

EMPIRE
COMPANY LIMITED



Investor Presentation

March 2018

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Disclaimers

Forward-Looking Information

This document contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Empire Company Limited's ("Empire" or the "Company") 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 "estimates", "plans", "predicts" 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 Empire's fiscal 2017 annual MD&A; and
- The Company's expectations regarding the implementation of its online grocery shopping business including the timing of launching the business, the overall customer response to the service and the performance of its business partner, Ocado Group plc ("Ocado").

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 Empire's 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, free cash flow, funded debt and total capital 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 third quarter ended February 3, 2018.

Executive Team



Michael Medline
President &
Chief Executive Officer



Empire Company Limited – Who are we?



- Canadian company headquartered in Stellarton, Nova Scotia.
- Key businesses include food retailing and related real estate through wholly owned subsidiary Sobeys Inc. and a 41.5% equity accounted interest in Crombie REIT.
- Sobeys is one of only two national grocery retailers in Canada, serving the food shopping needs of Canadians under retail banners that include Sobeys, Safeway, IGA, Foodland, FreshCo, Price Chopper, Thrifty Foods and Lawtons Drugs.
- In addition to food retail we are:
 - One of Canada’s leading pharmacy retailers
 - Canada’s largest food wholesaler
 - Involved in liquor retail
 - Owner and operator of gas/fuel and convenience store operations

Quick Facts – Empire*	
Share price (CAN\$)**	\$25.47
52-Week High (CAN\$)**	\$26.34
52-Week Low (CAN\$)**	\$18.56
Average daily trading volume**	330,356
Shares outstanding (diluted)	272.2M
Quarterly dividend	\$0.1050
Number of Stores***	1,527
Number of Retail fuel locations	> 380
Total Square footage	39.0 M
Communities served	928
*As at Q3, Fiscal 2018 (February 3, 2018) unless noted otherwise	
**As of March 26, 2018	
*** See http://corporate.sobeys.com/at-a-glance/ for details of stores per banner, and location	

Key Achievements – Last 15 months

2017

January – Michael Medline appointed as President and Chief Executive Officer

May – announced Project Sunrise, an initiative to simplify the business, unlock national scale and significantly reduce costs (at least \$500 million)

June – Michael Vels appointed as Chief Financial Officer

June – achieved positive tonnage for the first time in 17 quarters (Q4 results)

September – achieved positive same-store sales for the first time in six quarters and West region stabilized (Q1 results)

December – announced that we are launching Discount format banner, FreshCo, in Western Canada in fiscal 2019, currently only located in Ontario

December – announced Phase 1 of Project Sunrise complete and on track

2018

January – announced we are partnering with Ocado to bring the world's most innovative online grocery platform to Canada

January – announced closure of 10 under-performing Safeway stores in British Columbia, with the possibility of 5 reopening under the discount banner, FreshCo

March – announced third quarter results reflecting an increase in adjusted year-to-date EPS of 77%; and an increase in free cash flow of \$241.2 million over prior year

March – reached mutually beneficial labour agreements with Manitoba and Saskatchewan

Four Primary Initiatives Underway

1) Organizational Structure

- The Company's new organizational structure has restructured multiple independent regions into a national, functionally-led structure. This will result in lower costs, an increased level of authority and scope for leadership and more nimble and responsive decision making to support the needs of customers and capitalize on changes in the marketplace.

2) Cost Reduction

- Management has undertaken a detailed assessment of cost reduction opportunities available to the Company and is executing against a phased plan to permanently reduce its cost base, with annualized cost reduction of \$500 million by Fiscal 2020.

3) Customer Focus

- Strategy work underway to improve Sobeys' brands banner positioning, customers and marketing initiatives, including discount and e-commerce.

4) West Business Unit

- Challenges faced in the West business unit arising from the integration of the Canada Safeway acquisition resulted in significant decreases in sales and profitability. Management has stabilized the business in the short-term, and expects more progress is required in marketing, merchandising and operations to return Western stores to stronger levels of profitability.

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 at least \$500 million in annualized cost savings by fiscal 2020:

1) Organizational realignment

- Organizational redesign from regional to national structure is complete.
- Savings will be at expected run rates in fiscal 2019.

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, with increased ramp up between now and 2020.

3) Cost of goods sold

- Harmonization of costs with suppliers; more competitive net acquisition costs expected.
- Discussions with our suppliers have begun, the majority of these savings will be realized in the third year of Project Sunrise.

With more than 15 years at the forefront of innovation and success in grocery ecommerce, Ocado will partner exclusively in Canada with Sobeys on our end-to-end e-commerce solution.

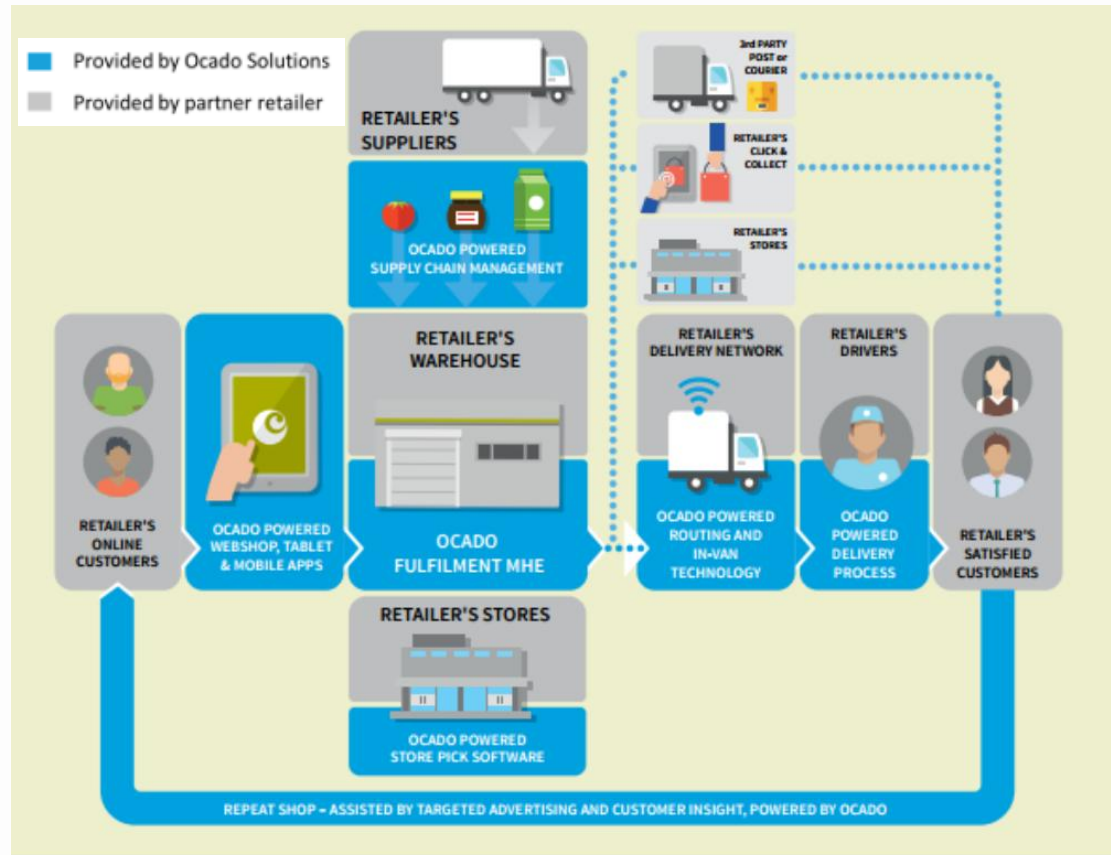
Key facts:

- Canadian online grocery market is growing 30%+ per year
- Greater Toronto Area (“GTA”) Customer Fulfilment Centre (“CFC”) complete in 2 years
- Shipping to customer homes in Spring 2020

Ocado by the numbers*:

- 99% order accuracy
- 95% delivery punctuality
- 0.7% product waste
- 260,000 orders a week
- 600,000 happy customers

*Per <https://ocadosolutions.com>



Financial Results – Annual



	Fiscal 2018	Fiscal 2017	Fiscal	Fiscal
	Year to Date		2017	2016
	39 weeks February 3, 2018	39 weeks February 4, 2017	52 weeks May 6, 2017	53 weeks May 7, 2016
Sales	\$18,328.5	\$18,007.3	\$23,806.2	\$24,618.8
<i>Same store sales growth (decline), excluding fuel</i>	0.7%	(2.4)%	(2.2)%	0.3%
<i>Inflation at quarter end – internal</i>	1.6%	(2.2)%	(1.9)%	2.2%
Gross profit	4,449.2	4,286.3	\$5,707.2	\$5,957.6
<i>Gross margin</i>	24.3%	23.8%	24.0%	24.2%
Adjusted EBITDA	\$774.3	\$603.0	\$796.9	\$1,161.4
<i>Adjusted EBITDA margin</i>	4.2%	3.3%	3.3%	4.7%
Adjusted earnings per share	\$0.92	\$0.52	\$0.70	\$1.50
Free cash flow	\$506.5	\$502.7	\$673.5	\$422.8
Capital expenditures	\$163.7	\$368.9	\$460.7	\$616.5
Dividends per share	\$0.3150	\$0.3075	\$0.4100	\$0.4000
Share price	\$23.31	\$16.24	\$21.50	\$21.09

Financial Results – Quarterly



	Fiscal 2018				Fiscal 2017				Fiscal 2016		
	Q3 F18 Feb. 3, 2018	Q2 F18 Nov. 4, 2017	Q1 F18 Aug. 5, 2017	Q4 F17 May 6, 2017	Q3 F17 Feb. 4, 2017	Q2 F17 Nov. 5, 2016	Q1 F17 Aug. 6, 2016	Q4 F16 May 7, 2016	Q3 F16 Jan. 30, 2016	Q2 F16 Oct. 31, 2015	Q1 F16 Aug. 1, 2015
Sales	\$6,029.2	\$6,026.1	\$6,273.2	\$5,798.9	\$5,889.8	\$5,930.9	\$6,186.6	\$6,283.2	\$6,027.2	\$6,059.2	\$6,249.2
<i>Same store sales, growth (decline) excluding fuel</i>	1.1%	0.4%	0.5%	(1.6)%	(3.7)%	(2.6)%	(1.2)%	(1.3)%	0.6%	0.9%	1.2%
<i>Inflation - internal</i>	1.6%	0.7%	0.5%	(1.9)%	(2.2)%	(0.1)%	1.5%	2.2%	2.4%	2.4%	2.4%
Gross Profit	\$1,444.7	\$1,473.5	\$1,531.0	\$1,420.9	\$1,394.8	\$1,400.7	\$1,490.8	\$1,546.2	\$1,421.8	\$1,473.6	\$1,516.0
<i>Gross margin</i>	24.0%	24.5%	24.4%	24.5%	23.7%	23.6%	24.1%	24.6%	23.6%	24.3%	24.3%
Adjusted EBITDA	\$253.3	\$242.2	\$278.8	\$193.9	\$178.7	\$181.2	\$243.1	\$269.6	\$262.9	\$303.7	\$325.2
<i>Adjusted EBITDA margin</i>	4.2%	4.0%	4.4%	3.3%	3.0%	3.1%	3.9%	4.3%	4.4%	5.0%	5.2%
Adjusted Earnings per Share	\$0.33	\$0.27	\$0.32	\$0.18	\$0.13	\$0.12	\$0.27	\$0.35	\$0.30	\$0.40	\$0.44
Free cash flow	\$269.4	\$117.4	\$119.7	\$170.8	\$28.2	\$18.9	\$455.6	\$80.1	\$140.0	\$(14.9)	\$217.5
Capital expenditures	\$49.9	\$52.3	\$61.5	\$91.8	\$83.6	\$159.0	\$126.3	\$173.9	\$143.5	\$156.2	\$142.9
Dividends per share	\$0.1050	\$0.1050	\$0.1050	\$0.1025	\$0.1025	\$0.1025	\$0.1025	\$0.1000	\$0.1000	\$0.1000	\$0.1000
Share price	\$23.31	\$23.73	\$20.39	\$21.50	\$16.24	\$18.51	\$20.97	\$21.09	\$26.48	\$27.39	\$29.47

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Appendix

- We will launch a GTA CFC first and expand other CFCs in dense urban areas
- A well-executed online proposition will support our brick & mortar business
- Ocado is the world's largest dedicated online grocery retailer
- Morrisons (UK) and recently Groupe Casino (France) also use Ocado's Smart Platform to power their online grocery
- Morrisons started in May 2013, registered run-rate exit sales of almost £200M* and reached nearly 50%* of UK population after its first year of grocery ecommerce operations. By its third year of operations it achieved full year online sales of over £300M*
- We will partner with Ocado to incorporate ongoing learning and innovation from Ocado's global experience
- [*Per https://www.ocadosolutions.com/morrison/](https://www.ocadosolutions.com/morrison/)



Please find below the link to a video showing the recently constructed Ocado Andover facility.

<https://youtu.be/EeMTZd68fOU>

Ocado – A winning solution for the evolving online grocery market



We selected Ocado because it has all the attributes required to win in the long-term:

- **Fully integrated solution**, with world class algorithms focused entirely on customer experience, satisfaction and cost-effective supply chain
- **Enables assortment and choice far wider than any conventional store**, or any current online grocery business
- **Flexible customer delivery options** with tight delivery windows
- **Fully integrated central warehouse** has full inventory control and customer demand visibility, allowing freshness guarantees and consistent satisfaction on produce selection
- **Best customer service**, central pick allows for 99% availability of offered product and minimal substitutions, eliminating a major source of customer dissatisfaction
- **Integrated solution allows real time, cost effective, promotional offers and marketing**
- **Ability to sell incremental categories at scale** that would be uneconomic if launched in conventional grocery
- **Supplier partnerships and branding more flexible and impactful**
- **Lower cost operation than any current market solutions in Canada** and significantly more cost effective than store pick
- **Turnkey delivery of integrated software and materials handling/DC hardware solutions**; consistent re-investment in tools
- **World class integrated web tools** (consistently updated customer preferences, driven by best in class machine learning, and optimized to maximize basket size and margins)
- **Significant installed base internationally**, driving best practice and innovation
- **Will allow for store pick solutions in less dense markets using the same web platform**