***Correction Notice**: Empire refiled its public documents for the third quarter of fiscal 2019 to correct a typographical error in their IFRS 16 disclosure. This transcript has been modified to reflect the correction. The corrected sentence is:*

> *At this time, and subject to finalization in the fourth quarter, the expected impact on our balance sheet is a $3.6 billion to $3.9 billion of additional assets, primarily right-of-use assets, and an inclusion of $4.2 billion to $4.5 billion of liabilities, which are largely new lease liabilities.*

Empire Company Limited

Third Quarter 2019 Results Conference Call

Event Date/Time: March 13, 2019 — 12:00 p.m. E.T.

Length: 64 minutes

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Empire Company Third Quarter 2019 Results 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 Wednesday, March 13, 2019.

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

Katie Brine — Director, Investor Relations, Empire Company Limited

Thank you, Joanna. Good afternoon, and thank you all for joining us for our third quarter conference call. Today, we will provide summary comments on our results and an update on the pending changes related to the new IFRS 16 leasing standard. We will leave as much time as we can for questions.

This call is being recorded, and the audio recording will be available on the Company's website at empireco.ca. As well, there is a short summary document outlining the points of our quarter available on our website.

Joining me on the call this afternoon are Michael Medline, President and Chief Executive Officer; Michael Vels, Chief Financial Officer; Lyne Castonguay, Executive Vice President, Store Experience; and Pierre St-Laurent, Executive Vice President, Merchandising and Quebec.

Today's discussion includes forward-looking statements. 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 and MD&A for more information on these assumptions and factors.

I will now turn the call over to Michael Medline.

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

Thanks, Katie, and good afternoon everyone. Last quarter, we said we were gaining traction. Now we are gathering speed. We are again pleased with our results, especially in terms of sales and margin, all while going through a very busy, potentially disruptive period of our transformation.

Our sales momentum continued this quarter. Same-store sales were 3.3 percent, which is the highest we've seen in 38 quarters. Food same-store sales, which excludes pharmacy and fuel, were 3.9 percent. Internal inflation was 1.8 percent. Our overall tonnage of 1.5 percent was the strongest we've reported in 34 quarters.

Perhaps best of all, same-store sales momentum was across the board in Q3. Customer count is up, basket size is up, all regions, all banners. We were especially strong in FreshCo, Safeway, IGA, and Sobeys Ontario. Farm Boy posted excellent results, but their eight weeks of results in the quarter had a minimal effect on our sales. The majority of the improvement in our sales numbers can be attributed to sharper execution. We are seeing improvements in our stores through better in-stock, shrink levels, customer experience, merchandising, and marketing.

While sales were strong, we were not discounting margin to drive sales growth. Gross margin rates were up 20 basis points from Q3 last year, and up 30 basis points over Q2. This improvement was due to good margin management by our merchants, the beginning of Project Sunrise category reset results, and the addition of Farm Boy.

However, margins could have even been higher. First, although we were passing on inflationary cost increases to the greatest degree possible, there is an inevitable lag when costs are increasing so swiftly, especially in produce. Second, the sales mix between banners also had some impact on the gross margin rate. And third, pharmacy gross margin was lower due to health care reform.

Although we continue to accelerate our Project Sunrise cost reductions, and costs were held tight in Q3, SG&A appear higher than last year for reasons Mike will explain in a moment.

We are pleased with our EPS of $0.27 after adjusting for some of the noise in our SG&A, most notably, our previously announced buyouts of BC Safeway employees and related store closure costs of Safeway, as they prepare to convert to FreshCo. Our EPS would have been $0.39. The results this quarter show again that we're on the right track to completely turn around Empire Company.

The team is starting to fire on all cylinders and collaborating across all functions. We are especially proud of our merchants, who are working hard to negotiate improved terms with our supplier partners, while refining our assortment to ensure our shelves are stocked with the items customers want most.

Category resets will drive a large portion of our Sunrise savings. Early results have been encouraging, and we are more confident than ever before in our ability to bring home Sunrise savings of at least $500 million. We saw the early start of category reset margin improvements hit Q3. They will slowly amp up over the next five quarters.

Our store operators and teammates in our stores have done a great job realigning our stores tranche by tranche, as categories are reset. We are especially cognizant of the customer experience in the store as we realign our aisles. All of our reporting and customer feedback to date indicate that in-store execution of resets has been well-received. Category resets are just one of the ways we are improving our stores. We will continue to improve our stores through better execution, and investing capital to revitalize our existing discount and full-service store network.

We are especially optimistic about the multipronged turnarounds we are seeing in the West and Ontario. In the West, we are already seeing improved results through better in-store execution, merchandising, and marketing. We have closed some of our worst-performing stores. We have a labour arrangement in BC that provides us, for the first time, with a level playing field. Labour buyouts will lower our costs in BC, and we will be converting 25 percent of our Sobeys and Safeway stores in the West to FreshCo in markets which are better suited to discount. We will remain on track to open our first FreshCo stores, two in Winnipeg and five in British Columbia, in the next few months.

In Ontario, we have historically had a low market share, especially in key urban and suburban markets like the fast-growing GTA. We are now seeing much stronger results in our existing Sobeys, FreshCo, and Foodland banners, and we continue to see improved sales and customer metrics as we convert FreshCo stores to the FreshCo 2.0 model.

We're gaining market share in Ontario, even before we factor in the Farm Boy acquisition and the growth we know we will be getting at Farm Boy and Ocado. The evolved FreshCo 2.0 branding performed so well in our London pilot stores that not only will we be leveraging it in the West, but in Ontario as well. We opened our first greenfield FreshCo store, showcasing the evolved branding, in

January in downtown Toronto. We plan to roll out the rebranding to all of our Ontario FreshCo stores over the next year.

Our acquisition of Farm Boy gives us a winning format that will allow us to accelerate our growth in urban and suburban markets in Ontario. Farm Boy officially joined the Empire family partway through the quarter, and the early results are even stronger than we had modelled. The team at Farm Boy is making progress on its growth plan, opening two new stores in the GTA since we closed the transaction on December 10. We will continue to build on Farm Boy's industry-leading operational and customer metrics, and progress against our plan to double the size of the business in the next five years. Much of the growth will be in the heart of Toronto, where Farm Boy is expected to be a home run.

The combination of Farm Boy's existing real estate pipeline with our Empire real estate prowess will allow us to place Farm Boy stores in key nodes over the next three years. We're really going to cover the city well. Our Farm Boy strategy, plus our game-changing Ocado-powered e-commerce solution, will position us beautifully to expand our presence in the GTA.

We are pleased with the momentum we are seeing in our business. We continue to improve our execution quarter by quarter, and as we lay the strategic building blocks for our future success. But we are cognizant that we still have a ways to go to extract the Company's full sales and earnings potential.

And with that, over to Mike.

Michael Vels — Chief Financial Officer, Empire Company Limited

Thanks, Michael. Good afternoon, everyone. I'll provide some additional colour on some key areas: Sunrise progress, gross margin, SG&A, capital expenditures, free cash flow, and taxes, and then I'll end with an update on how IFRS 16 will impact our numbers when the standard is adopted in our first quarter of 2020.

Firstly, Project Sunrise is on track. Category reset changes, albeit small, began to show up in our stores beginning in February. We are seeing the start of these savings appear in our gross margin percentage this quarter. As we noted last quarter, we expect most of the fiscal 2019 Sunrise category reset benefits in the fourth quarter.

Strong results in discount and Quebec, which do have lower gross margin percentages, again had a small downwards impact on our average gross margin rate. As mentioned, we saw some positive effects of the category resets in the third quarter. Most of that store rollout started in the fourth, however, and will be ramping up as we implement it in a staged and a controlled manner.

Although, as outlined previously, we expect to see tangible results in the fourth quarter, the exact timing and value of these benefits phasing in is highly dependent on our own execution and completing a significant plan without any incremental labour costs or product write-downs. We are planning to minimizing such costs, which would, in any case, be onetime in nature as we execute on each category.

Gross margin dollars increased in line with our strong sales performance, and also from the positive effect of those category reset benefits, coupled with eight weeks of Farm Boy results. These positive effects were partly offset by store closures previously in Western Canada and lower pharmacy gross margins due to health care reform.

Sunrise savings were also a positive effect on SG&A this quarter, most notably from our indirect sourcing cost reductions. There are, however, some other items in SG&A that have an offsetting effect to these positive Sunrise-related cost reductions.

During the quarter, we announced voluntary buyouts to eligible long-service Safeway employees in British Columbia. Buyouts like these provide flexibility and stability for the Company to better manage labour and operational costs as they permanently reduce average wage rates. We have charged the estimated cost of $35 million before tax for these buyouts to SG&A during the quarter. This equates to about $0.09 per share after tax. The benefit of the lower labour costs related to these buyouts will be reflected as these employees transition out of the business, and will enable us to remain competitive in the market.

We also announced plans to close five more stores in BC that will be converted to the FreshCo discount format. We recorded $10 million before tax of costs related to severance, inventory, and asset write-downs, also to SG&A expense, representing about $0.03 per share after tax.

In total, our adjusted selling and administration expenses as a percent of sales was 23 percent for the quarter, impacted by all of these significant expenses, and also to some extent by the inclusion of Farm Boy, whose business model has a higher labour cost.

Our labour cost in the quarter has also been impacted by minimum wage increases enacted in Ontario. Excluding the effect of the labour buyouts and the store closing expenses, SG&A as a percent of sales for the quarter would have been 22.3 percent, consistent with the prior year, and 21.6 percent for the year to date, a 70-basis point improvement over last year. We continue to find ways to reduce our SG&A as a percent of sales, and we are so far pleased with the progress that we've made.

With our Farm Boy and FreshCo store announcements this quarter, we think it is helpful to give you an update on our capital expenditure for the rest of fiscal 2019. We believe we are still on track to spend approximately $425 million for fiscal 2019, excluding Farm Boy. Year to date, we have spent approximately $20 million on the FreshCo expansion, with a further $20 million estimated for the fourth quarter.

We also expect some significant expenditures related to the Ocado warehouse build and a ramp-up in store renovations and rollout of the new FreshCo branding and store formats in Ontario in the fourth quarter. Our full year estimate is dependent on a lot of work being completed on a tight schedule, and there may be some impact on this estimate if construction schedules are delayed.

In addition to this, we expect our Farm Boy capital spend to be approximately $6 million in the fourth quarter.

We are still in the process of confirming our total capital spend and plans for fiscal 2020, and we will formally update our estimates for 2020 when we issue our fourth quarter. However, based on what we know now, we continue to believe that our 2020 capital will be upwards of $500 million, excluding Farm Boy. We are still working to firm up the fiscal 2020 development schedule with Farm Boy management, and depending on the rate of new store rollout, Farm Boy capital could represent an additional $50 million to $70 million for next year.

Our cash flow generation continues to be strong. This quarter, our cash flows from operations were lower than the prior year due to lower distributions from the Genstar Real Estate Partnerships, and also higher working capital balances. For the year to date, our free cash flow of $380 million reflects the many improvements in our operations that have begun to generate strong recurring cash flow. We expect to sustain and grow this cash performance with a high level of confidence that the Company will return to its investment-grade rating in the near future.

The effective income tax rate for the quarter of 22.1 percent is below our estimated range of 27 to 29. This was primarily due to higher capital gains on property dispositions and a decrease in tax liabilities related to unrecognized tax benefits. Taking into account the year-to-date mix of real estate gains and operating earnings, we estimate that the average tax rate for the full year will fall between 26 and 28 percent.

Before I finish, two more points. Firstly, our partnership with Ocado continues to progress as we bring their game-changing e-commerce solution to Canada. The unfortunate fire experienced at their Andover facility in the UK is not expected to impact the design or the launch timing of our e-commerce platform, which remains on track to begin shipping to customers in the GTA in the spring of 2020.

Second, we do have an update on IFRS 16, which is in our financial statements and MD&A. This is a new industry-wide leasing standard that will be adopted in our first quarter financial statements beginning on May 5th. This standard will not impact Empire's strategy, business operations, or cash flow generation, but it will have a meaningful impact on the presentation of our financial statements and some key metrics. We continue to finalize and validate the key estimates and calculations, but we understand this will have a large impact on investor and analyst models, and we have provided some early clarity in our third quarter financial statements.

At this time, and subject to finalization in the fourth quarter, the expected impact on our balance sheet is a \$3.6 billion to \$3.9 billion of additional assets, primarily right-of-use assets, and an inclusion of \$4.2 billion to \$4.5 billion of liabilities, which are largely new lease liabilities. A key assumption in arriving at these amounts is the discount rate used. The rate will be finalized on our transition date, which is May 5, 2019, and any change in discount rates may affect these estimates significantly.

In the statement of earnings, current rent expense will be replaced by depreciation on the right-of-use assets and interest expense on the new lease liabilities. As you can imagine, this will have a material effect on the calculation of metrics such as EBITDA and free cash flow. Once again, however, I'll stress that these are accounting and measurement changes only and will have no effect on our cash generating ability, and we do not expect any material change related to debt ratings or financing costs.

Also, based on current estimates and available information, we do not expect the application of IFRS 16 to have a material impact on fiscal 2020 earnings per share. We do intend to host a conference call in the upcoming months to further discuss the impact on the IFRS 16 adoption on Empire, which I suspect will be sold out, as it's so exciting.

All in all, we continue to be very satisfied with the momentum on Empire. There's still heavy lifting to be done, but our execution is getting stronger throughout the whole company and we are showing good results. As Michael noted, we continue to make great strides in returning the Company to its full earnings potential.

And with that, I will hand it over to Katie for questions.

Katie Brine

Thank you, Mike. Joanna, you may open the line for questions at this time.

Q&A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the *, followed by the 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request, and your questions are pulled in the order received. If you are using a speakerphone, please lift the headset before pressing any keys.

And your first question is from Mark Petrie from CIBC. Mark, please go ahead.

Mark Petrie — CIBC

Good afternoon. With regard to SG&A—and thanks for the colour on that, Mike—but it didn't seem like there were any sort of significant new inflationary drivers, just kind of ones that we've heard about before, but the leverage was more modest than what was reported in the first half of the year. So is that simply Sunrise benefits now kind of playing out and dissipating and, I guess, shifting to cost of goods? Or were there other factors? And maybe you could just sort of give us a sense of how to think about SG&A growth into Q4 and into fiscal 2020.

Michael Vels

Thanks, Mark. I think the way to answer that is that, yes, Sunrise benefits were still significant in the quarter, but they tend to be a little less even now, because they're mostly indirect cost savings and not necessarily some of the headcount reductions that we've been seeing previously in addition to that. We did have some cost increases here and there in other cost centres, consulting, a few other items, which are not necessarily indicative of future SG&A levels. Marketing was up a little bit as we started to support our brand, as well.

So I'd say that our intention over the next several years, including fourth quarter and beyond, is to continue to drive our SG&A cost down. We think there's still room in those cost centres. Having said that, as we start to roll out things like FreshCo and some of our new brand promises, we actually do expect to increase things like marketing investment, but I wouldn't say that that would be a very material impact on our SG&A as a percent of sales. So we expect further benefits, I think, in those cost centres. I wouldn't say that the third quarter is necessarily indicative of a trend.

Mark Petrie

Okay. Thanks. That's helpful. And that sort of segues to a second question, which is, just in terms of organizational capabilities, Michael, I think you've talked about wanting to build a marketing skill set. Are there other areas of the business where you feel like you need to sort of invest over the course of the next 12 to 18 months?

Michael Medline

Yeah. I didn't mention her in my script today, Sandra Sanderson; I mentioned her last time. The quick impact she's making across the enterprise is quite astounding, actually.

The other area where I think that we're going to be putting a lot of emphasis and we'll be talking a lot more about is data and analytics. I've often said that this company, I was surprised at how much data we had, and actually that we were pretty good at using it. But I think there's a whole shift here that we'll see over the next coming couple of years in terms of being able to use analytics to support our business. And as many of you analysts know as well, that we have some innovation up our sleeves as well, in terms of being able to run our business and excite our customers and continue to evolve as a company.

But I'd say it's marketing, a lot of data analytics, and innovation as we go forward would be the areas which you couldn't really get to in the first couple years as much as you'd like to because we were putting in an infrastructure. You can't build on sand, as I like to say. We've got a really good infrastructure, the team's working well, we're pleased with the developments, as Mike and I tried to say in the last 15 minutes. Now we can really get going.

At the same time, Mike and I and the team are quite cognizant about making sure that these Sunrise savings go to the bottom line, and we've always said the vast majority will go to the bottom line. And we're not about to start spending all of the money that we're going to bank. So that's the balance that we're having here, and the balance will be to return us to the sort of profitability that you, as our owners, expect from us.

Mark Petrie

Okay. Thanks for that. I'll get back in the queue.

Michael Vels

Thank you.

Michael Medline

Thanks, Mark.

Operator

Thank you. Your next question comes from Michael Van Aelst from TD Securities. Michael, please go ahead.

Michael Van Aelst — TD Securities

Thank you. So a very good same-store sales number, and I understand that Farm Boy is doing really well. But is there any material difference if you were to strip Farm Boy same-store sales out of the consolidated same-store sales?

Michael Medline

Almost a de minimis, in that short period of a time. We ran, in the rest of the business, extremely, extremely strong across all the banners, across all the regions, as I said. So, no, I mean, they certainly don't hurt your same-store sales, but given the number of stores, mostly around 25 for that period of time, they just don't overwhelm that. And so, no, the vast, vast majority of that same-store sales were from the other stores.

Michael Van Aelst

Okay. And when you look at those different regions and the performance, the economy is definitely showing some signs of weakness in certain areas of the country. Are you seeing any signs of an imminent shift towards a discount in any of your markets?

Michael Medline

No, we didn't. Obviously, we were growing—we're really only at this point, until a couple of months from now—have discount in Ontario. Discount, as we've been saying for a number of quarters now, it's performing extremely strongly, our FreshCo banner, in Ontario. But given the sales we saw, we have picked up absolutely no indications of weakness in any region that have affected our performance. If there was any, then we would've just done better. But we can't see it in our numbers.

Michael Van Aelst

And then on the FreshCo rollout into Western Canada, there's a little bit of a different wording in terms of the timing. I think last time you said you were going to have all 12 by the end of the first half, and now you're saying in calendar '19. Is this intentional? Or is this reflecting a slight delay? Or is this just meaningless?

Michael Vels

No, it's meaningless, Michael. No, that's not an intention to indicate changes in timing.

Probably, ultimately, we may try and just go to calendar years to explain the actual rollout dates, which make more sense to people, and that was the major change for talking about our calendar 2019 year as opposed to fiscal.

Michael Van Aelst

Yeah. And can you just clarify, the $35 million labour buyout charge, does this cover the future additional conversions that you might have in BC? Or is it just for the 10 already announced?

Michael Vels

Actually, it's neither. So while these two actions that we announced are unlocked and enabled by the labour award in BC, they are different. So the closure of the five stores that will now be converted to FreshCo is where we took the $10 million charge for severance, is included in that, in addition to some other write-downs, et cetera. The labour buyout is for all of our BC employees, our eligible ones. And they are two separate initiatives.

In the future, as we convert other stores, other Safeway stores to FreshCo, we will have increased and further expenses related to severances, write-downs, et cetera for those stores as we progress along the conversion schedule.

Michael Van Aelst

And have you given us the capital requirements to convert stores?

Michael Vels

We're going to provide better or more specific aggregate numbers for 2020 in our fourth quarter. But in terms of on a per-store basis, which I think is what you're probably asking, it changes as we encounter each new store and we're in the early phases. But right now, our estimate is that they'll run between $5 million and $6 million per store of capital expenditures.

Michael Van Aelst

All right. Thank you.

Operator

Thank you. Your next question is from Kenric Tyghe from Raymond James. Please go ahead, Kenric.

Kenric Tyghe — Raymond James

Thank you, and good afternoon. If I could just follow up on the FreshCo line of questioning, could you speak to, beyond these first 12 stores, your envisaged sort of pace of conversions? And what, outside of managing it prudently, would be some of the biggest barriers to perhaps accelerating the pace of conversions, should you be happy with the initial set of results, which certainly, that appears to be the read-through on your commentary?

Michael Medline

Yeah. When we announced, we said over the next four years we would convert 65 Sobeys and Safeway stores, predominantly Safeway stores, over. And it depends on each quarter how many we'll be doing at a time, but mostly a pretty consistent conversion over that time period. That's about 25 percent of our Safeway and Sobeys network, and we think that that timeline and that pace of conversion is the prudent one.

Kenric Tyghe

Great. Thanks. So if I could just switch gears quickly then to the category resets. Could you sort of speak to the evolution of the risk profile on these resets? Obviously, you've got early traction here out the gate. But where are you on that sort of, I guess, the risk continuum, so to speak, with respect to the resets? And how should we think about peak risk on the resets, to the extent there is a peak risk period?

Michael Medline

Yeah. It's a good question. I think in terms of the dollar numbers, peak risk has passed. The merchants have more work to do, but they've had very productive negotiations with our supplier partners. We know that that's going to work out and the merchants are ahead of that.

The last piece of Sunrise, which will go on for a little bit of time here, will be to make those changes in our stores. Someone very smart, not me, decided to do it tranche by tranche, so that not to disturb the customers. And to not disrupt the store in a material way. That decision has proved to be a very wise one. And if you shop our stores, you'll see different sections disrupted in different ways, but all the customer metrics that we have been watching very carefully are showing that our stores, and our supply chain, and our merchants who are flowing those products through are doing an excellent job.

Right now, we're feeling highly confident about our ability to put these in the stores, and that the incredible process that our operators put in, the process and disciplines, which were more than any I'd ever seen in my career in retail, are working very, very well. Some minor hiccups, but so minor, well below what we ever expected at this point. The only reason I hedge bets is because I'm a conservative person. I think that this is a lot of work for our stores and merchants right now. And it takes their eye off a little bit in terms of the core business, but less and less with every day that passes.

So you're hitting us at very, very confident as we see these tranches go into the stores. And very, very pleased with our merchants and operators, as you can tell.

Kenric Tyghe

That's great. Thanks very much. I'll get back in the queue.

Michael Medline

Thank you, Kenric.

Operator

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

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions. A few easy ones here. Farm Boy, you helped us with the contribution on the P&L. Just wondering, it wasn't profitable on a net income basis. Just wondering, given the strong margins that we understood that it had, maybe why that's the case and when you anticipate it would be profitable?

Michael Vels

The numbers are a relatively small number of weeks, so not necessarily hugely indicative. But having said that, we did pay a strong multiple for the business. The future accretion will come from both the ongoing and very significant growth rate in the organic business of Farm Boy, but predominantly from store expansion. So we had two new stores that just went in. There are some start-up costs related to those stores, but they've been doing very well and they'll now annualize into the numbers. And as we roll out new stores, we expect that net earnings number to become accretive.

Vishal Shreedhar

Okay. So just to be clear, was the interest associated with that transaction – is that in the Farm Boy P&L? Or is that in the Empire P&L?

Michael Vels

It's in the Farm Boy P&L.

Vishal Shreedhar

Okay. So it's absorbing that right now?

Michael Vels

Sorry, I didn't understand the question fully. Yes. So we're allocating all of the debt into the Farm Boy P&L that was used to acquire the business.

Vishal Shreedhar

Okay. That's helpful. In terms of the CapEx associated with Farm Boy, a little bit higher intensity than I probably envisioned. And I know this is a new management team with a new rigour around CapEx, but just given the multiple paid and given this CapEx, just wondering what controls management has to ensure that this CapEx is productive for shareholders?

Michael Vels

Well, virtually all of that CapEx is new store construction. And honestly, if we could spend more and be comfortable that we could actually ramp all of the stores up from an operational perspective, we'd do that. So we're in a hurry. And, in fact, both the Farm Boy management and ourselves are pushing hard with our Empire real estate group to see what incremental real estate we could secure or reuse to accelerate that growth curve.

As we did say before, these stores are self-funding, and so the cash generated in the Farm Boy business will finance that capital program. So oddly enough, if we can find a way to spend more, we're going to do that, because they're very, very high returns. It's a very well-tried approach. We know what the stores cost, we know what the fixtures cost, we know what the layouts are. The Farm Boy management team is very practised in starting up these stores. We saw that from our own eyes as we watched the numbers of the last two store builds and store openings. So, yeah, we're pretty comfortable with it.

Michael Medline

It's Michael. I'll just add a couple things. I mean, we've never had a weapon like this to go at an urban area like the GTA. This is the most productive sales per square feet in grocery you can have. These are fantastic stores. And if you haven't been—I always put an ad in anything I say—if you haven't been down to the Leslie and Lakeshore store, that is one heck of a store. And you're going to see stores like that, as I said, blanket the GTA. So Mike's absolutely right. We are only constraining the growth because we want to keep that brand strong. We do not want to grow so fast that we deprive our customers of the fantastic experience and the quality that they've come to expect. That's the constraint. And Mike's absolutely right, if we could put more up quicker, we'd do so. But it's a great question, Vishal, thank you.

Vishal Shreedhar

And thanks for that colour. And just an easy one here. On the Genstar business, and correct me if I'm wrong, in the past, I believe you indicated that that was winding down. And given this slowing real estate backdrop in Canada, just wanted to get your thoughts on why the value of the real estate partnerships in your materials sort of revised upward quarter over quarter?

Michael Vels

Sorry, what is revised upward, Vishal?

Vishal Shreedhar

The equity value of those investments related to Genstar was revised up. Maybe it's a question for offline.

Michael Vels

Yeah. I'll take it offline. But I will answer your first question, which is, yes, they will take some time to wind down. But particularly the ones we have in Western Canada are still active residential lot developments. So there is quite a bit of un-serviced land which is still being serviced and which will deliver cash flows for us, at least our share of it, for some time into the future, just albeit at lower values.

Vishal Shreedhar

Okay. Thanks for the colour.

Operator

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

Jim Durran — Barclays Capital

Thank you. Just wanted to go to Alberta. A number of retailers have been expressing concerns about weakness with the consumer there, for obvious reasons. As you're working on the improvement of your merchandising and marketing, are you gaining tonnage share in that market? Or how is that market performing versus some of your other markets?

Michael Medline

We don’t cut down publicly by province, but I can tell you that we’re seeing improved execution in the stores. And so we’re very pleased with the progress we’re making in Alberta.

Jim Durran

And with your strong comp-store sales, with the momentum we’ve seen, do you believe — based on Nielsen or whatever reference you can use— you’re gaining tonnage share in the Canadian market?

Michael Medline

Yeah. You’ve got to be careful. Nielsen measures some things very, very well, and then other things, you’ve got to be a little more careful, especially on Fresh. And so we look at our own numbers. We know a lot about what’s going on in the market. We look at Nielsen. Our belief is that we’re gaining market share now, slowly. I don’t want to overemphasize it, but we’ve gone from losing a lot of market share to stabilizing, to beginning to gain some market share back, which is a big turn in a short period of time. So it gives us a lot of confidence.

Jim Durran

And shifting to category resets, obviously, you’ve been very prudent about the pace at which you’ve been going at this, and gaining confidence in the deployment and the minimization of risk, and no change to the expected Sunrise savings in this fiscal year. So I assume that we’re going to see a fairly material ramp-up in the deployment of category resets? Or do you realize the procurement savings regardless of whether you deploy the category rests?

Michael Vels

Well, it's a complicated answer. The short answer is, we do have to deploy the new plan-o-grams and the in-store displays to secure the benefits. Having said that, there clearly were some up-front payments for finalizing negotiations, et cetera, but the rule of thumb here is we need to execute them in-store to earn the monies. And we have all of the waves scheduled and we know when we're doing them, and it's just going to be done a phased basis.

So the benefits start to pile up as you start to get a critical mass of execution in the stores. And that's why, as Michael said, I think he used the words, slow amp-up, so it'll just get larger every period.

Michael Medline

And in fact, when we first talked about it May 4th a couple of years ago, I think we expected most of the category reset monies to show up in the third year, and we didn't break it down, didn't give you all the numbers and all the timing, but we're getting at it faster than we thought we would, and maybe a little bit more successfully, but there's still a ramp-up period.

Jim Durran

Sorry. My last question's just on sort of the next round of helping the Company be a better company, and marketing, obviously a focus in terms of messaging to the consumer, and then in addition to that, whatever changes you might make to the private label program. Can you give us some idea as to how far along you feel you are in those two elements? And I know you'll be a little bit sensitive about disclosing exact timing, but can you give us some vagueness in terms of whether we should hold our breath or not hold our breath?

Michael Medline

Yeah, well, you're right. I'm not going to give you much. You're going to be really disappointed. But to say that, I think we are making a lot of progress on the private label. You were breaking up a little bit, so I think it was private label and marketing you were talking about?

Jim Durran

Yes.

Michael Medline

Private label, we're making a lot of progress, and you'll see a lot of change in our stores over the next year.

And in terms of marketing, we have, in fact, Sandra was just presenting to our board, and we had a great presentation in terms of where marketing is going, and what actions we're going to take in the short, medium, and long term, and where we're going to take our brand. So I think it's early days for Sandra, but we already had a head start there because Lyne had been leading marketing, and we were in good shape there. And I think you're going to see some better and better marketing from us—in fact, I've been looking at some of our marketing programs that are planned for the next budgeted fiscal year, and I'm very, very pleased. But I'm not going to give you any details; that would ruin the surprise.

Jim Durran

Thanks, Michael.

Michael Medline

Thank you. Thanks for the question.

Operator

Your next question is from Irene Nattel from RBC. Irene, please go ahead.

Irene Nattel

Good afternoon, everyone. You alluded to, or you spoke a little earlier about sort of the amount of data and how you guys use it. So I was wondering where you think you are on promotional efficiency, kind of margins that you're getting on promotions? And where would you like to take that, I guess?

Pierre St-Laurent — Executive Vice President, Merchandising and Quebec,

The first thing we did, through category resets, is a deeper analysis in every single category. We are at a better place than we were a year ago. Category managers have a better knowledge on their category and product stability. The next layer will be to optimize what we did with category reset. The work has already started, and we're already seeing good progress with that better knowledge. Our sales increased and without investing more money in terms of our margin rate. That's good progress, and the best is coming in the future quarters.

Irene Nattel

That's great. That's really helpful. So would you say that, if you kind of look at the balance of your sales, sort of on-shelf price versus promotion, as you do the resets, are you starting to see sort of that shift that you wanted to drive in terms of better sales on-shelf?

Pierre St-Laurent

We are at the beginning of executing category resets, so it's a bit early. I think we're executing tranche number six this week. We have many tranches left and it's too early to conclude at this time. But so far, no major changes.

Irene Nattel

Okay. That's very helpful. And on the subject of market share and your service estimate that you're gaining tonnage share, who do you do you think you're gaining it from? Or which channel?

Michael Medline

I'll leave it to you to figure that out. But, no, I don't want to make any more enemies than I already do in this industry. I think we're gaining it from a lot of different players, honestly. If you think about it, for a little while there, we were giving up market share across the country, particularly in the west, and I think that our competitors, all of them, were recipients of that. And I think we're starting to get a little bit of that market share back from all of them across the country. So I don't think it's any one competitor that we're targeting or that is weak out there; I think it's a competitive market, and we're having to fight and earn this tonnage. And I think the thing, actually, I'm proudest of right now is that we're seeing that sales and tonnage growth, and it's coming earlier than we would have expected. I think it's just plainly better execution, a better strategy, and I think that the team's to be commended for that.

Irene Nattel

That's very helpful. Thank you. And one final one, if I may. Now that it's what, three, almost four months that you've owned Farm Boy, what are sort of the biggest surprises? And where do you think, other than growing the Farm Boy footprint itself, what kind of learnings do you think that you can leverage into the existing network, into the legacy network?

Michael Medline

Well, I think it's going to be learnings from both sides. I think that the Farm Boy, although they've been so successful, we spent a lot of time with them and they're very open to learning from us, and we’re very open to learning from them. I think that their ability to understand the customer experience in urban markets, their just innate strength on brand, and hammering that home, especially in their private label program, and the power of that brand. I mean, we’re talking only really three stores now surrounding the GTA area, and the amount of buzz about these stores and the customer knowledge of this brand is very strong. I think it’s—and I used the word weapon before—I think it’s that, plus Ocado will give us a very, very strong sense that we will triumph in the GTA and other urban markets.

And I think that what we’re seeing now is, you can do all you want when you’re acquiring and you’re doing your due diligence, but watching this operation and how they’re customer-focused, how they build their brand, how they stay focused on what they’re trying to do, and how they open stores successfully, I got to tell you, I’m learning things and I think our team is learning things. But so far, yeah, it’s only three months, as you point out. It’s very smooth. And part of that is that we are not bugging them for $10,000 worth of synergies every day. This is a growth platform to win in Ontario and in the GTA, and that’s how we’re handling it.

In fact, the way we set it up is, that the Farm Boy management comes to us and asks if there are certain synergies or learnings or ways of doing business, they ask. And they have made some certain requests, but the emphasis on this side of it is to operate them as a separate company. Remember, we own 88 percent, management at Farm Boy owns 12 percent, and it’s operating beautifully that way so far.

Irene Nattel

That’s great. Thank you.

Michael Medline

Thank you. Thanks, Irene.

Operator

Thank you. Your next question is from Patricia Baker from Scotiabank. Please go ahead.

Patricia Baker — Scotiabank

Thank you very much, and good afternoon, everyone. I've got three quick questions here. So the first one is revisiting the topic of market share. And I think, Michael, in your opening comments you indicated that you are gaining market share in Ontario, and just a couple of things on that. Is this the first quarter that you've seen share gains in Ontario?

And then secondly, it's easy to understand how you're gaining share in Western Canada because of the share losses that you had, but is it simply the same things that are you leading to gain the share in Ontario? The better execution, et cetera, et cetera?

Michael Medline

Yeah. Thanks. So I'll answer. This is not the first quarter we believe we've gained market share in Ontario. I think it's the most material market share growth we've seen in Ontario, and I think it's a lot of things. I think that our FreshCo banner is performing at a level that, honestly, it's never performed at before. That we're seeing customer results, and sales, and just a very, very good execution, and branding and marketing from our FreshCo division. And I think that our Foodland division, which we don't talk a lot about, and is very, very well-operated by our dealers in the stores and has a great market presence in mostly more outside the urban areas, is performing well, and I think it can even grow.

But some of the biggest surprise we're seeing is at Sobeys Ontario. And I think it's just sharper practices: there is better execution in the stores, better in-stock positions, and better flyers. And the nice part is I think we've just begun the fight here. And when I say market share, we're not counting the Farm Boy. We just gained market share by buying something. That's on top of what I'm already talking about. And Farm Boy is going to grow, Ocado's going to grow. So Ontario, which has historically been our Achilles heel in terms of strength, was something that we targeted two years ago in our strategic plan, as we did the GTA, and we're just executing on it. And it's early days. We're not bragging. You're not going to hear any champagne corks flying around here. But I've got to tell you, I'm really proud of the inroads we're making in Ontario. But it's across the board.

Patricia Baker

Okay. Excellent. So just on the Farm Boy, and you've referenced Farm Boy several times on this call so you probably answered my question indirectly if not directly, and I was just curious if those two stores that you opened in the quarter in the GTA area, curious whether they opened better than you had anticipated.

Michael Medline

Yeah. The funny thing about Farm Boy, and if you remember our first call we ever had, Jeff York said that they didn't have the greatest real estate. So one of the sites is not the greatest real estate. The other one is pretty good real estate. They both opened strongly, and if you look at the one that I've been going into quite a bit lately is the Leslie and Lakeshore store which is—I hope JL and Jeff don't get mad at me—but already one of our best-performing stores. And if you go in there on a weekend, you've never seen, I think, a broader demographic in terms of age, which I love to see. And it is busy, and the customers are being served. It's like they're at Disney World, they're so happy.

And so I believe that given the demographics of Toronto, and really the density of Toronto, that these stores are going to thrive. And I think that we're more confident about that after seeing the Etobicoke store, the Oakville store, and especially this Leslie and Lakeshore store of what we can do. I think it's even eye-opening to Jeff and JL in terms of the power of the brand and how it's resonating.

That product mix, through very smart planning by JL and Jeff, and just responding to customers, it's just built for these urban geographies.

Patricia Baker

Okay. Thank you, Michael. And my final question is on Ocado. So last week on the corporate earnings call, the CEO Rodney McMillian noted that at the time that he signed the agreement with the Ocado team, he told them that Ocado was not signing, that the partnership based on what Ocado has today, but based on what they think Ocado will be in three to five years. And I'm just curious whether or not Sobeys is also taking a pretty similar view on Ocado, and that the promise of the future that what they can bring is probably as important as what they're able to bring today. And if so, sort of which, what areas—I know you can't say exactly—but where does Ocado have the potential to even do more for your business in the future than the initial CFC?

Michael Medline

I think I'll answer the first part and kind of obviate a little bit on the second part. But the first part—I couldn't agree more with Rodney. I couldn't agree more with Kroger and what they estimate. When we were making the decision as an executive team, and then as our board made the decision, we knew that this was the best-in-class killer technology in terms of grocery e-commerce. It was unquestionable.

What we were most interested in, was how entrepreneurial were they, and would it continue to evolve and be the most innovative. Because as good as this is, there's always something that would like to beat it. We've come to the conclusion, and I think Kroger's come to the same conclusions, I guess, from what you said, that this is one of the most entrepreneurial, innovative companies, and that what we build today is outfitted so that it can—on the supply chain, it's outfitted so that it can accommodate the innovations that are going to come, that Ocado is—and the reason I won't answer all your questions is it's confidential to Ocado. We have certain confidentiality agreements.

Patricia Baker

Fair enough.

Michael Medline

But there's strong innovation that's going to be put into our supply chain, and into the services and algorithms and customer experience, which I think is even more important than the great robots running around in the CFCs.

So I think that that is why Ocado was successful at the beginning, and we're seeing no slowdown in terms of their innovative spirit. And that's what got us especially excited about this, that this is going to keep, could keep generating more efficient ways to do business and more customer-friendly ways to do business.

Patricia Baker

Okay. Thank you so much for that, Michael.

Michael Medline

Thanks, Patricia. Thanks for those questions.

Operator

Thank you. Your next question is from Peter Sklar from BMO Capital Markets. Please go ahead, Peter.

Peter Sklar — BMO Capital Markets

Just back on Farm Boy. And I can't recall, when you announced the acquisition, did you ever provide us with what the comp level is of Farm Boy?

Michael Vels

No, we didn't.

Peter Sklar

And given that it's a new acquisition and an important part going forward, can you give us any indication of what this chain comps at?

Michael Vels

Yeah. The comp rates are, I mean, what we did say—and I'm testing my memory a little bit—but we said that it comps way in excess of any of our banners. As Michael just said, it's productivity per square foot is the leader in the market. So the comps are in the low double to very low double-digit sort of area on average, but there's a wide dispersion depending on whether it's a mature store or a new store that just opened. So not just new stores, but the internal grocery is what fuels the growth there.

Peter Sklar

Okay. And Michael Medline, I'd like to ask you a question about the FreshCo rollout out west. And could you maybe talk a little bit about how you're going to overcome the issue of—you're just not going to have a lot of critical mass when you start. You're going to have a few stores in BC, a few stores in Manitoba, and you just don't have the critical mass for things like marketing, advertising dollars, the flyer. How do you manage the chain when it's in its infancy, when you're just kind of have a few pin points of stores?

Michael Medline

That's a great question. And when we were facing this question two years ago, that was one of the biggest questions we faced. First of all, we're trying to group the stores as much as we can in tight geographies. So at the beginning, we're not going to have one store in Winnipeg; we'll have two stores in Winnipeg. British Columbia’s obviously going to be a focal point in certain areas of British Columbia where we group stores. So one of it was group the stores.

The second was, how do you make noise in a market when you’re new to the market, when your brand is not well-known, when the great price perception that we should have is not as well-known right away? And so even two years ago, we put together plans to overcome that, and in the next couple months we’ll put that into place.

At the same time, two things should be kept in mind. One is, it’s like with any new banner going into a new market; it’s going to ramp up. And that’s in all of our modelling, it shows it ramping up. Very rare you open up a new banner and it does well right away. We expect this to do well because it’s a good concept that’s needed out there.

But the other thing that, while we’re ramping up is, we’re not converting over our best stores, if you know what I mean. And so sometimes we get fixated on just talking about how are Safeway and Sobeys doing out west, or how is FreshCo going to do. I talk about a multipronged approach to turn around the West for a reason: it’s multipronged. And we’ve been pretty clear on that strategy for almost two years now.

And the fact that we are taking out stores which are underperforming—and we’ve been clear on that—which are really in discount markets. So we’re taking out underperformers, putting in a lower cost, price-fighting, relatively medium box format out there that’s not really there. We think it’s going to be very successful. The key, to us, is to make a big splash when we go in and then compete and grow market share. It’s not going to come overnight. But this is, financially and strategically, a good thing. But your question’s exactly the right question. Exactly on.

Peter Sklar

Okay. And, Michael, just the last question I had. On the category resets, it sounds like some of the categories you've touched already, if we were to visit a store in Toronto, where can we look and see the reset in terms of the change of assortment? Is there any particular categories that are done at this point?

Michael Medline

Well, if you go and look at paper, you're going to see paper's been reset. Cold drinks is reset. Water is reset, and I'll guess—there's seven or eight. So I'm giving you some places to look. If you go in a store, you're going to see signage throughout the store which will help guide you. Some of the signage is going to be the kind you see in stores all the time—we're under construction, we're trying to serve you better, we're bringing in better brands, which we are. And so you'll see that signage and that will tell you that—and you'll see some promotions as we clear inventory out of those sections of the store. So you'll see that. And there'll be one or two of those going on at a time in a store.

You'll also see other signage, which will announce exciting new changes in a category and, depending when you get there, we'll either be filling the shelves or it'll already be filled. So I think it's pretty obvious, actually, for people like you on the line, that you'll be able to notice in the store where we're under construction or where we're starting to fill in with the new categories.

Pierre St-Laurent

Confectionary.

Michael Medline

Yeah, confectionaries. Thank you, Pierre. And what tranche are we in right this second, Pierre?

Pierre St-Laurent

Right now, we're doing confectionary.

Michael Medline

Confectionary, you'll see under construction, so things will be coming out and going into confectionary. Depending on which stores, it'll be a tiny bit of different timing. But all stores across the country are basically on the same week in terms of converting over. That was pretty helpful, guys. Don't you think?

Operator

Thank you. That concludes today's Q&A. I will now turn it back over to Katie Brine for closing comments.

Katie Brine

Great. Thank you, Joanna. Ladies and gentlemen, we appreciate your continued interest in Empire. If there are any unanswered questions, please contact me by phone or email.

We look forward to having you join us for our fourth quarter fiscal 2019 conference call on June 27th. Talk soon.

Operator

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