish the structural shift? Or is it the other way around?

Marc Poulin

I think the three—you're right about these three being very key projects. Let's start with that. I think that the way you've got to look at it, though, is that they feed on one another, and it's not as if they are totally discrete propositions. So, for example, the supply chain efficiency that we're getting in the West will not only help from a cost point of view in our ability to be more competitive, but at the same time has an impact on the way we go to the business because with the simplified supply chain the West will be in a better position to have higher service levels and fuel our sales growth in the future.

So as much as it helps to—as much as we'd like to look at it separately, we actually see them as converging into creating a better food experience for our customers, and we shouldn't consider it to be separate in the—you've got to take it as a whole.

Patricia Baker

No. That's—I fully understand that, and that is an important point that you brought up. But will there be, though, different time lines? Or…

Marc Poulin

Yeah. I mean clearly supply chain is driven by construction, but Western Canada and how the way we go to market is clearly influenced by Simplified Buy & Sell; we're currently modifying the way we go to market with meat. Obviously when we introduce Simplified Buy & Sell strategy in the West it will influence the way we go to market for the customer as well. So it's—I'm having a tough time saying which is which, but we clearly believe that all these elements and others as the operational work we're doing in how we get people to fully adopt the new systems in stores, those are all part of the Western integration. And so they all feed into this, but we clearly need to integrate all of those with a better food experience for our customers.

Patricia Baker

Thank you, Marc. That is helpful. Appreciate it.

Operator

Your next question comes from Keith Howlett from Desjardins Securities. Your line is open.

Keith Howlett — Desjardins Securities

Yes. I had a question on the Western same-store sales of negative 3.6 percent. Are you able from your loyalty data to sort of break it down into customers who have left entirely versus customers who are splitting their shopping between your stores and other retailers? Have you got any sense of—I'm sure you do—but can you share any sense of what the customers' behaviour sort of breaks down as?

Marc Poulin

So yes, clearly we're in a position to do that. That being said, it's not all customers that use the loyalty card. Even though our sales on card penetration is fairly high by industry standards, there are still customers who are not always using the card.

And yes, the focus right now and the issue is there are customers that we've lost and that we need to recover. There are customers that moved out, period. There are a lot of people who are just not—well, don't take it as anecdotally—there are customers who used to use their Air Miles cards in Alberta who are now using it in Atlantic Canada, you know? So that's the hard reality of Western Canada.

So we have customers who—and we do have challenges on the basket side of things as customers are being less loyal than they used to, and we're trying to address that.

Keith Howlett

And then in terms of the mix of items in the basket, is there a growing fresh component still? Or is it maybe affected by promotions on centre of the store so maybe that washes out?

Marc Poulin

Well, I think what we're seeing overall is better, higher promotion penetration overall, whether it's on the fresh side or on the grocery side and in the west and across the country. So that's why we're addressing it structurally by redefining our pricing structure.

So the produce initiative in the west is exactly trying to address this. The new everyday low price that we've introduced in certain parts of our meat program right now in the Western business also is addressing this issue.

So the trend we're seeing around promotional is everywhere and touching every category. And as we said, we believe we need to address that structurally in our merchandising programs.

Keith Howlett

Then then just finally, I think the Safeway stores were unionized, I think. So when it comes to converting to the—if you were to convert, is there any framework agreement in place, as others have in the East, to shift a store from conventional to discount?

Marc Poulin

So clearly the Safeway stores are unionized. And the situation in the Safeway banner is on a province-by-province basis, so we have different agreements depending on the province. But clearly any shift in store format requires to work with the union about how that would get accomplished.

And I would argue it's not only associated with a possible discount introduction, but it's also a fact that when we want to introduce a store under the new concept these stores require different work rules trying to work with the service elements we want to provide. And renegotiating on the way we operate is an essential condition to put capital into a new concept store in Western Canada, and a key element in getting the right conditions for those stores to be successful.

Keith Howlett

Thank you.

Operator

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

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions; just a few quick ones here. Margin normalization; I think last quarter, I think, management indicated a few quarters would be required to get back to margin normalization. Is that still the view?

François Vimard

Like Marc says, that is going to take time because considering the current momentum we have in the business, we, like Marc said, we're working on different elements to stabilize it. But our key focus, Vishal, as you know—and that's what we mentioned, clearly the sales trend is the key element we have to work on, and that's going to be our focus.

Vishal Shreedhar

Okay. And what does margin normalization mean? Does that mean relative to the last few years of the Sobeys business alone? Or do we account for what Safeway used to get?

François Vimard

Margin normalization is the margin that is better than one in the past, Vishal. We had a lot of drop in our margin over the past few years, as you know, and caused by different elements. We want to go back to a level that is more profitable for sure and more stable also, but at this stage clearly our focus, I guess, it's on the sales side.

Vishal Shreedhar

Okay. And given that the focus is on the sales side, and last quarter I think management indicated that they would do what it takes to restore the sales trend?

François Vimard

Mm-hmm.

Vishal Shreedhar

If got that right; the Western Canada sales continue to weaken relative to the last quarter and same-store sales overall. So does that imply to us that pricing investments are not deep enough?

François Vimard

Right now the price investment—I guess the best price investment, which is pure promotion, that's what we were doing in the past and we know it doesn't work on long term, so clearly our big element more now is on the repricing strategy we're putting everywhere and we started in Quebec, clearly they're going to need some margin investment overall to support our position in the market. But overall the key point will be more to reshuffle or re-change our overall pricing strategy, so there were less [unintelligible] price and the regular price and the customer will see value with those regular prices.

But it's not only a margin investment, but it's a reshuffle of the pricing overall.

Vishal Shreedhar

Understood. In Western Canada are you content with the investment that you made?

François Vimard

No, clearly not because you see the result so far. And clearly we'll be content with the trend when sales change, and the pricing strategy is going to be a key element behind that.

Vishal Shreedhar

Understood. Your view on balance sheet, are you comfortable where leverage ratios are today? And will you do anything to change that? Asset sales or anything else?

François Vimard

Yeah. No, currently I would say my balance sheet is still strong. We have enough cash flow, and I have all the flexibility I need to support a business for a while. So I don't need to do anything urgent at this stage.

Vishal Shreedhar

Okay. Are you targeting any leverage ratio?

François Vimard

I'm not targeting any leverage ratio. As we said in the past, Vishal, clearly we always wanted to be investment-grade rating with the rating agencies so we have flexibility to get the financing that we need. And that's still our target.

Clearly, when you have the pressure on earnings that we have currently it's a bit more challenging, but I would say overall our target to be investment-grade.

Vishal Shreedhar

Okay. And last one here; it's a quick one. We could take it off-line if need be, but last year there was a 30.5 million inventory adjustment. Was that adjusted out of SG&A or gross margin?

François Vimard

It was adjusted in gross margin.

Vishal Shreedhar

Okay. Understood. All right. Thanks a lot.

François Vimard

Thank you.

Operator

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

Jim Durran

Yeah, just a few follow-ups. So first of all, I don't recall you mentioning what your measured food inflation was in the quarter?

François Vimard

Yeah. I mentioned that, Jim. It was 2.2.

Jim Durran

Okay. And with respect to the SBS program, I know it's early days in Quebec, but I would assume that you would normally expect that during year-over-year compares to a promo period, right, that you would see volume potentially weak year over year and then you'd see a strengthening of volume in non-promotion period, such that over a 12-month period you'd hopefully end up with same volume over that entire period. Is that the right way to think about it?

Mark Poulin

Well, obviously if you're taking on an overall category basis we're doing this with the expectation that we will eventually grow sales on an overall basis. But for this to occur two things need to happen.

The first one is the customer needs to appreciate the value that's on shelf versus what it used to be so that they regain confidence on the overall shelf pricing. And that will take time, and will not—it occurs as an overall phenomenon, if I want to put it that. It’s not as if, okay, I have confidence in category X and I don't have confidence in category Y. It's by experiencing the program over time that this occurs, and hence in the mean time we keep promoting as we always have, and it's the same factor.

And the second element is we optimize the categories and the way we go to market. So the number of promotions we're running in any given category will evolve to a level that maximizes both sales and profitability in trying to find the relevant price points between—that maximizes customer behaviour.

So that's the work that also goes on as we're basically resetting our category strategy, and both our suppliers and ourselves are right now relooking at Quebec about how customers are reacting to the new price points and how should we tweak category plans to optimize them in order to get the best customer reaction possible.

Jim Durran

Okay. Last question, just the Western Canada relaunch. How dependent is it on the new DC being open in Western Canada?

Marc Poulin

So what do you mean by relaunch?

Jim Durran

Well, I mean I know that you're making a number of changes right now, but I guess presumptuously I'm assuming that at some point in time when you feel you've got all your ducks in a row and things and are—you can make a promise to customers that you can actually back up across the board that you'd want to be a bit more aggressive in terms of encouraging customers to come back and shop you again. So I'm wondering how important is the DC changeover in that strategy in terms of your ability to go aggressively on that front already or your hesitancy to hold off?

Marc Poulin

So it's getting—I don't think it's strictly dependent on the DC, to put it—and it's probably not the most important element. But it's about our readiness to be able to deliver a customer proposition that we feel will—that will be properly executed and that customers will feel that, yeah, something has changed for the better, but it also shows up to the way we show up for the customer at store level.

So it's that overall readiness of the organization on properly executing the plan that's more key than an actual element of the plan. I'm not saying that the DC is not an important factor. It is, and we're doing lots of change currently in our distribution network in order to put us in a better cost position. And those changes have to be implemented properly so that it doesn't impact the customer, and sometimes—most of the time we have it right, but to be honest, sometimes we have blips that impact the stores, so we got to be careful.

So overall it's just a state of readiness, an overall state of readiness to say that we are in a good position that the investments we're making are not going to be negated by a bad customer experience at the end of the day. So that's the key factor for us.

Jim Durran

And so you mentioned upfront that the transition in Western Canada from a distribution centre standpoint will happen in fall of 2017, right? When you say fall 2017, is that the product will have shifted from the existing facilities to the new facility? Or is that when the new facility will be ready to accept that transition?

Marc Poulin

So just we didn't say fall. We did say spring, so that's one thing. But we're currently making changes as we speak almost on a weekly basis to our distribution infrastructure because it's not only—while Rocky View opening is going to be a very important milestone, there are other changes in our distribution channels out west that are currently occurring, to be honest.

We consolidated our distribution in Winnipeg to one in BC, so it's not—so that's a significant milestone for the Manitoba market. So there's more than one change.

You can imagine if you're moving from 18 to 10 distribution centres, it impacts not only one province; it impacts all provinces and it impacts the broad scope of business. So distribution, while the visible part is Rocky View for a lot of you, for us it's an ongoing process that we've been on for quite a while now, and that will go on for quite a while.

Jim Durran

Great. Thank you.

Operator

Your next question comes from Michael Van Aelst from TD Securities. Your line is open. Oh, I'm sorry, he jumped out of the queue.

Your next question is Mark Petrie from CIBC. Your line is open.

Mark Petrie

Yeah. I just wanted to cycle back on your expectations with regards to SG&A. I understand a lot of it is distribution-driven and some of that isn't until next fiscal year, but how should we think about SG&A dollar spend for fiscal '17 versus '16?

François Vimard

The goal in F ’17, clearly even on distribution we have some saving that’s going to happen during '17, so clearly there’s still some reduction of SG&A is going to continue in absolute dollars, so we're working on it.

So overall our goal is to continue to work hard on our SG&A. Clearly, we'll see what kind of support we need on the marketing side to relaunch sales, so there could be some additional expenses in the year to compensate for that. So I don't like to give outlook, Mark, but I can give us a sense that clearly there is reduction we see in front of us, but it could be some investment to relaunch our product infrastructure across the country.

Mark Petrie

Yeah. No…

Mark Poulin

But the focus on SG&A dollars is on SG&A dollars and not on percentages…

François Vimard

Yeah. Yeah.

Mark Poulin

And I think that's the key point is that obviously we've got to control the fixed-cost portion of our business and get at one point the self-leverage to play in our favour on a percentage basis.

Mark Petrie

Yeah. Yeah. No. I got that. Okay. And then what's your plan for CapEx this year?

François Vimard

The plan for CapEx, Mark, is around between 6, 6.50 inventory.

Mark Petrie

Okay. Thank you.

Operator

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

Michael Van Aelst — TD Securities

Yeah. Just a few housekeeping as well; can you maybe just give us what your expectation is for depreciation for the year?

François Vimard

Depreciation for the year will in the same range as this year, Michael.

Michael Van Aelst

Okay. And just one final one here on the synergies again; you touched upon it, but it was a good incremental jump versus last year and compared to even Q3. Maybe can you just talk about what was behind the jump and what we should be expecting in terms of is this a feeling or the run rate going forward?

François Vimard

Well, I would say the run rate we had in Q4—don't forget we had 14 weeks, so clearly it does affect a bit the numbers. But also clearly, as you know, we have done all or most of the marketing work out west. We have done most of the SG&A work out west with the integration of the team now and on the program itself, so most of it is done also. So that's why you saw that jump.

So the run rate we had in Q4, clearly taking in account 14 weeks, is something that we feel should be sustainable. Like I said, it did impact our cost structure, so our cost structure is down. Clearly, the fact that the challenge on sales we have has a negative impact on the leveraging of it, so what you saw in Q4 could be a trend we begin to see for the future.

Michael Van Aelst

Okay.

François Vimard

And then we have the additional one we’re going to in F ’17—by the end of F’ 17 with distribution.

Michael Van Aelst

Thanks very much.

Operator

We have one final question in queue from Keith Howlett from Desjardins Securities. Your line is open.

Keith Howlett

Yes. I just want to ask about the early evidence of softening sales elsewhere. I presume the same-store sales is one of those indicators, but I'm just wondering if there's any additional granularity on what early evidence you look at?

Marc Poulin

Well, yeah, so clearly we're experiencing, or we're seeing softening on the inflation side too, so I think that's going to be an underlying theme if that trend continues. So that's a factor, but yes, the sales strength as you saw in Q4 versus Q3 is weakening in our business in the west, but also in other parts of the country, so that will require management’s attention in the quarters to come.

François Vimard

And just to add upon this, which is it’s more linked—if you look outside the west, it's more linked to basket size, so just in line with what we're saying that the pricing strategy that we have in place is not supporting what the customer is looking for. And so that's why we need to change it.

Keith Howlett

Thank you.

Operator

I have no further questions. Thank you. I turn the call back over to the presenters for closing remarks.

Clinton Keay

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

Operator

Thank you, everyone. This concludes today's conference call. You may now disconnect.

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