EMPIRE COMPANY LIMITED

Sobeys inc.

Q1 F2020 Earnings Call

September 12, 2019

CEO’s Direct Reports

Michael Medline
President &
Chief Executive Officer










Pierre St-Laurent
Executive Vice President, Chief Operating Officer, Full Service

Vivek Sood
Executive Vice President, Related Businesses

Mike Venton
General Manager, Discount Format

Sarah Joyce
Senior Vice President, E-commerce

Mike Vels
Chief Financial Officer

Simon Gagné
Executive Vice President, Human Resources

Sandra Sanderson
Senior Vice President, Marketing

Doug Nathanson
Senior Vice President, General Counsel & Corporate Secretary

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

Mohit Grover
Senior Vice President, Innovation & Strategy

First Quarter Highlights

- Same-store sales excluding fuel increased 2.4%.
- Earnings per share of $0.48 compared to $0.35 last year.
- Adjusted earnings per share of $0.49 compared to $0.37 last year.
- Gross margin increased 120 basis points over prior year.
- Store closure and conversion costs of $21 million ($0.06 per share, after tax) included in results.
- Project Sunrise on track.
- 22 FreshCo locations in Western Canada confirmed to date.
- Empire's results for the first quarter include a full quarter of Farm Boy operations.
- Repurchased 547,300 shares for a total consideration of $18.9 million.
  - Intent to purchase approximately $100 million of Non-Voting Class A shares.
  - Announced Empire intends to enter into an automatic share purchase plan with its designated broker.
- DBRS upgraded Sobeys' credit rating to BBB (low), stable trend.
- IFRS 16 adopted this quarter, see slide 6 for more details.

First Quarter Financial Summary

	Quarter 1	
	Actual [1][2][3]	Last Year
Sales	$6,744.1	$6,460.3
Same-store sales, excluding fuel	*2.4%*	*1.3%*
Gross Profit	$1,660.4	$1,512.3
Gross margin	*24.6%*	*23.4%*
Selling and Administrative Costs (adjusted) [4]	$1,419.2	$1,369.7
Selling and administrative margin	*21.0%*	*21.2%*
Adjusted EBITDA	$460.0	$278.7
Adjusted EBITDA margin	*6.8%*	*4.3%*
Adjusted Earnings per Share	$0.49	$0.37
Free Cash Flow [5]	$224.2	$127.5

[1] Empire's results for the quarter ended August 3, 2019 include Farm Boy. All metrics, including same-store sales, include the consolidation of Farm Boy operations.

[2] Certain financial metrics were impacted by the implementation of IFRS 16 in the first quarter of fiscal 2020. See slide 6 for additional details.

[3] In the first quarter of fiscal 2020, the Company expensed $21 million in closure and conversion costs. These costs relate to the announced conversion of ten Safeway locations to FreshCo stores and the conversion of two Company locations to Farm Boy stores that were announced in the first quarter. See slide 5 for additional details.

[4] Selling and Administrative Costs, excluding the impact from adjustments made during the first quarter for intangible amortization associated with the Canada Safeway acquisition.

[5] Amounts have been restated to reflect the revised free cash flow definition. See "Non-GAAP Financial Measures & Financial Metrics" section of Empire's News Release for the first quarter ended August 3, 2019.

Discount Expansion to West & Store Closure and Conversion Costs

OVERVIEW

DISCOUNT EXPANSION TO WESTERN CANADA

In December 2017, Sobeys announced plans to expand its discount format to Western Canada and expects to convert up to 25% of its 255 Safeway and Sobeys full service format stores in Western Canada to its FreshCo discount format. Nearly two years into execution of this plan, the Company is on track to open approximately 65 locations within the initial five year time frame.

22 FreshCo locations have been confirmed:

- 7 stores are open and operating:
  - 5 in B.C.; and
  - 2 in Manitoba;
- 11 stores are expected to open in fiscal 2020 in B.C.; and
- 4 stores are expected to open in fiscal 2021 in Saskatchewan.

The Western Canada FreshCo stores are branded with the new, evolved FreshCo 2.0 look which offers a strong discount and value experience. The evolved branding continues to be rolled out to all FreshCo stores in Ontario.

STORE CLOSURE AND CONVERSION COSTS

In the first quarter of fiscal 2020, **the Company expensed $21 million (2019 – $ nil) in closure and conversion costs**. These costs relate to:

1. The announced conversion of ten Safeway locations to FreshCo stores; and
2. The announced conversion of two Company locations to Farm Boy stores.

The conversion costs for another twelve FreshCo locations were expensed when the locations were announced in prior quarters.

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 has been 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 adoption of IFRS 16 had a material impact on balance sheet classifications.
- The Company expects the adoption of IFRS 16 will not have a material impact on fiscal 2020 EPS.

INCOME STATEMENT IMPACT

	13 Weeks Ended				
($ in millions, except per share amounts)	**Aug. 3, 2019**	Aug. 4, 2018	Change	Impact of IFRS 16[1]	Change (excl. IFRS 16)
EBITDA	**$460.0**	$278.7	$181.3	**$129.0**	$52.3
Adjusted EBITDA	**$460.0**	$278.7	$181.3	**$129.0**	$52.3
EBITDA margin	**6.8%**	4.3%	2.5%	**1.9%**	0.6%
Finance costs, net	**$71.7**	$23.1	$48.6	**$46.3**	$2.3
Net earnings	**$130.6**	$95.6	$35.0	**$(0.9)**	$35.9
Adjusted net earnings	**$133.9**	$100.2	$33.7	**$(2.0)**	$35.7
Adjusted EPS (fully diluted)	**$0.49**	$0.37	$0.12	**$(0.01)**	$0.13

[1] Reflects the impact of changing accounting standards from IAS 17 to IFRS 16 in the first quarter of fiscal 2020, including the add back of $3.5 million ($2.5 million after tax) in historical straight-line expense under IAS 17.

BALANCE SHEET IMPACT

Adjustments to opening balances resulting from the initial adoption of IFRS 16:

As at May 5, 2019	($ in millions)
Asset increase (decrease):	
Prepaid expenses	$(43.4)
Current loans and other receivables	53.6
Non-current loans and other receivables	519.0
Other assets	(7.3)
Property and equipment	(22.3)
Right-of-use assets	3,800.7
Intangibles	(126.7)
Deferred tax assets	127.3
Total assets	**$4,300.9**
Liabilities and equity (increase) decrease:	
Current provisions	$7.4
Long-term debt due within one year	6.5
Lease liabilities due within one year	(424.4)
Long-term provisions	23.7
Long-term debt	22.6
Long-term lease liabilities	(4,569.6)
Other long-term liabilities	164.4
Deferred tax liabilities	36.5
Retained earnings	432.0
Total liabilities and equity	**$(4,300.9)**

Disclaimers

Forward-Looking Information

This document contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize 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, 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 Management's Discussion & Analysis ("MD&A");

- The FreshCo expansion in Western Canada and Farm Boy expansion in Ontario, 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 construction and conversions, all of which may be impacted by construction schedules and permits, the economic environment and labour relations; and

- The Company's plans to purchase for cancellation Non-Voting Class A shares under the Normal Course Issuer Bid which may be impacted by market and economic conditions, and the results of operations.

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 and free cash flow 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 more complete description of Empire's non-GAAP measures and metrics, please see Empire's MD&A for the first quarter ended August 3, 2019.