

EMPIRE
COMPANY LIMITED



Q2 F2018 Earnings Call

December 13, 2017

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Chief Executive Officer



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Second Quarter Highlights

- Company to launch FreshCo Discount format in Western Market
 - Company is moving forward with plans to convert up to 25% of its 255 Safeway and Sobeys full service format stores in Western Canada to its discount FreshCo banner over the next 5 years
- Adjusted earnings per share of \$0.27 compared to \$0.12 last year
- Same-store sales, excluding fuel, increase of 0.4%
- Gross profit increased 90 basis points over prior year
- Project Sunrise expenses in the second quarter of \$129.2 million (\$92.8 million after tax)
- Project Sunrise transformation on track; phase one complete, targets met
- Estimate of one-time cash costs associated with severance, relocation, consulting and minor system developments for Project Sunrise will not exceed \$240 million

Second Quarter Financial Summary

	Quarter 2		YTD F18	
	Actual	LY	Actual	LY
Sales	\$6,026.1	\$5,930.9	\$12,299.3	\$12,117.5
<i>Same store sales, excluding fuel</i>	0.4%	(2.6)%	0.5%	(1.9)%
<i>Inflation</i>	0.7%	-0.1%		
Gross Profit	\$1,473.5	\$1,400.7	\$3,004.5	\$2,891.5
<i>Gross margin</i>	24.5%	23.6%	24.4%	23.9%
Selling and Administrative costs (excluding Sunrise costs)	\$1,370.6	\$1,368.1	\$2,757.0	\$2,762.2
<i>Selling and administrative margin</i>	22.7%	23.1%	22.3%	22.6%
Adjusted EBITDA	\$242.2	\$181.2	\$521.0	\$424.3
<i>Adjusted EBITDA margin</i>	4.0%	3.1%	4.2%	3.5%
Adjusted Earnings per Share	\$0.27	\$0.12	\$0.59	\$0.39
Free cash flow	\$117.4	\$18.9	\$237.1	\$474.5
Capital expenditures	\$52.3	\$159.0	\$113.8	\$285.3

Project Sunrise Update



In the fourth quarter of fiscal 2017, the Company launched Project Sunrise, a comprehensive, three year transformation intended to simplify organizational structures and reduce costs. The transformation is expected to result in approximately \$500 million in annualized cost savings by fiscal 2020:

1) Organizational realignment

- Restructuring is virtually complete as most of our employees know their roles going forward.
- Savings will be close to expected run rates by the end of fiscal 2018.

2) Operational efficiencies

- Completed RFPs for significant volumes of store supplies on a national basis.
- Store operations, labour standards and other operational process initiatives are progressing well.

3) Cost of goods sold alignment

- Discussions with our suppliers have begun, the majority of these savings will be seen in the third year of Project Sunrise.

Disclaimers



Forward-Looking Information

This document contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Company's financial position and understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" and other similar expressions or the negative of these terms.

These forward-looking statements include, but are not limited to, the following item:

- The Company's expectations regarding the impact of Project Sunrise, including expected cost savings and efficiencies resulting from this transformation initiative, and the expected timing and amount of one-time costs, which could be impacted by several factors, including the time required by the Company to complete the project as well as the factors identified under the heading "Risk Management" in the fiscal 2017 annual MD&A.

By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of the fiscal 2017 annual MD&A.

Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this earnings call presentation, such as adjusted EBITDA, adjusted earnings per share, same -store sales and free cash flow that do not have a standardized meaning under generally accepted accounting principles ("GAAP") and therefore may not be comparable to similarly titled measures and metrics presented by other publicly traded companies. The Company includes these measures and metrics because it believes certain investors use these measures and metrics as a means of assessing financial performance.

For a complete description of Empire's non-GAAP measures and metrics, please see Empire's MD&A for the second quarter ended November 4, 2017.