

FINAL TRANSCRIPT

Empire Company Limited

Empire Company Limited Reaches Agreement to Acquire Farm Boy Conference Call

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CORPORATE PARTICIPANTS

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Empire Company Limited — Director, Investor Relations

Michael Medline

Empire Company Limited — President and Chief Executive Officer

Michael Vels

Empire Company Limited — Chief Financial Officer

Jean-Louis Bellemare

Farm Boy — Founder and Co-Chief Executive Officer

Jeff York

Farm Boy — Co-Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

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BMO Capital Markets — Analyst

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Empire Company Limited Reaches Agreement to Acquire Farm Boy Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Monday, September 24, 2018.

I would now like to turn the conference over to Katie Brine, Director, Investor Relations. Please go ahead.

Katie Brine — Director, Investor Relations, Empire Company Limited

Thank you, Joanna. Good morning, and thank you all for joining us for our call today. There is a presentation highlighting what we will discuss on the call that is located in the webcast link and is also available for download in the Investors section of empireco.ca.

This call is being recorded, and the audio recording will be available on the Company's website at empireco.ca.

Joining me on the call this morning are Michael Medline, President and Chief Executive Officer; Michael Vels, Chief Financial Officer; Jean-Louis Bellemare, Founder and co-CEO of Farm Boy; and Jeff York, co-CEO of Farm Boy.

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Today's discussion includes forward-looking statements about the proposed transaction and the companies involved. We caution that such statements are based on management's assumptions and beliefs and are subject to uncertainties and other factors that could cause actual results to differ materially. I refer you to our news release for more information on these assumptions and factors.

In addition, please note that throughout the presentation this afternoon management may make some references to non-GAAP measures, such as EBITDA, same-store sales, and free cash flow. Management of Empire believes that these non-GAAP measures provide useful information to both management and investors in discussing the proposed transactions. These measures do not have a standard meaning prescribed by GAAP, and therefore it may not be comparable to similarly titled measures presented by our publicly traded peers.

I will now turn the call over to Michael Medline.

Michael Medline — President and Chief Executive Officer, Empire Company Limited

Thanks, Katie, and good morning, everyone. And thank you for joining us on this call with short notice.

We are very excited to be taking this call in Ottawa today at Farm Boy's head office. At 6:30 a.m. this morning, Empire Company was thrilled to announce we have reached an agreement to acquire Farm Boy, Ontario's fastest-growing food retailer.

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The close of the transaction is subject to customary closing conditions, including review by the Canadian Competition Bureau. The acquisition is expected to close at the beginning of 2019.

Empire, through a subsidiary, will acquire 100 percent of the shares of Farm Boy from Berkshire Partners and Farm Boy's management shareholders based on an enterprise value of \$800 million. Farm Boy's co-CEOs will continue to lead the business, and have agreed in connection with the transaction to reinvest a portion of their proceeds in 12 percent of the continuing Farm Boy business. Mike will take you through the deal in more detail in a moment.

Farm Boy is a superb strategic and financial acquisition. It strengthens our reach in the key Ontario and GTA markets, it will be a growth vehicle in urban and suburban markets, and its very strong private label program will bolster our Ocado-driven e-commerce business.

Farm Boy has approximately \$500 million in sales today. Their same-store sales growth average has been 5.3 percent for the past three years. The average of Canadian grocery peers for the same time frame is 1.3 percent. Big difference. With Farm Boy's strong results in their stores and best-in-class customer and financial metrics, this is a great addition to Empire.

I have personally been in discussions with Jean-Louis and Jeff since May. At the end of August, we made an offer to buy Farm Boy.

I realize not all of you are as familiar with Farm Boy as we are. Farm Boy's Founder and co-CEO, Jean-Louis, opened the first Farm Boy grocery store in Cornwall with his girlfriend, now wife, in 1981. Since then, Farm Boy has grown to 26 locations and continues to accelerate their growth with

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many more locations on the way. Most recently, they opened their first stores in the GTA earlier this year, and they are performing extremely well.

We have been impressed with their format for years. Their slogan, It's All About the Food, is immediately felt when you enter one of their locations. Their fresh and prepared foods are top-notch; their private label products jump out at you; their merchandising is superb; their customer service is renowned; they know how to market and sell quality local fresh food. Talk to Farm Boy customers and you get a sense of their passion and loyalty to the brand. Their brand carries disproportionate weight.

Farm Boy's outstanding fresh format is an excellent fit with our Sobeys and FreshCo banners in Ontario, a region where we are under-penetrated. Farm Boy is a highly scalable platform with industry-leading growth and operational metrics, and will allow us to accelerate our growth in urban markets.

Sobeys plus Farm Boy plus Ocado equals what will be the strongest urban and suburban competitor in the GTA and beyond.

We are impressed with Farm Boy's growth plans. Their supply chain and other infrastructure will support growth for years to come.

Although the business will be managed separately, Farm Boy will benefit from our infrastructure and capabilities in such areas as real estate, sourcing, and logistics. This will enable

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faster and even more effective store expansion. It will also provide certain non-customer-facing synergies.

But please note: this is a growth story, not a synergy story. Roll out of the Farm Boy concept in the GTA and the continuation of their existing expansion plans in Southwestern Ontario will be early priorities through a combination of new site builds and conversions of some existing Sobeys locations.

As well, Farm Boy will boost our GTA penetration by adding their exceptional private label products to our new Ocado-based e-commerce business which launches in spring 2020 in the GTA. Eventually, we plan on rolling Farm Boy out to certain other areas of Canada.

Now you know why we are so excited for this acquisition, but I know that you must have a number of questions for us, so let me try and get ahead of them.

First, we paid a healthy multiple. Why were we willing to do that? Because this is a jewel of an asset. They have a proven business model with an established brand, attractive margins, strong free cash flow generation, and a significant runway for growth. The co-CEOs will execute on concrete expansion plans, and will continue to cultivate Farm Boy's unique and compelling brand.

We believe that with the leadership of our new colleagues and the Sobeys backing, we can turbocharge Farm Boy's growth. We believe we'll be able to build on their industry-leading same-store sales growth of 5.3 percent and five-year EBITDA CAGR of 21 percent, and expect to double the size of the business in the next five years.

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Farm Boy is the most compelling bricks-and-mortar grocery opportunity available today, and likely the foreseeable future. Farm Boy is also the most insulated Canadian food retailer from e-commerce disruption, due to their laser-light focus on fresh, private label, and prepared foods. We are much more willing to pay top dollar for a great company.

Second, we're in the middle of Empire's turnaround. Will it disrupt the turnaround in Sunrise? And I'm going to answer this in three parts. To begin, no, it won't. We have a lot on the go, but we now have excellent traction with Sunrise and the turnaround.

The deal is expected to close at the beginning of 2019, at which point we will have emerged from the heavy-lifting phase of Sunrise. We have our national structure complete, our operational efficiencies are on track, we harmonized our costs across the country for the first time in our modern history, and the first wave of our category reset negotiations will be complete by the time the deal closes. The second wave is underway as we speak.

In addition, Farm Boy's co-CEOs, Jean-Louis and Jeff, will continue in their roles for the long term, managing the business separately from Empire's broader operations, and reporting directly to me. Jean-Louis and Jeff are true operators who are passionate, driven, knowledgeable, and committed to Farm Boy's long-term success, and we are excited for them to join our team.

Jean-Louis and Jeff will be very connected to the business, and not only because it is their baby. They've exhibited confidence in Farm Boy and this acquisition by putting their own equity into the new separate company set up within Empire's structure.

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They will bring with them their senior management team, which has highly relevant industry experience. This structure allows for Empire operators and merchants to remain 100 percent focused on running our existing business and executing on Sunrise. They will not be involved with Farm Boy in any way.

Also, there aren't any other growth assets we're currently interested in. This was it, and this was the timing. It was clear to us that Farm Boy would be sold, and there wasn't time to waste. We felt this was a rare, exciting opportunity to purchase the best brand, and it's a great fit with our strategy.

Third, what do you mean when you say you're going to hold Farm Boy separate? It will be run apart from our conventional discount and e-commerce businesses, other than what I talked about with e-commerce a moment ago. For Farm Boy's customers, they will not see any changes in their Farm Boy shopping experience. Keeping Farm Boy separate is critically important to us. We do not want to ruin the magic of Farm Boy by trying to integrate them.

At the same time, there are of course aspects of our scale, such as real estate expertise, sourcing, and logistics that Farm Boy will want to leverage when the time is right. This structure enables the leadership team of Farm Boy to do what they do best: grow a highly successful retail format at double-digit growth rates.

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In fact, this morning, Farm Boy received a tweet from a loyal customer, Shannon M. that said, “I swear to God, Sobeys, if you screw up Farm Boy, home town or no, you will be dead to me.” Well, Shannon, I can assure you that we will not screw this up.

Fourth, how will this affect our balance sheet? Will this restrict capital spending in the core business? Will you be able to keep increasing your dividend and look at share buybacks? Will this slow down your chances to get back to investment grade? All fair questions.

We will not have to restrict our capital spending at Sobeys. We have plans in place to spend the \$425 million for fiscal 2019, which includes launching our e-commerce solution in the GTA, the expansion of our discount banner to the west, and renovating our existing stores. Also, the healthy margin and strong sales means Farm Boy is self-funding from a capital perspective.

Next, dividends and share buybacks. We increased our fiscal 2019 dividend by 4.8 percent this year, and the acquisition would not impede our ability to increase the dividend. Also, we believe share buybacks are a great way to use cash at the right time. They are certainly in our arsenal as we move forward. Right now, we are concentrating on investing smartly in our business and making our way, over time, back to investment-grade rating. We do not expect any change to Sobeys’ credit ratings by S&P or DBRS as a result of this acquisition, nor do we anticipate that the acquisition will materially delay our ability to return to investment grade.

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As I noted on our earnings call 11 days ago, we do not have the luxury to just execute on Project Sunrise and stabilize our business. Our old world and new world competitors are not standing still. We have to do two things at once: run our business in the best way possible while setting ourselves up for long-term growth.

As we emerge from Sunrise a stronger company, we set ourselves up through our partnership with Ocado, our expansion of FreshCo to the west, and now with the acquisition of Farm Boy to enable our strategy to take back market share and be the fastest-growing grocery retailer in Canada.

With that, over to Mike.

Michael Vels — Chief Financial Officer, Empire Company Limited

Thank you, Michael. Good morning, everyone. Before we introduce you to Jean-Louis and Jeff, I'll provide a little more colour on the financial aspects of the deal and some information on Farm Boy's projected growth.

The implied enterprise value of the acquisition is \$800 million, which is a multiple of 14.1 times based on Farm Boy's estimated EBITDA in Empire's fiscal 2020 earnings, which will be our first full year of Empire's ownership. This includes the impact of Farm Boy stores opening in 2018 and 2019 which haven't yet contributed a full year of earnings and are still ramping up to a run rate.

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Farm Boy will be set up as a separate company within Empire's structure and, as Michael said, Farm Boy's co-CEOs will reinvest some of their equity proceeds into this company for a 12 percent interest as they continue to lead the business.

We will fund the purchase using cash on hand and debt. The new Farm Boy company will be capitalized with an appropriate leverage structure. Our balance sheet remains strong, and both Empire and Farm Boy cash flows will enable rapid improvement in credit coverage ratios.

As Michael noted, this is a healthy multiple. We believe Farm Boy's competitive positioning, unique business, and the growth profile substantiates the value that we placed on the business.

With the leadership of our new colleagues, along with our capabilities and certain elements of our infrastructure, we believe we will be able to build on their growth plans, and expect to double Farm Boy's store count and business over the next five years through a combination of new stores and conversion of existing Sobeys locations where it makes sense.

With strong free cash flow generation, we expect that Farm Boy will be self-sufficient, and will continue to fund its own growth.

As previously mentioned, Farm Boy has delivered continuous growth in total sales and EBITDA, with five-year compound average growth rates of 18 percent and 21 percent, respectively. This double-digit growth and high-margin format have driven very strong historical free cash flow, which will accelerate as we grow.

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It will be earnings per share accretive in fiscal 2020, the first full year of operations, before accounting for any potential non-customer-facing synergies and is expected to provide attractive returns. The continuing growth and strong margins of the business is expected to deliver a strong internal rate of return significantly higher than the Empire cost of capital.

Farm Boy will help expand our footprint in Ontario, accelerating growth not only in the province, but in the GTA especially. With two locations currently open in the GTA area, as Michael said, those results are really positive, with year one sales already approximately 35 percent higher than the average Farm Boy store.

With our own relationships and real estate expertise, we can turbocharge this performance in the significant whitespace we see in the GTA and certain other areas across the country where this format would also resonate.

Another area of significant value is Farm Boy's private label products. They are high quality, unique, and exclusively available in their stores only. Over 500 SKUs have been introduced since 2012 through multiple categories.

Their six-year compound average growth rate of Farm Boy's brand product sales are 30 percent. This is an exciting addition to the offering we will provide in our new Ocado-based e-commerce business, which we will be delivering to customers in the GTA in spring 2020.

We've completed a great deal of diligence and mapped out how we will bring our own network to bear to accelerate Farm Boy's store growth. We are highly confident that together with

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our new partners we can double this business in five years, and drive a great return for our shareholders.

And with that, we have Farm Boy's co-CEOs Jean-Louis and Jeff York, on the call with us today. And I'd love to pass it on to them to say a few words.

Jean-Louis Bellemare — Founder and Co-Chief Executive Officer, Farm Boy

Good morning, everybody. My name is Jean-Louis. This is a first for me to do this type of call, so be patient.

So first of all, I thought I'd talk about why we chose Empire as our partner. First of all, we were approached by several different companies, but when we met Michael for the first time, we really felt that there was a connection.

We spoke for months, and then we went and met the Sobey family. And I knew, for me, at that point in time these were the people we wanted to partner with.

We've always, always been very focused on the customer shopping experience. And I assure you that nothing will change. We are highly, highly focused on a fresh customer experience that is superior to any competitor around.

We feel that the Empire partnership will give us tools that we need to grow. We don't want to grow too fast, but we certainly want to grow. We are aggressive in our growth and wanting to have the proper real estate and the proper systems, tools, and warehouses to do it.

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I feel with Empire that our potential to grow this company in the next five years will be really, really exciting for the whole team.

As I say to you, for me working with Empire is going to be an extremely exciting time. And I know that our team, our internal team here today, can't be more excited than they are this morning. Everybody is super excited about getting this done and can't wait to start working together.

Jeff York — Co-Chief Executive Officer, Farm Boy

Thanks, Jean-Louis. My name's Jeff York, co-CEO, and I'd just like to echo what Jean-Louis has said, and maybe touch on a few other points.

The real estate pipeline that we've put in place we were planning on growing, doubling our business in the next five years. And with Empire's help and some more potential locations, I would say even, like I said in The Globe and Mail article, we've been offered the crumbs and late to the party in some of the locations. I think the A and B locations that we're going to have at our fingertips are really going to be key; we'll have successful launches in the GTA.

And the other thing is with Ocado, we were putting together our online strategy with our private label products. And with Ocado, I think when it launches we're going to hit it out of the park in Toronto because we get calls all the time to get our product into Toronto. And with Ocado, we're going to get into the right neighbourhoods and really have a great online presence.

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So we're really looking forward to the partnership. The Sobey family, the Bellemare family, two great family businesses and the synergies we're going to get going forward, I think it's going to be a great ride.

Michael Vels

Thanks, Jean-Louis. Thanks, Jeff. This really is an exciting day for both Empire and Farm Boy. So I know you all have a lot of questions. I'll just leave you with three key takeaways.

First of all, as Michael said, we are confident in our own underlying business and the progress. The way we have structured this deal means minimal impact on our people running our business, and we're highly confident in Project Sunrise and our ability to execute better.

Two, we are serious about growth and moving from defence to offence. Farm Boy fills a key gap in our strategy, the urban gap. It expands our presence in urban/suburban markets and expands our footprint in Ontario, a region where we have had historically low market presence.

And three, Farm Boy is a business with excellent historical growth rates and cash flows that we can build on and accelerate with the addition of our own capabilities.

And with that, Operator, if you can open the line we'll take questions.

Thank you.

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Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the *, followed by the 1 on your touch-tone phone. Should you wish to decline from the polling process, please press *, followed by 2.

If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question. And your first question comes from Patricia Baker from Scotiabank. Patricia, please go ahead.

Patricia Baker — Scotiabank

Yes. Thank you very much. I just wonder if I could address a question to the co-CEOs? When I'm looking at Farm Boy and when I've visited the stores, the unique model with such an emphasis on fresh and whatnot, it reminds me of Trader Joe's in the US, particularly when we look at the private label. When you came up with the concept, was that an influence?

Jean-Louis Bellemare

I can answer that. So we started in private label about three-well, actually about seven years ago. It wasn't a main focus back then, but in the last three to four years it's become a high, high focus for us.

What we've seen is the customers are voting for our product with our name on it, and that's what they want to see in our stores. They don't want to see the national brands. They want to

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see the Farm Boy brand. So we had in the last six years the honour to work with Doug Raugh, which is the ex-president of Trader Joe's. He's been instrumental in coaching us and giving us ideas and thoughts on how this should roll out.

We are highly, highly focused on the future for private brand. We see the potential to be unlimited. The customer response, like I say, has been phenomenal.

Jeff York

And Doug Rauch was one of the outside board members that Berkshire had a relationship with. The other outside board member was John Maguire. He was one of the first employees at Panera Bread. So those two board members were a great help in helping us expand and grow the business.

Patricia Baker

So you've essentially over the course of only six or seven years taken private label from zero to the penetration that you have now, which is pretty exceptional.

Jeff York

Yeah. And we're just starting. Like I say we're just infants in this. We're just getting going. But again, you got to remember, Sobeys has \$25 billion, right? We have 0.5 billion. So we're just ... we're working with the suppliers we can. And we see huge, huge upside on the purchasing side and on the cost of goods and many different ways, but on the purchasing, the purchasing synergies are going to be huge on the private label.

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Patricia Baker

Okay. And as you referenced I think maybe it was you, Jeff, earlier also the opportunity to leverage the real estate expertise and relationships at Empire probably will be an accelerator for your plans and your growth?

Jeff York

Like I think Michael said it right, the word turbocharge I think it's a good description.

Patricia Baker

Okay. Thank you very much, and good luck.

Michael Vels

Thank you.

Michael Medline

Thanks, Patricia.

Operator

Thank you. Your next question comes from Mark Petrie from CIBC. Mark, please go ahead.

Mark Petrie — CIBC

Yes. Good morning. Actually, just to sort of follow up on that last question, when you're saying double this business in five years, are you referring to store count? Or revenue? Or just broadly? And then I guess when you think about store count, do you have a sense of as you double the size how many of those sites would be conversions, broadly speaking—not trying to pin it

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down—but just materiality of conversions from existing Sobeys locations as opposed to incremental?

Michael Vels

Good morning, Mark. So when we say double the business, we're talking about the number of stores, sales, and earnings. So you can assume that it's all three of those metrics.

Secondly, Jean-Louis and Jeff already have great plans to pretty well double the business, and that's based on the work that they've done, the locations they have in mind. As Jeff said, he's working on 10 to 14 right now that are very well advanced; almost pretty well final.

So what we're going to do is sit down and take a look at all of those plans in detail, and then look at where with both our access to new sites and also the locations of some of our existing Sobeys businesses, we're going to see if we can make 1 and 1 equal 3 by putting the two businesses together. So we have no definitive agreements between the two management teams as to what the number of conversions might be. We think there is a lot of potential, but at this point we're really unable to put a number on it.

But we do think it's going to be highly valuable when we put the two sets of plans together and use both our real estate capabilities and some of our existing locations.

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Mark Petrie

Okay. Thanks. And then I guess for Jeff and Jean-Louis. I know that the small-format store in Ottawa is relatively new, but wonder if you could just talk about sort of the performance of that? And what you've sort of taken away? And how important is that to your growth plans that format?

Jeff York

Yeah. We're super excited about the 8,000-foot store we put in the Rideau Centre. And that format we think we can take to urban centres right across the nation.

We're super excited with the results. I don't know if you know Ottawa, but we actually opened in the back of the Rideau Centre with no front entrance, and the LRT that's delayed probably four to five months, and we're doing year three business already. So our biggest problem is we need more cash registers.

Mark Petrie

Okay. And then, sorry, just to clarify in terms of your investment and ownership, you're purchasing back at the same terms as Empire. And then is there an employment contract in place? Or how is that structured?

Michael Vels

So first of all, your assumption's correct. The enterprise value that Jeff, Jean-Louis, and actually two of their senior management team are buying into is on the same terms and conditions using the same valuations. And then they our partners. They're also, of course, working for Empire,

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and they would have standard employment contracts the same as the rest of us would, so nothing unusual or different about that.

I think the key here is that they're so excited about the next wave of strategic growth in this business that they've chosen to co-invest with us, and that's really the relationship here, partners, not employees.

Mark Petrie

Yeah. Okay. Good stuff. Yeah. Congrats. All the best.

Michael Medline

Thanks, Mark.

Operator

Thank you. Your next question comes from Peter Sklar from BMO. Peter, please go ahead.

Peter Sklar — BMO Capital Markets

Question for Michael Medline. Michael, I understand that this is a very unique and jewel asset where you certainly you would have to pay a significant multiple. But can you talk a little bit about the methodology of how you got to 14 times EBITDA?

Michael Medline

I could, but you know who does it even better? My CFO. Mike, why don't you go? And I'll correct any mistakes you make on this.

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Michael Vels

Sure. Thanks, Peter. I think those of you that know me over quite a long period of time know that I'm very focused on working through valuations and making sure that we have realistic plans when we make investments or buy businesses. And you have to feel comfortable in a plan that is going to return a hurdle rate or an IRR that makes sense for the business.

So what we did is we worked through an intense period of time with Jean-Louis, Jeff, and their people. We spent a significant amount of effort understanding both the plans that they have, the risks that they see with it where we could add some value. And together with my financial team and our outside advisors put together a pretty detailed financial plan and the capital associated with it that we believe is going to return an IRR that's going to be more than acceptable.

Peter Sklar

Okay. And, Michael, while I've got you there, can you tell me what the pro forma debt to EBITDAR looks like?

Michael Vels

You're talking about the Empire post-acquisition?

Peter Sklar

Yes.

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Michael Vels

We're still working through a little bit of that because we are using some cash, and when we get to closing it might be a little different. But we think it'll add about 0.2 turns to our debt to EBITDA ratio.

Peter Sklar

Right. Okay. And then finally, Jean-Louis and Jeff, could you talk a little bit about Farm Boy and how you're positioned in terms of your price position versus conventional discount, other fresh formats?

Jean-Louis Bellemare

Sure. We position ourselves typically around the Loblaws/Sobeys/Metro banners. We don't go head-on with discount retailers. We try to be there with the higher-end retailers.

We are positioned always as a value position. We are 1 or 2 or 3 percent cheaper one week, and we could be 1 percent more expensive the following week. But typically, we're always in the price range of those retailers.

In certain departments we'll outperform in terms of pricing, like produce. We have a very aggressive produce campaign, and Farm Boy's always been; it's part of our DNA. We get deals; we pass them on to the customers immediately. And it keeps us very competitive, and it keeps our margins always healthy. So we position ourselves to the Loblaws/Metro/Sobeys.

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Jeff York

Where we're different is on what the grocery chains call HMR—we call chef-food experience at Farm Boy. So that's where we're different where we actually are quite affordable when you're comparing to top-notch restaurants, and that's the quality we offer. So we're not really comparable to a grocery store if you look at a basket because we don't carry a lot of brand names. We have the private label, and we have a really extensive offering of chef-prepared food.

Jean-Louis Bellemare

So the end of the day, we say we're about 20 percent cheaper than a Whole Foods.

Peter Sklar

I'm sorry, I didn't hear that. Twenty percent cheaper?

Jean-Louis Bellemare

Yeah. Twenty percent cheaper than a Whole Foods; around 45 percent cheaper than a Pusateri's.

Peter Sklar

Right. Okay. Thanks very much.

Operator

Thank you. Your next question comes from Irene Nattel from RBC. Irene, please go ahead.

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Irene Nattel — RBC Capital Markets

Thanks, and good morning, everyone. Just a question around the infrastructure in place at Farm Boy. Presumably if you've been working with Bain since 2012, that would've been a focus since that time?

Jeff York

Yeah. It's Berkshire Partners out of Boston, that's our private equity partner. And what Berkshire brought to Farm Boy—again, we create a lot of EBITDA, free cash flow—what Berkshire brought to Farm Boy was financial rigour, helping us with strategic plans, and outside directors that got us ready internally for growth.

We had two really highly functioning CEOs on our board bringing forward the points. And Berkshire was our financial partner, and Jean-Louis and I built the team over the last five years so that we could take this next leg of growth.

Irene Nattel

That's really helpful. Thank you. Would you care to give us the actual private label penetration? Presumably it would be north of 30 percent?

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Jeff York

Yes. That's a good number. It depends how you do private label. Because we're a fresh store, right, with unique product offerings in our produce, our meat, our value added, and we have—essentially our grocery department is private label, right, Farm Boy brand with some complementary items just to round out the shop.

But people come to Farm Boy to buy fresh. We essentially think of Farm Boy as all perimeter. We're a perimeter. The whole store's a perimeter. We don't have grocery aisles. So when you're shopping the store, you're picking up your fresh produce, your fresh meats, great cheeses. You might pick up a meal on the way out, pick up dessert, and then pick up the odd grocery item.

And then in the last five years we've really turbocharged the private label grocery because of the fact that nobody's really offering what we offer as one label, Farm Boy brand, of which we stand behind in terms of taste, value, quality. And we just put all our emphasis on that. That's somewhat like Trader Joe's. When you go in, it's 95 percent private label. So on the grocery side, we really like Trader Joe's what they do, and we try and do a lot of the things they do on the grocery side. I'd call it by grocery, not on the produce, not on their meat, not on the other things, which we think we dramatically outperform them.

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**Irene Nattel**

That's really helpful. Thank you. And then interested in the whole idea of conversions of the Sobeys stores to Farm Boy. Could you actually see the day when the Sobeys brand kind of disappears from Ontario to be replaced by the Farm Boy brand?

Michael Medline

Hi. It's Michael. No, I can't see that day. The reason being is that we want to be able to have a higher market presence and be able to attract customers in all their shops. It's really important to us across the country that our Sobeys, Safeways, and IGAs continue to get the big shop of our customers; that our FreshCo and FreshCo 2.0 really appeal to our discount customers; and that when you're into prepared food and fresh and the best private label program in the country in terms of that kind of private label that you come to Farm Boy.

I believe that you need different formats to be able to appeal to different customers. And in urban and suburban markets, I think that Farm Boy is going to be spectacular, as it has been, and in terms of its history. And that we are always tough and looking at which of our locations—and in many regions we have the best grocery locations in the country—is best for each of our formats.

For instance, out west we said we're going to convert 25 percent of our stores to our discount, and we are always making the right decision from a customer point of view and a financial return point of view. And so we will with rigour, as Mike Vels and as Jean-Louis and Jeff know, go

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through all of our portfolio and lock our portfolio and decide where it's best to have each of these great banners.

Irene Nattel

That's really helpful. Thank you.

Michael Medline

Thank you.

Operator

Thank you. Your next question comes from Vishal Shreedhar from National Bank. Please go ahead.

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions, and congrats on the deal.

Michael Medline

Thanks.

Michael Vels

Thank you.

Vishal Shreedhar

On the acquisition multiple, the 14.1 times EBITDA, I understand it reflects some growth in there. And just from my standpoint, having a little bit of difficulty understanding what that means. I

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don't understand the growth assumptions in there. So wondering if you can give me some help on what that means?

Michael Vels

Sure. The businesses—I'll try and break that down a few ways and try and give some colour. So the historical growth rates of the business, as we outlined in our materials and on the website presentation that we have, have been exceptional growing at 18 to 20 percent, depending on whether you're talking about sales or EBITDA. The margins are extremely strong; absolutely grocery industry-leading margins.

And the new growth that the business is planning is in the GTA, where the experience of the sales in the first year of the stores that they've opened in the GTA with this format has clearly resonated. And just the starting numbers are even higher than the highly successful stores that the business has in other areas.

So in addition to that, there's a strong pipeline of locations that the Farm Boy management themselves have identified. And as we've mentioned on the call, we think we can actually enhance that significantly, both in terms of just the number of locations that we can make available with the negotiations and the contacts and the relationships we have, but we can also offer improved locations.

So, for example, if you have a chance you should go down to the Brown's Line location that Farm Boy runs in Etobicoke. And you'll notice if you go in there pretty well any time of the

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week and any time of the day, it's remarkably successful. It's hard to get around it there's so many people in it. But you'll notice it's really hard to get into. The real estate's difficult.

And that's because, as Jeff said, they haven't been really that able to get the A and B locations in Toronto because people like Sobeys have been scooping them up. Those are now available to the business, and so as JL and Jeff said, boy, if we could've just put that into maybe one of your A or B locations, we'd be doing even better.

So it's both a continuation ... I guess what I'm trying to say, Vishal, it's a continuation of the historical growth rates which have been exceptional, but then also the fact that the next wave of growth is in the GTA where this format really resonates and the sales per store are much higher than the existing network, and then adding our real estate and capital and expertise we plan to turbocharge that growth. And that's why it's a growth multiple.

That's maybe a little colour on our plans and our thinking as to why we are more confident that these growth rates are going to both continue and accelerate.

Vishal Shreedhar

So the LTM, you didn't give us LTM because you didn't feel it was representative?

Michael Vels

That's exactly right. When something's growing at that rate, we really valued it on a forward-year earnings. And we thought while it's still a pretty high multiple, after two or three years that multiple diminishes rapidly as the EBITDA grows.

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**Vishal Shreedhar**

When you report same-store sales growth in the future, or even EBITDA, are you going to disclose Farm Boy separately or is it going to be including that?

Michael Vels

No. It's not—I mean, this is a great acquisition. We're super excited about it. But it is, relatively speaking, an Ontario-based strategy for now at least. It's smaller than all of our other businesses. As a shareholder our value's going to come, of course, from what we add to Farm Boy, but also very, very much so what we add to the larger business.

And so it isn't sufficiently large in the scheme of the total business to separate it out, and it's very unlikely that we'll be doing so.

Vishal Shreedhar

Given Farm Boy's focus on fresh and private label and less kind of traditional grocery items, I was struck by the 5.3 percent EBITDA margin. Just wondering if you can give me some context there? Is there a lot of growth cost in there? Or I would've thought it would've been a bit higher. Any colour there would be helpful.

Michael Vels

No problem. And I know we've put a lot of numbers in there, and this is a surprise to the market, so I'm still trying to get my head around these numbers, of course, myself. But the 5.3 is same-store sales growth from the original stores. The EBITDA margin is higher than that.

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Vishal Shreedhar

Oh, sorry. Yeah. No, you're right.

Vishal Shreedhar

Okay. And—okay. Right. And I could back that out. Okay. No problem. Okay. That's it for me. Thanks.

Michael Medline

Thanks, Vishal.

Operator

Thank you. Your next question comes from Jim Durran from Barclays. Please go ahead, Jim.

Jim Durran — Barclays Capital

Thank you. Just looking at Ocado and the e-commerce opportunity, I assume you'll be running this through Ocado. Will you extend your private label offering beyond just the Farm Boy banner into the Sobeyes offering?

Michael Medline

We're going to keep these brands separate. I think that's always been the way I believed you need to keep them. It's clear from a customer point of view and it's much more compelling.

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And what we're going to do is we plan on creating a boutique offering on our Ocado platform where you can go in and shop for Farm Boy product, private label product, and it will be separate from the rest of the offering, which will be more of a Sobeys plus an extended offering that we haven't talked too much about because we're working on right now.

We saw this work very successfully for Ocado in the UK. And to have that sort of advantage, to have something that is proprietary, beloved by customers, to have that on our platform will really grow our Ocado trial and satisfaction to a greater extent.

I should mention, too, that when we talk about this deal and what we expect it to accomplish in our models, we haven't put anything in in terms of what that will do to our e-commerce offering. That's a plus still to come.

But no, we're not going to confuse our customers or the market by mixing. But e-commerce is the perfect place where we can really get both worlds and celebrate that.

Jim Durran

Right. Just going to store format, so what's the smallest store that Farm Boy currently has? And what's the largest one? When we sort of look at the average square foot I'd judge around, what, 18,000 or 20,000 square feet?

Jean-Louise Bellemare

So our smallest format is 8,000 square feet. That is in the Rideau Centre in Ottawa. It's in a basement-type environment, but. And our largest store to date is 28,000 square feet. We're in the

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process of working a model right now that we're very excited about that would be 38,000 square feet.

Jim Durran

And, Mike, what's the average size of an Urban Fresh store?

Michael Medline

I mean, it's a big range, you get different ones from about 10,000 to 15,000 square feet.

Jim Durran

And how happy are you with the performance of Urban Fresh?

Michael Medline

Actually, we're happy with the performance of Urban Fresh. The sales per square feet are extremely strong, and it's doing well.

Jim Durran

And so does Farm Boy become—like part of me wants to believe the condo boom is hopefully over in Toronto, but do you see Farm Boy taking retail square footage in condo development? Or is that an Urban Fresh strategy still?

Michael Medline

I think Farm Boy has a real opportunity to do just that.

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Jim Durran

Okay. And your EBITDA margins, like obviously we're all trying to guess what that margin might be on the fiscal 2020 dollar figure of about, what, 57 million of EBITDA? But out of the gate, because of fresh being such a larger portion of Farm Boy's business and private label development being quite solid, the presumption is that their EBITDA margins are quite high; like let's call it somewhere around 7.5, maybe 8 percent or higher. And your aspiration is to get back to about 5 on your business, right, where we were at peak period several years ago. Is that sort of 8-ish percent too low in terms of what the real number is?

Michael Medline

Mike is looking at me funny like I'm not supposed to say anything. But I think you may be a little conservative.

Jim Durran

Thank you for that.

Michael Medline

I'll try to help you out here. I'll get in trouble later, but. Obviously we've always said to all our investors we see no structural reason why we can't have an EBITDA margin at Empire Company at least as strong as our two large grocery competitors. And although this is not as big as Empire, Farm Boy, it's going to be growing fast and it has very strong EBITDA margins, and this can only help us.

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Jim Durran

And so I guess back to sort of Farm Boy's potential margin, right, you'll be able to reduce some of their sourcing costs I would assume even on some of the product lines that they are sourcing directly from farm or wherever that's kind of specialized; you can reduce their rent cost. Are there any implications from a labour standpoint?

Michael Medline

We don't believe there are any labour issues from that standpoint. And we are going to ... what we're going to do is set this up is want Farm Boy to be Farm Boy. We are not going to mess around with anything that touches the customer. At the same time, what we're going to do is—we've talked about it—we're going to have a menu of back-office things that JL and Jeff can choose from, and they can tap into at any time. If they think they can get a better deal on bags or cash register tape or logistics or anything like that, they're going to tap in.

But we've been really clear with these guys, like do not disturb what you're doing now. There are plenty of synergies here, but we want to do this right and make—the real play here is because they're so good at thrilling their customers and growing their business, and that is number one. But I think that that kind of menu and opportunity you could hear both of them—and Jeff just spoke about it—excited about so many opportunities to be part of a \$25 billion company which really gets them and gets their brand.

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Michael Vels

It's Mike, Jim. I just want to make something clear. Michael said one thing and I just want to add a second. First of all, our returns on this acquisition do not include and are not dependent on the Ocado business. We think that is an upside. Secondly, we also haven't counted on synergies.

Michael Medline

Right.

Michael Vels

We actually think there are likely quite a few, just because of our size and some of the infrastructure we bring to the table. But we haven't made any aggressive assumptions on synergies in defending and coming up with a valuation.

Jim Durran

Great. Thank you, guys.

Michael Medline

Thanks, Jim.

Operator

Thank you. Your next question is from Michael Van Aelst from TD Securities. Please go ahead.

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Michael Van Aelst — TD Securities

Thanks. Good morning. Just can you give us an idea of the relative growth of you talked about the new builds growing double-digits; very strong performance. How about the legacy store performance in Ottawa in particular?

Michael Vels

Actually, one of the things that really struck us about the business is how well the legacy stores are doing so many years after they were constructed and put into the market, so even the first store in Cornwall is still delivering same-store sales comps that are materially above the grocery industry average. And we spent a lot of time asking JL and Jeff about that.

And part of it is that they continue to go back to the stores and reinvest, their maintenance capital is healthy, and all of the stores in the network get the new formats and the new trends and the new products on a consistent basis. And that helps drive those consistent growth rates.

And then secondly, the format just continues to resonate. And it's an amazingly compelling format. The brand, as JL mentioned and Jeff mentioned, continues to penetrate deeper and deeper into the stores, and that further drives those sales rates as well.

So we sort of didn't believe them, to be honest, that those legacy stores could grow, keep going at those rates, and so we took a close look and they're doing very well. And then the new ones are even significantly higher than that.

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Michael Van Aelst

Okay. And I know you said that the vast majority of the stores are fresh. Can you give us a mix between fresh and grocery?

Michael Vels

Sure. Jeff, JL, do you want to just give a bit of a colour as to what your stores look like in terms of the categories?

Jean-Louise Bellemare

So basically we're a fresh concept, so 80 percent of our sales roughly are fresh and 20 percent would be grocery/dairy. It's a high focus and high penetration around fresh.

Michael Van Aelst

Okay. Great. So if you talk about doubling the store count over the next five years again, how much of that is expected to be focused in the GTA?

Michael Vels

It's predominantly GTA and Southwest Ontario, Michael.

Michael Van Aelst

Okay. And then beyond Ontario, what would be the time frame to looking into other markets in Canada? And where do you see this model fitting well?

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**Michael Vels**

Well, I'll answer the first question. There's no time frame because there's so much runway right now in Ontario that we're going to get together with our new partners and figure out that sort of thing and how we might be able to link that into our Sobeys presence out west. But for now, there's no time frame on that.

And as I said, there's just so much upside in Ontario there's very little point in even speculating about it.

Jeff York

We have 14 stores in Ottawa, so that translates to me like at least 16 in GTA. At least.

Michael Van Aelst

Okay. All right. And then I guess maybe for the founders, when you look at your business model, what part of it do you think provides the greatest barriers to competition? I mean, it's you started off small yourselves, so others could clearly do it, but you had a long runway at it and you built up a very successful banner that customers love in Ottawa, for sure. So what do you think, other than the strength of the banner right now and the reputation, when you look at the way the business is set up or the—and the supply chain, whatever, what do you think is the greatest barrier for entry for others?

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Jean-Louis Bellemare

Well, like we've been focused on fresh for 37 years. Our culture is fresh. It's all we do. We don't sell microwaves or anything else. So as we continue to grow, we've kept ourselves extremely, extremely nimble and able to move very, very quickly.

The retail fresh business is all about being able to turn things around quickly. You could have a store that's in rough shape, and an hour later if you understand how to do it, you're back in business. And I think that's been our strength for the last 20 years, and we've developed some incredible systems around fresh.

The big part of a fresh business is understanding ordering systems. We've developed what I think is world-class systems, and I think that we just get fresh, it's what we do, it's all we do, we're 100 percent focused on it, and we're super passionate about growing that.

Michael Van Aelst

Okay. Thank you.

Operator

Thank you. And your last question from today will be from Keith Howlett from Desjardins. Please go ahead, Keith.

Keith Howlett — Desjardins Securities

Yes. How do your 26 stores break down between the three formats that you operate?

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**Michael Vels**

Keith, I think the easiest way to think about that is there's only one small format store, and that's the Rideau Centre. And the rest are broadly spread across the other formats.

Keith Howlett

And do you have sort of a selling square footage number there that you wish to share?

Michael Vels

No. We're not disclosing that number.

Keith Howlett

Oh, okay. And then just on the Pickering store that I think it must be five or six years ago and then there was quite a delay before any additional stores were opened in the GTA, can you just take us through how the three GTA stores relatively perform and why there was such after Pickering to the others?

Jeff York

So we looked—initially we weren't going to open stores in the GTA. We were going to go in Southwestern Ontario and then we were looking at other places. And then when we opened the store in Whitby—it was our first store—it was just such a resounding success; it went to our number-two store in the network. And then we just had to double down on Toronto.

And then finding sites in Toronto, it's not 12 months; it's 18 to 36 months to get a site. So we had a little bit of a lag in doubling down on Toronto, and now we have 14 sites in the pipeline all

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around the GTA. So it's been an intense focus. Like I've been essentially in Toronto every other week for the last year looking at sites, we have a full-time person, and we're just ready to really, really go hard at Toronto, essentially what we did in Ottawa.

We're getting results in Toronto that are, like Mike said before, just really beating the other stores we put into the market, so we're going to go hard and even harder now with our new partners.

Keith Howlett

And how big—the Brown's Line store is so crowded it's hard to see how big it is. But is that 28,000 feet?

Jeff York

20,000 square feet.

Michael Medline

We were in it yesterday, Jean-Louis, Jeff, some of their team, and I, and we kept trying to talk and we had to keep moving because customers were moving all around us. And it was just a phenomenal scene. Phenomenal.

Keith Howlett

Thank you.

Michael Medline

Thanks, Keith.

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Operator

Thank you. I'll now turn it back over for closing remarks.

Katie Brine

Thank you, Joanna. Ladies and gentlemen, thank you for your time today on such short notice. If there are any unanswered questions, please contact me by e-mail.

Have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. We thank you for participating, and we ask that you please disconnect your lines.

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