Q4 F2019
Earnings Call

June 27, 2019

CEO's Direct Reports

Fourth Quarter Highlights

- Same-store sales excluding fuel increased 3.8%.
- Same-store sales excluding fuel and pharmacy increased 4.2%.
- Fourth consecutive quarter of tonnage growth.
- Earnings per share of $0.45 compared to $0.26 last year.
- Adjusted earnings per share of $0.46 compared to $0.35 last year.
- Gross margin increased 70 basis points over prior year.
- Project Sunrise exceeded targets; **Company realized in-year benefits of $200 million in fiscal 2019.**
  - In fiscal 2020, management expects to achieve at least $250 million of in-year benefits.
- Dividend per share increased by 9%.
- Capital investment program for fiscal 2020 expected to be $600 million, including approximately $70 million related to the expansion of Farm Boy store network in Ontario.
- Intent to repurchase approximately $100 million of Non-Voting Class A shares.
- Empire's results for the fourth quarter include a full quarter of Farm Boy's operations.

Fourth Quarter Financial Summary

	Quarter 4		Fiscal 2019	
	Actual[1]	**Last Year**	**Actual[1] [2]**	**Last Year**
Sales	$6,220.4	$5,886.1	$25,142.0	$24,214.6
Same-store sales, excluding fuel	*3.8%*	*0.0%*	*2.7%*	*0.5%*
Same-store sales, excluding fuel and pharmacy	*4.2%*	*0.3%*	*3.2%*	*0.7%*
Gross Profit	$1,577.5	$1,451.3	$6,083.6	$5,900.5
Gross margin	*25.4%*	*24.7%*	*24.2%*	*24.4%*
Selling and Administrative Costs (adjusted)[3]	$1,425.8	$1,348.6	$5,556.2	$5,434.3
Selling and Administrative margin	*22.9%*	*22.9%*	*22.1%*	*22.4%*
Adjusted EBITDA	$300.1	$240.4	$1,076.2	$1,014.7
Adjusted EBITDA margin	*4.8%*	*4.1%*	*4.3%*	*4.2%*
Adjusted Earnings per Share	$0.46	$0.35	$1.50	$1.27
Free Cash Flow	$175.6	$342.7	$540.7	$808.9

[1] Empire's results for the fiscal year ended May 4, 2019 include Farm Boy operations as of December 10, 2018. All metrics, including same-store sales, include the consolidation of Farm Boy operations. Farm Boy contributed sales of $212.7 and net earnings of $3.1 for the year ended May 4, 2019.
[2] 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 6 for additional information.
[3] Selling and Administrative costs, excluding the impact from adjustments made during the fourth quarter and fiscal year, for intangible amortization associated with the Canada Safeway acquisition, business acquisition costs and costs related to both Project Sunrise and Western Canada store closures in the prior year.

Capital Expenditures – Fiscal 2019

Investing Activities

($ in millions)	13 Weeks Ended Actual	13 Weeks Ended Last Year	$ Change	52 Weeks Ended Actual	52 Weeks Ended Last Year	$ Change
Acquisitions of property, equipment, investment property and intangibles	**$ (227.1)**	$ (84.0)	$ (143.1)	**$ (434.6)**	$ (288.0)	$ (146.6)
Proceeds on disposal of assets	**28.9**	113.2	(84.3)	**89.7**	217.2	(127.5)
Loans and other receivables	**6.0**	(0.4)	6.4	**12.0**	6.1	5.9
Other assets and other long-term liabilities	**6.9**	3.7	3.2	**9.2**	2.9	6.3
Business acquisitions, net of cash acquired	**(0.8)**	(0.6)	(0.2)	**(778.6)**	(3.8)	(774.8)
Interest received	**3.9**	1.2	2.7	**8.3**	1.9	6.4
Proceeds on redemption of investment	**-**	-	-	**-**	24.3	(24.3)
Cash flows (used in) from investing activities	**$ (182.2)**	$ 33.1	$ (215.3)	**$ (1,094.0)**	$ (39.4)	$ (1,054.6)

The Company invested $434.6 million in capital expenditures in fiscal 2019. Excluding the impact of capital expenditures by companies acquired during the year, predominantly Farm Boy, the Company invested **$427.3 million** which was in line with management's previously disclosed estimate of $425.0 million.

The Company expects to **invest approximately $600.0 million in its operations during fiscal 2020**; this estimate includes capital estimates of approximately $70.0 million related to expansion of the Farm Boy store network in Ontario.

British Columbia Labour Decision & Impact

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 – this was charged to operating earnings in the third quarter of fiscal 2019.

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 (Safeway and Sobeys) to its discount format, FreshCo.

- On January 29th, management:
  - Confirmed five stores that closed in July 2018 will be converted to the FreshCo discount format.
  - Announced that the Company will close a further five Safeway locations which will be converted to FreshCo.
    - The costs of these additional store closures are estimated to be approximately $10 million before tax – this was charged to operating earnings in the third quarter of fiscal 2019.
- On June 6th, management announced:
  - The Company will close a further six Safeway locations which will be converted to FreshCo.
    - The costs of these additional store closures, plus the conversion of a Sobeys to Farm Boy, announced separately that day, is estimated to be approximately $15 million before tax – this will be charged to operating earnings in the first quarter of fiscal 2020.
- **3 FreshCo locations opened in fiscal 2019** – one in B.C. and two in Manitoba.
- **15 FreshCo locations confirmed to open in B.C. in fiscal 2020.**

IFRS 16 Update

EMPIRE COMPANY LIMITED
Sobeys inc.

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 the 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	• $4.0 - $4.2 billion increase in assets • Mainly long term
Liabilities	• $4.6 - $4.8 billion inclusion of new lease liabilities

- The Company continues to finalize and validate the key estimates and inputs into the calculations
- The discount rate applied is based on Empire's estimated incremental borrowing rate as of the transition date of May 5, 2019

STATEMENT OF EARNINGS

Expenses	• 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 • Current rent expense will be replaced by depreciation on the right of use assets and interest expense on the new lease liabilities
EBITDA	• This will have a significant impact on the calculation of EBITDA
Fiscal 2020 EPS	• Based on current estimates and available information, the Company does not expect application of IFRS 16 to have a material impact on EPS

Empire intends to host a conference call in July to further discuss the accounting policy changes under IFRS 16 and the impact of this standard on the Company.

Disclaimers

Forward-Looking Information

This document contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Empire Company Limited's ("Empire" or the "Company") financial position and understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "estimates", "plans", "predicts", "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, the expected timing of the realization of overall and fiscal 2020 in-year incremental benefits, and the expected $50 million overachievement of the initial $500 million target which could be impacted by several factors, including the execution and completion of category resets, time required by the Company to complete the project as well as the factors identified under the heading "Risk Management" in the fiscal 2019 annual MD&A;
- The Company's plans to purchase for cancellation Non-Voting Class A shares under the normal course issuer bid which may be impacted by regulatory approval, market and economic conditions, availability of sellers, changes in laws and regulations, operating efficiencies and cost saving initiatives;
- The Company's estimates regarding future capital expenditures which includes acquisitions of property, equipment and investment properties as well as additions to intangibles, which may be impacted by operating results and the economic environment;
- 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; 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 2019 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 fiscal year ended May 4, 2019.