



Q2 F2020 Earnings Call

December 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

Second Quarter Highlights

- Same-store sales excluding fuel increased by 2.0%.
- Earnings per share of \$0.57 compared to \$0.38 last year.
- Adjusted earnings per share of \$0.58 compared to \$0.40 last year.
- Crombie REIT's disposal of a 15 property portfolio positively impacted Empire's adjusted EPS by \$0.06.
- Gross margin increased 90 basis points from last year.
- Project Sunrise on track.
- Eleven FreshCo locations will be opened in British Columbia and Manitoba in calendar 2019.
 - The eleventh store opens on December 12th, 2019.
- Results for the second quarter and year-to-date include Farm Boy operations.
- Repurchased 930,454 shares in the quarter for a total consideration of \$33.1 million.

Second Quarter Financial Summary

	Quarter 2	
	Actual ⁽¹⁾⁽²⁾	Last Year
Sales	\$6,436.5	\$6,214.0
<i>Same-store sales, excluding fuel</i>	2.0%	2.5%
Gross Profit	\$1,595.7	\$1,482.1
<i>Gross margin</i>	24.8%	23.9%
Selling and Administrative Costs (adjusted) ⁽³⁾	\$1,346.8	\$1,321.3
<i>Selling and administrative margin</i>	20.9%	21.3%
Adjusted EBITDA	\$477.7	\$279.1
<i>Adjusted EBITDA margin</i>	7.4%	4.5%
<i>Adjusted EBITDA margin, excluding the impact of IFRS 16</i>	5.4%	4.5%
Adjusted Earnings per Share	\$0.58	\$0.40
Free Cash Flow ⁽⁴⁾	\$28.7	\$58.4

⁽¹⁾ Empire's results for the second quarter and year-to-date ended November 2, 2019 include Farm Boy operations. 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 second quarter of fiscal 2020. See slide 6 for additional details.

⁽³⁾ Selling and Administrative Costs, excluding the impact from adjustments made during the second quarter for intangible amortization associated with the Canada Safeway acquisition and Business Acquisition costs. Excluding the effect of the implementation of IFRS 16, Selling and Administrative Costs (adjusted) increased by \$72.7 million.

⁽⁴⁾ The Company revised the definition of Free Cash Flow in Q4 F19. Amounts have been restated to reflect the revised definition. See the "Non-GAAP Financial Measures & Financial Metrics" section of Empire's News Release for the second quarter ended November 2, 2019.

Discount Expansion to West & Store Closure, Conversion and Labour Buyout Costs

OVERVIEW

DISCOUNT EXPANSION TO WESTERN CANADA

Sobeys expects to convert up to 25% of its 255 Safeway and Sobeys full service format stores in Western Canada to its FreshCo discount format. 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:

- 10 stores are open and operating as at December 11, 2019:
 - 8 in British Columbia (“B.C.”); and
 - 2 in Manitoba;
- 8 additional stores are expected to open in fiscal 2020 in B.C.;
- 4 stores are expected to open in fiscal 2021 in Saskatchewan.

Of the ten stores operating as at December 11, 2019, three were opened subsequent to the end of the quarter.

As at December 11, 2019, eleven full service format stores in Western Canada are closed pending conversion to the FreshCo discount banner. Of these eleven stores, three were closed subsequent to the end of the quarter.

The Western Canada FreshCo stores are branded with the new, evolved FreshCo 2.0 look which offers a strong discount and value experience. As at December 11, 2019, all FreshCo stores in Ontario have been updated with the evolved branding.

STORE CLOSURE, CONVERSION AND LABOUR BUYOUT COSTS

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

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



Of the \$21.0 million, \$3.7 million was reversed in the second quarter, fiscal 2020.

In the prior fiscal year, provisions totalling \$45.0 million were recognized related to store conversions and labour buyouts.



Of the \$45.0 million, \$6.1 million was reversed in the second quarter, fiscal 2020.

IFRS 16 Update

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 the second quarter and year-to-date of fiscal 2020.
- 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 that the adoption of IFRS 16 will not have a material impact on fiscal 2020 EPS.

INCOME STATEMENT IMPACT

(\$ in millions, except per share amounts)	13 Weeks Ended		Change	Impact of IFRS 16 ⁽¹⁾	Change (excl. IFRS 16)
	Nov. 2, 2019	Nov. 3, 2018			
EBITDA	\$477.7	\$276.1	\$201.6	\$133.2	\$68.4
Adjusted EBITDA	\$477.7	\$279.1	\$198.6	\$133.2	\$65.4
EBITDA margin	7.4%	4.4%	3.0%	2.1%	0.9%
Finance costs, net	\$69.9	\$22.7	\$47.2	\$47.2	-
Net earnings ⁽²⁾	\$154.6	\$103.8	\$50.8	\$0.8	\$50.0
Adjusted net earnings ⁽²⁾	\$158.0	\$110.4	\$47.6	\$(0.3)	\$47.9
Adjusted EPS (fully diluted)	\$0.58	\$0.40	\$0.18	-	\$0.18

(\$ in millions, except per share amounts)	26 Weeks Ended		Change	Impact of IFRS 16 ⁽¹⁾	Change (excl. IFRS 16)
	Nov. 2, 2019	Nov. 3, 2018			
EBITDA	\$937.7	\$554.8	\$382.9	\$262.2	\$120.7
Adjusted EBITDA	\$937.7	\$557.8	\$379.9	\$262.2	\$117.7
EBITDA margin	7.1%	4.4%	2.7%	2.0%	0.7%
Finance costs, net	\$141.6	\$45.8	\$95.8	\$93.5	\$2.3
Net earnings ⁽²⁾	\$285.2	\$199.4	\$85.8	\$(0.1)	\$85.9
Adjusted net earnings ⁽²⁾	\$291.9	\$210.6	\$81.3	\$(2.3)	\$83.6
Adjusted EPS (fully diluted)	\$1.07	\$0.77	\$0.30	\$(0.01)	\$0.31

(1) Reflects the impact of changing accounting standards from IAS 17 to IFRS 16 in the first quarter of fiscal 2020, including the second quarter and year-to-date add backs of \$3.5 million and \$7.0 million (\$2.6 million and \$5.1 million after tax), respectively, in historical straight-line expense under IAS 17.

(2) Net of non-controlling interest.

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 second quarter ended November 2, 2019.