



# Q3 F2019 Earnings Call

**March 14, 2019**

# Executive Team



**Michael Medline**  
President &  
Chief Executive Officer



**Lyne Castonguay**  
Executive Vice President,  
Store Experience

**Pierre St-Laurent**  
Executive Vice President,  
Merchandising & Quebec

**Vivek Sood**  
Executive Vice President,  
Related Businesses

**Mike Venton**  
General Manager,  
Discount Format

**Sarah Joyce**  
Senior Vice President,  
E-commerce

**Mike Vels**  
Executive Vice President &  
Chief Financial Officer

**Simon Gagné**  
Executive Vice President,  
Human Resources

**Clinton Keay**  
Executive Vice President,  
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**Sandra Sanderson**  
Senior Vice President,  
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**Doug Nathanson**  
Senior Vice President,  
General Counsel & Corporate  
Secretary

**Vittoria Varalli**  
Vice President,  
Sustainability,  
Chief of Staff,  
Office of the  
CEO

## Third Quarter Highlights

- Same-store sales excluding fuel increased 3.3%; strongest in almost 10 years
- Same-store sales excluding fuel and pharmacy increased 3.9%
- Third consecutive quarter of tonnage growth
- Earnings per share of \$0.24 compared to \$0.21 last year
- Adjusted earnings per share of \$0.27 (including \$0.12 of labour buyout and store closure costs) compared to \$0.33 last year – *see slide 5 for further detail*
- Effective income tax rate of 22.1%, lower due to higher capital gains on property dispositions and a decrease in tax liabilities related to unrecognized tax benefits
- Project Sunrise transformation on track
- 12 FreshCo locations confirmed to open in British Columbia and Manitoba in calendar 2019
- Empire's results for the third quarter ended February 2, 2019 include 8 weeks of Farm Boy's operations. All metrics, including SSS, include the consolidation of Farm Boy operations.

# Third Quarter Financial Summary

	Quarter 3	
	Actual <sup>1</sup>	LY
Sales	\$6,247.3	\$6,029.2
<i>Same-store sales, excluding fuel</i>	3.3%	1.1%
<i>Same-store sales, excluding fuel and pharmacy</i>	3.9%	1.4%
Gross Profit	\$1,511.7	\$1,444.7
<i>Gross margin</i>	24.2%	24.0%
Selling and Administrative Costs (excluding adjustments <sup>2</sup> )	\$1,439.4	\$1,341.7
<i>Selling and Administrative margin</i>	23.0%	22.3%
Adjusted Operating Income	\$119.8	\$152.0
<i>Adjusted Operating Income as a % of sales</i>	1.9%	2.5%
Adjusted EBITDA	\$218.3	\$253.3
<i>Adjusted EBITDA margin</i>	3.5%	4.2%
Adjusted Net Earnings	\$72.9	\$89.9
Adjusted Earnings per Share	\$0.27	\$0.33
Free Cash Flow	\$183.6	\$269.4
Funded Debt to Total Capital	34.4%	32.7%

<sup>1</sup> Q3 F19 results include \$45 million in costs related to the B.C. labour buyouts and FreshCo conversion store closures which impacted selling and administrative costs. See Slide 5 for further details.

<sup>2</sup> Adjustments were made for intangible amortization associated with the Canada Safeway acquisition, business acquisition costs and costs related to Project Sunrise in the prior year. Please see Empire Company Limited's News Release for the third quarter ended February 2, 2019 for additional information.

## OVERVIEW

### LABOUR BUYOUTS

On January 29, 2019, the Company announced progress implementing a labour decision provided by a Special Officer appointed by the Government in British Columbia.

- The labour decision set terms that allow the Company to offer voluntary buyouts to eligible B.C. Safeway employees.
- Employee buyouts provide flexibility and stability for the Company to better manage labour and operational costs in B.C.
- The Company estimates the cost of the labour buyout will be approximately \$35 million before tax (\$0.09 per share, after tax).

### FRESHCO CONVERSION COSTS

The labour decision also enabled the Company to move forward with its discount expansion strategy in B.C., which is to convert a portion of its full service format stores to its discount format, FreshCo.

- Management confirmed five stores that closed in July 2018 will be converted to the FreshCo discount format.
- Management announced that the Company will close a further five stores which will be converted to FreshCo.
  - The costs of these additional store closures are estimated to be approximately \$10 million before tax (\$0.03 per share, after tax).
- 12 FreshCo locations confirmed to open in B.C. and Manitoba in calendar 2019, depending on timing of construction schedules and permits
  - The first Western Canada FreshCo stores are expected to open in the next few months – five in B.C. and two in Manitoba.

### IMPACT

The estimated cost of the labour buyout and store closure costs is \$45 million which increased selling and administrative expenses in the third quarter. If this amount was not included in the Company's third quarter results:

- Adjusted Selling and Administrative expenses as a percent of sales would have been 22.3%
- Adjusted Operating Income would have increased 8.4%
- Adjusted EBITDA margin would have been 4.2%
- Adjusted EPS would have been \$0.39

## IFRS 16

### OVERVIEW

- IFRS 16 intends to align the presentation of leased assets more closely to owned assets
- Impact of the standard will be reflected in our financial statements for first quarter of 2020 (from May 5, 2019)
- This standard will not impact Empire's strategy, business operations, or cash flow generation
- The Company expects the adoption of IFRS 16 will have a material impact on its balance sheet classifications
- The Company expects the adoption of IFRS 16 will not have a material impact on fiscal 2020 EPS

### BALANCE SHEET

- |             |                                                                                                                       |
|-------------|-----------------------------------------------------------------------------------------------------------------------|
| Assets      | <ul style="list-style-type: none"><li>• \$3.6 - \$3.9 billion increase in assets</li><li>• Mainly long term</li></ul> |
| Liabilities | <ul style="list-style-type: none"><li>• \$4.2 - \$4.5 billion inclusion of new lease liabilities</li></ul>            |

- The Company continues to finalize and validate the key estimates and inputs into the calculations
- The actual discount rate applied will be based on Empire's transition date of May 5, 2019 and changes may affect estimates significantly

### STATEMENT OF EARNINGS

- |                 |                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Expenses        | <ul style="list-style-type: none"><li>• Are higher under IFRS 16 when leases are early in the term as finance expense is recognized on an amortized cost basis and depreciation expense is recognized straight-line over the lease term</li><li>• Current rent expense will be replaced by depreciation on the right of use assets and interest expense on the new lease liabilities</li></ul> |
| EBITDA          | <ul style="list-style-type: none"><li>• This will have a significant impact on the calculation of EBITDA</li></ul>                                                                                                                                                                                                                                                                             |
| Fiscal 2020 EPS | <ul style="list-style-type: none"><li>• Based on current estimates and available information, the Company does not expect application of IFRS 16 to have a material impact on EPS</li></ul>                                                                                                                                                                                                    |

## Forward-Looking Information

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

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

- The Company's expectations regarding the impact of Project Sunrise, including expected cost savings and efficiencies resulting from this transformation initiative, and the expected timing of the realization of overall and fiscal 2019 in-year incremental benefits, which could be impacted by several factors, including the time required by the Company to complete the project as well as the factors identified under the heading "Risk Management" in the fiscal 2018 annual Management's Discussion & Analysis ("MD&A");
- The FreshCo expansion in Western Canada, including the Company's expectations regarding future operating results and profitability, the amount and timing of expenses, and the number, location, feasibility and timing of conversions, all of which may be impacted by construction schedules and permits, the economic environment and labour relations;
- The Company's expectations regarding its operations in Western Canada, including future operating results and profitability, flexibility, growth plans, brand expansions and labour relations, which could be impacted by several factors, including the factors identified under the heading "Risk Management" in the fiscal 2018 annual MD&A; and
- The timing and amount of expenses relating to voluntary buyouts, which may be impacted by employee participation and labour relations.

By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made. For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of Empire's fiscal 2018 annual MD&A.

## Non-GAAP Financial Measures & Financial Metrics

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

For a complete description of Empire's non-GAAP financial measures and financial metrics, please see Empire's MD&A for the third quarter ended February 2, 2019.