FINAL TRANSCRIPT

Empire Company Limited

Third Quarter 2020 Earnings

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Empire Third Quarter 2020 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 assistance, please press star zero for the operator. This call is being recorded on Thursday, March 12, 2020.

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

Katie Brine — Director Finance, 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 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 www.empireco.ca. 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; and Pierre St-Laurent, Chief Operating Officer, Full Service.

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 & Chief Executive Officer, Empire Company Limited

Thanks, Katie, and good afternoon, everyone.

There is obviously one thing that is top of mind for all Canadians and everyone around the globe. Our thoughts are with all of those affected by the coronavirus and those concerned about their loved ones. This is truly unprecedented territory. We at Empire are doing everything possible to support and keep safe our customers, our communities, and our teammates across the country. While most of our efforts right now are focused on dealing with the virus, we have a job to do today to report on Q2 and we will now do so.

Overall, we’re pleased with our EPS of $0.46. Excluding IFRS 16 accounting changes, it would have been $0.48. One thing is for sure, we are much stronger now on the bottom line, notwithstanding any market conditions. It shows how well we can perform, but we’re nowhere yet near our full earnings potential.

This is a relatively complex quarter, we had a lot of moving pieces, and it really was a very different tale between the first 45 days of the quarter and the final 45 days of the quarter. Mike and I will do our best to simplify our results and highlight the key takeaways. I'll leave it to Mike to take you through some details of our quarter first, an update on project Sunrise and an update on our capital allocation, and then I'll say a few more words.

Michael Vels — Chief Financial Officer, Empire Company Limited

Thanks, Michael. Good afternoon, everyone.

Our same-store sales for the quarter of 0.8% should be considered in the context of several factors. Firstly, we are very pleased with our two-year stacked comp of 4.1%, a very strong number which emphasizes that we are lapping some record-breaking numbers from last year. This quarter and next, we are comping our two highest same-store sales quarters we've had in the past decade.

As we mentioned in our last quarterly call with you, sales did have a slow start in the quarter, but we did see strength in the latter part of the period. Factors that affected our sales in the quarter included the ramping down of several Safeway stores in Western Canada, which are being closed for discount conversion. We saw heightened competitiveness in discount in both the West and Ontario in addition to aggressive responses by our competition to our launch of discount in the West. We also noted some softness in the Alberta market that we believe is at least partly an impact of a weaker economy. Our internal food inflation was 2.2%, which reflects price inflation on our mix of products sold at our stores.

Our gross margin rate was up 20 basis points over last year. Included in this number are very strong contributions from both category resets and Farm Boy, which together added approximately 90 basis points to the rate. There were some offsets to this, mostly mix and the effects of lower fuel margins. To be specific, we had strong sales in businesses that have lower structural gross margins, such as wholesale and discount. In Quebec, we had a different mix of corporate versus affiliate-owned stores and, as I just said, fuel margins in our related businesses were lower than last year. These were the most significant offsets, but we also had some smaller impact on margin due to aggressive competition in the market that we felt we needed to counter. Overall, we don't see any trend of long-term impacts that we should be concerned about at this time.

As we increasingly add FreshCo stores to the West, converting our underperforming Safeway stores, you will continue to see an impact on our results in the short term. Safeway stores that are closing experienced lower sales and margins as they get closer to their temporary close date as shelves are less full and customers start shopping at different locations. As the new FreshCo stores opened, we are investing in incremental promotions, marketing, and labour to ensure that our new customers have a positive experience. We had 11 FreshCo stores open and operating this quarter with a net dilutive impact of approximately $0.02 per share for the quarter. As our new stores continue to improve and move to more normalized labour and margin run rates, these impacts will decline, but we do expect similar low levels of dilution until new stores start to lap their results and provide some offset to the new store openings.

Overall, we are satisfied with our experience so far in the Western market and with our discount expansion. As we open more discount stores and add critical mass in our markets, our more recent stores are performing better and are experiencing improved ramp-ups compared to the early openings. We also continue to see results from our focus on costs and the impact on SG&A. Although it appears as if our adjusted SG&A as a percentage of sales improved by 180 basis points, on an apples-to-apples basis, if you exclude the impact of IFRS 16, the inclusion of Farm Boy's higher labour cost model, and the labour buyout and conversion and closure costs from the prior year, the improvement in the SG&A rate was 60 basis points. The largest driver of this improvement was Sunrise cost reductions.

Project Sunrise is on track and the finish line is in sight. We continue to estimate incremental savings of about $250 million in fiscal 2020. Incremental benefits continue to be earned evenly over each quarter, split roughly 80% to gross margin and 20% to SG&A.

Equity earnings decreased over the prior year, primarily due to a prior year gain in Crombie REIT, on disposal of some of their retail property that increased our share of their earnings last year.

The effective income tax rate was 27.4%. The prior year was lower due to higher capital gains on property dispositions and a decrease in tax liabilities. We continue to estimate that, excluding the impact of any unusual transactions or differential tax rates on property sales, the effective tax rate for fiscal 2020 will be between 26% and 28%.

Our cash flow generation continues to be strong. Year to date, our free cash flow of $536 million allowed us to reinvest back into the company in a disciplined manner. The strength in our cash flow also enabled us to accelerate the repurchasing of shares, continuing with our strong capital plan, and investing in Crombie REIT's recent issuance of equity. This quarter we repurchased approximately 1.5 million shares for $48 million and reached our publicly disclosed $100 million target. At this time, we do not plan to purchase any further shares for cancellation in fiscal 2020. We also continue to believe that our fiscal 2020 capital spend will be approximately $600 million.

As Michael said, our thoughts right now are with those that have been affected by the coronavirus, and we hope and pray that you all stay safe. And with that, I will now turn the call back to Michael.

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

Thanks, Mike.

As I was saying, there were two very distinct halves to our quarter. As we mentioned on our last call, we had a slow start to this quarter. There were a few reasons for this. Competition was heightened, particularly in discount; there was a deceleration in the economy, notably the West; and we could have been even a little quicker to respond to a more promotional environment. That is what we told you in December.

The second half of the quarter saw stronger sales and much stronger growth in our bottom line. We feel more optimistic about the sales trend since we saw sales improve just prior to Christmas, and right into this quarter.

I’m proud of how the team was able to pivot when we saw softer sales at the beginning of Q2. I’m pleased with the results. We remained disciplined, didn’t chase empty-calorie sales, and were very firm on cost control to deliver a strong bottom line.

Many of you have asked us about whether we were impacted by the rail blockades across the country. We had virtually no disruption to our business given that rail is not our primary method of transporting merchandise throughout our network.

To date, the coronavirus has not negatively impacted our business and we are taking all prudent precautions. We will continue to monitor the situation as it evolves and take all necessary actions; however, beginning on February 28, 2020 and accelerating starting on March 8, 2020, we saw overall elevated sales increases clearly attributable to public concerns surrounding the coronavirus. Specifically, we began to notice in many regions of the country that customers were increasing purchases in certain non-perishable categories such as household cleaning supplies, paper products, canned and packaged foods, and health and hygiene products.

Now moving to a different topic, the implied tonnage calculation, being the difference between inflation and same-store sales, is often used as a proxy for market share, but it is an inherently flawed and facile calculation. As a result, we have several different data points that we use to look at market share at much more granular levels. Based on these additional data points, analysis of our competitors’ results and Nielsen, we believe our overall market share held virtually steady during the quarter.

EBITDA margin rate, our most closely watched number, increased again by a strong 50 basis points when you exclude the impact of IFRS 16 this year, and the labour buyout and discount conversion and closure costs from last year.

Now I want to take a few minutes to speak about two of our key strategic initiatives, Farm Boy and FreshCo. Farm Boy is a weapon for winning share in urban markets in Ontario where we are underpenetrated. The exceptional leadership team at Farm Boy continues to deliver on its industry-leading operational and customer metrics. They are performing even better than we anticipated when we acquired Farm Boy. And we just opened a new Farm Boy in January in St. Catharines, and it was one of Farm Boy's strongest openings of all time. And just last week we converted our first Sobeys Urban Fresh, this was our Metcalfe store in Ottawa, to Farm Boy, and we expect outstanding improvements. The first week's results have not let us down. We have a very exciting schedule for new store openings and expect a target of at least eight new stores per year to be a highly achievable number going forward.

With our recent success with FreshCo in the West, I must say the team out there is doing a fantastic job. We are a disruptor in the market. We are taking back market share, which has led, predictably, to a more promotional environment in the West. We are building a new brand in the West and, as we anticipated and planned for, this means investing in margin and marketing to introduce customers to the FreshCo brand and welcome them to our stores. While this investment is putting pressure on the margin in our new FreshCo stores in the short term, we believe welcoming, educating, and exciting our new customers is key for long-term success. And we'll soon be lapping our first five FreshCo West store openings that spanned to April and May of last year and, as we open more stores, our execution, as Mike said, continues to get sharper.

And finally, through our three-year strategy, Project Sunrise, we have reset our foundation and executed our transformation even beyond our collective expectations. We have a team of strong internal talent, augmented by great external hires like Bonita Birollo, our brand-new SVP, Retail Operations for Western Canada. I'm extremely pleased with the leadership team we now have in place and I'm very optimistic about our ongoing business prospects and our trajectory.

In May, we'll put out a press release and have a conference call discussing our next three-year plan. And with that, back to Katie.

Katie Brine — Director Finance, Investor Relations, Empire Company Limited

Thank you, Michael. 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. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys. If you require any assistance, press star zero. One moment please for your first question. The first question is from Irene Nattel from RBC Capital Markets. Please go ahead.

Irene Nattel – Analyst, RBC Capital Markets

Thanks and good afternoon everyone. Really interested in your description around the performance in the quarter, a tale of two halves. Can you talk about what, more specifically, might have changed in the macro environment between the first and the second half and then what changed in terms of your response in each of those periods?

Michael Vels — Chief Financial Officer, Empire Company Limited

I think, as Michael said, Irene, there was a heightened level of competitive activity in the market and we've been very focused on maintaining and protecting margin and margin rates. And there was certainly some impact, we would think, on our sales in the early half. We adjusted for that towards the end and that certainly improved our sales and our return.

The macro environment, we saw some improvement almost across the board in all of our formats, across all of our markets. The Alberta market continues to be, relatively speaking, softer, but we did see a fairly consistent improvement across all of our formats, including Farm Boy, towards the end of the quarter.

Irene Nattel – Analyst, RBC Capital Markets

So then, Mike, the competitive intensity eased and your response improved. Is that it?

Michael Vels — Chief Financial Officer, Empire Company Limited

I'd say a combination of the two. Most of the competitive intensity and where we did invest some incremental margin was in our discount business, as I mentioned. In conventional and in Farm Boy it was really probably just some more efficient promotions and a general improvement in the market towards the end of the quarter.

Irene Nattel – Analyst, RBC Capital Markets

That's great. Thank you. And as you come to the end of project Sunrise, are you seeing the acceleration that you had expected to see? Are you generally sort of satisfied with the performance? And where might you be kind of ahead and where might you be having a little bit more trouble, if you are?

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

It's Michael. I'll take that and, Mike or Pierre, you can add on.

I'd say that throughout the three years, which are now nearly up, we hit on every target we internally set and that we communicated to you on SG&A and margin. I think what surprised us throughout that was actually quicker recovery in sales and customer satisfaction with our banners than we had even thought we could have pulled off. And so when I look at that, we hit everything on time. We're $50 million ahead of where we thought we would be.

One of my personal worries and our concern three years ago was would we come out of Sunrise and be in an excellent strategic place. And when I look at what's going on in our full-service business, what we've done with FreshCo in the West and in Ontario, the acquisition of the great Farm Boy and our pending opening of Voilà, I think that is much more ahead of where I would have ever expected to be. So, we're pleased with that.

People always ask me am I pleased. I'm never pleased, right? We always want better results. But if we could have signed up for something close to this, we would have signed up on the dotted line. The question now is how do we finish the job? How do we close it over the next little while and take this to a higher level? And now we're a national company with fantastic supplier relationships with our supplier partners, a much stronger foundation to build upon, a stronger team, and now we can go after margin sales and some more SG&A as we go forward. But I don't want to say too much more or you won't tune in in May when we talk more about the next three-year plan. But to answer your question, this company is so much stronger, as I said at the beginning of my remarks, today in every way, shape, and form.

Irene Nattel – Analyst, RBC Capital Markets

That's great, Michael. And I think you can rest assured we'll all tune in.

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

Okay. Thank you, Irene.

Operator

Thank you. The next question is from Karen Short from Barclays. Please go ahead.

Karen Short – Analyst, Barclays

Hi. Thanks. A couple of questions. I know you said you held share broadly, nationally, but can you give a little colour on regional tonnage and share trends given that you called out a couple of challenging markets?

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

Thanks, Karen. It's Michael. We don't usually break that down. But I think you could tell from what Mike said that we were particularly encouraged in Central Canada where we were very, very strong and then we feel we held our own across the rest of the country.

Karen Short – Analyst, Barclays

Okay. And then in terms of the virus and the impact there, it's obviously not as severe and there's not as much hysteria as there certainly is in the United States, but we saw what Costco did on comps and it seems like that comp trend that they had in February and especially that last week of February may be something that is actually sustainable for an extended period of time. Can you maybe just talk a little bit about what you're seeing on that front in terms of stockpiling generally?

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

Our customers are obviously concerned, they want to take care of their families, but we haven't seen inordinate stockpiling of goods. People are buying what you would predict they would to set themselves up in case there's some sort of emergency in their family. Having said that, we are seeing clear acceleration in certain categories and it tends to be more acute in certain regions, the ones that are most affected right now with actual coronavirus patients. And it's absolutely noticeable in certain predictable categories, but those categories are starting to expand as we go forward and I think in the last few days we've seen that expand a little bit apart from the truly predictable categories.

I don't want to overstate the entire store impact at this point, but we are seeing accelerated sales trends at a pace that we just haven't seen before. And I think it's really too early to know how customer behaviour is going to evolve throughout this outbreak and what that will mean to our business results. It's just too early right now. But I can tell you that we're doing everything we can to serve our customers and communities, and our team across the country are doing a great job and I'm especially proud right now of our supply chain. They're doing a phenomenal job filling the shelves.

Karen Short – Analyst, Barclays

Do you think that will have an impact on inflation going forward just in terms of the more than normal demand?

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

Good question.

Michael Vels — Chief Financial Officer, Empire Company Limited

I think the easy answer to that is we don't think so. But really, it's just really too early to tell. We're selling our products at the usual prices and at this stage I wouldn't like to speculate or make any predictions as to what impact we might see. Having said that, one of the impacts not related to buying is, of course, the Canadian dollar has weakened off fairly significantly recently. And if that became a medium or longer-term trend, we'd start to see some increase in our procurement costs for products coming over the border, and that generally tends to translate into some higher inflation at retail.

Karen Short – Analyst, Barclays

Great. And then just last question. In terms of the CFCs that will be coming online, can you give some colour on what the initial volume might be when you do finally open and start operating the first CFC? And I ask that in the context of, you know, that equivalent volume is basically an equivalent of opening X number of stores in the market and maybe from a square footage perspective. So I guess the question really is about how that may actually change the competitive dynamic in the market initially.

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

I think right away when we soft launch, it's not going to be a big turn, but when we start getting it up to speed, we believe that, plus Farm Boy, is going to be quite a big advantage in the GTA area and will lead to market share growth for us in what is currently our weakest market share area. So, we’re going to be on the hunt, we’re going to be the hunter and very aggressive in getting that market share and we’re going to have all the tools to finally do that. We’re not telling how many stores, but you can imagine when we’re up to speed, it’s the equivalent of very many stores.

Karen Short – Analyst, Barclays

Okay. Thanks very much.

Operator

Thank you. The next question is from Vishal Shreedhar from National Bank. Please go ahead.

Vishal Shreedhar – Analyst, National Bank Financial

Hi. Thanks for taking my questions. Management noted some time ago that due to the ongoing initiatives at the Company that there are opportunities to grow Empire at a quicker rate than the industry. The backdrop has obviously softened a little bit due to a variety of reasons. I’m just wondering how management feels about that goal and if the backdrop is restricting that goal in any way?

Michael Vels — Chief Financial Officer, Empire Company Limited

We don’t think so. I think we’ve been pretty consistent in saying we still have upside in both our costs, and margin rates, and we have a foundation that we believe is solid and is going to enable us to do well. We also have a gap to narrow in terms of productivity in stores. We’ve been pretty clear in saying that our e-commerce business will be dilutive in the next several years, but we’ve also been clear that we expect our total earnings to increase at a very good rate and with more detail and information on that to come in May.

Vishal Shreedhar – Analyst, National Bank Financial

Okay. And also kind of aligned with that last question, a few quarters ago management indicated one of the priorities to get these margins comparable to peers would be to improve sales productivity, and I know there's other initiatives as well that you'll chat more about in coming quarters, but maybe you could talk about some of the tools that management thinks that they have at their disposal or will implement over the coming quarters or years in order to capture that excess sales productivity just given the market condition fading a little bit for all players.

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

Before I answer that, I'm just going to say I agree with Mike. I don't see that momentum going away. I don't agree with you on that one. I'm going to beg your indulgence to wait until May, because we're going to give you a full report on how we're going to seize market share and grow our sales per square feet as part of our next three-year plan.

Vishal Shreedhar – Analyst, National Bank Financial

Okay. And just another quick one here. The category resets, I know in prior quarters and indeed, again, in the script, you noted that you're seeing that they're working as anticipated, and wondering if these category resets are also obviously helping on the bottom line, but are they also helping deliver sales improvement and can you measure that? Or is it more of a gross margin kind of story?

Pierre St-Laurent — Chief Operating Officer, Full Service, Empire Company Limited

Category resets are complete, which is a great accomplishment, and yes, I think we are more efficient on shelf productivity; we gave more space to suppliers who were delivering better sales. So we're more productive in sales. We're more relevant for our customers. We completed wave three in our stores in October, so it's done, it's behind us, and now we're measuring our performance on sales and margin. And so far, we have delivered what we expected, a little bit more. And we need to leave time for the customer to change their behaviour based on the different assortment we have in store, but so far we're really pleased with the results we have observed.

Vishal Shreedhar – Analyst, National Bank Financial

Thank you.

Operator

Thank you. The next question is from Mark Petrie from CIBC. Please go ahead.

Mark Petrie – Analyst, CIBC World Markets

Good afternoon. I was just wondering if you could actually just give an update in terms of the state of the CFC today.

Michael Vels — Chief Financial Officer, Empire Company Limited

It's in great shape. It's a very complicated building, as I think you all know, and I'm pleased to say that we're within a week or two of our production schedule and it's all being built exactly according to plan from a timing perspective. So, we are very happy with it and we have turned our attention to our launch dates, our marketing plans and making sure that everything is loaded. We've been loading totes into the facility. Up to 250,000 of them will need to go in by the time we're at capacity. So, all in all, operating right to plan.

Mark Petrie – Analyst, CIBC World Markets

Can you give us any update in terms of how you're progressing on the second CFC in Quebec?

Michael Vels — Chief Financial Officer, Empire Company Limited

Sure. We're in the planning, design, and tendering stage. We would expect, in the next short while, counted in weeks, to be able to start awarding tenders and begin construction.

Mark Petrie – Analyst, CIBC World Markets

Okay, thanks. You've already given some good colour on Western Canada, but given the rollout of FreshCo and how you've described the competitive activity, how does that affect how you think about the positioning for the Sobeys and Safeway banners? And I guess especially in the context of a tough and probably getting tougher economic environment.

Michael Vels — Chief Financial Officer, Empire Company Limited

I don’t think it changes our perspective on our two banners out there. And Thrifty as well on the island. The work that we’ve been doing on those conventional banners has been to ensure that we renovate and refresh those properties as quickly as we can. We’ve rolled out new branding and customer propositions now for both banners, which we’re pretty happy with, and they’re both living with their own distinct personalities and we don’t see any change in that positioning. We like both brands. They both have very significant customer equity in their markets. And for us it’s an opportunity and we need to invest smartly and make sure that those two brands deliver for us.

Mark Petrie – Analyst, CIBC World Markets

Okay. That’s it. Thanks. I’ll pass the line.

Operator

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

Peter Sklar – Analyst, BMO Capital Markets

Michael Vels, on the CFC, from an accounting perspective, I assume everything’s being capitalized at this point because you’re not in operation, so when do things change from an accounting perspective when you’ll start recording the revenues and expenses related to that?

Michael Vels — Chief Financial Officer, Empire Company Limited

That's largely correct, Peter. We are capitalizing our construction costs and all the direct costs of putting the facility into place. But we are and have been expensing some of the fees that we pay to Ocado and also the SG&A and the back-office employees that we've been hiring at a significant rate recently.

So, we're not actually capitalizing everything and that's been the reason for some marginal dilution that we've reported each quarter relative to Voilà, which has been averaging about $0.01 a quarter, I think fairly regularly. It'll probably ramp up to about $0.02 in the fourth quarter, I would imagine.

Peter Sklar – Analyst, BMO Capital Markets

And then I assume it increases from there as you ramp that?

Michael Vels — Chief Financial Officer, Empire Company Limited

Yes. And then once the facility is running, we'd start depreciating the facility itself and of course we'll have materially more people, pickers, drivers, and warehouse staff on the ground.

Peter Sklar – Analyst, BMO Capital Markets

Okay. Its sounds like in May, when you hold your next call, you're going to provide your plan. Are you going to give some indication of what the financial fallout of that is going to be? Have you thought about that?

Michael Vels — Chief Financial Officer, Empire Company Limited

Yes, we expect to.

Peter Sklar – Analyst, BMO Capital Markets

Okay. And I just wanted to clarify – in this tale of two stories for the quarter that you're telling where the first half is weak and the second half is strong, so in the second half you talked about the stockpiling effect, but is there, above and beyond that, has something changed with the consumer or the competitive dynamics? It sounded like you've started experiencing a better market prior to any coronavirus impact on consumer behaviour. Is that true?

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

I'm glad you asked so I can clarify. Put aside the coronavirus for a second, if we can, from just before Christmas until right into the coronavirus, we saw more buoyancy in our stores with our consumers. Nothing to do with stockpiling, nothing to do with coronavirus.

Starting on February 28th we started to see, I don't want to call stockpiling, I don't think Canadians, for the most part, are stockpiling, they're preparing, but we saw some extra action on top of a little bit more buoyancy than we had seen in the first half of the quarter. And now we're seeing even more than that.

Peter Sklar – Analyst, BMO Capital Markets

And, Michael, do you have any explanation why the consumer kind of rebounded? Is there anything you're seeing or it just is what it is?

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

I've got to tell you, in my decades in retail and in Pierre's and all of our retailers, we gave you the answers that we have there, but it was a very odd six weeks, which we cannot attribute it all to our competitors or all to us. And then starting around December 22, it went back to more like normal. And you can imagine with the data we've gone through, Peter, and how I'd like to explain to you better and look a little bit smarter, but honestly now, we're just glad it went back to a more buoyant market starting just before Christmas.

Peter Sklar – Analyst, BMO Capital Markets

Okay. Thanks very much.

Operator

Thank you. The next question is from Michael Van Aelst from TD Securities. Please go ahead.

Michael Van Aelst – Analyst, TD Securities

Hi. Thank you. Just to clarify on that comment for the second half of the quarter. I'm not quite sure if I'm interpreting it right, but it sounded like the first half started off, obviously, worse than what it came through. But in the second half, were you actually growing your tonnage in the second half?

Michael Vels — Chief Financial Officer, Empire Company Limited

It was improving towards the end of the quarter, Michael, and very close to turning positive.

Michael Van Aelst – Analyst, TD Securities

On Voilà in Ontario, I know you've got the soft launch starting in the spring, but given what's likely going to be an increasing demand for home delivery if the virus gets any worse, when's the soonest you could get that going out to the GTA in general?

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

We've had discussions on this quite a bit. I'd say first of all that I'm not quite sure whether home delivery is, at the end of the day, going to totally outperform the stores. It's not clear to me how people are going to react and I think it's too early to see what's going to happen. But to be clear, we can't move up that launch. Otherwise, we would have already done so, because it's such a great strategy.

We're going to have a spring testing and soft launch. I wish it was open, not because of the coronavirus, just because I wish it was open. And then rollout to the GTA customers are going to begin when we're pleased with performance. We have a timetable but, for obvious competitive reasons, we're not going to divulge the dates.

Michael Van Aelst – Analyst, TD Securities

Okay. And are you able to say how long it would take from the time you're happy with the soft launch to the time you could roll that out to all of the postal codes in the GTA?

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

Yeah, I know exactly how long, but I've been watching people sweat it out when we're going to open this and I don't want to have them stop sweating, so there's no reason for me to tell them.

Michael Van Aelst – Analyst, TD Securities

Okay. The fuel margin impact, it seemed to hurt gross margin, as you said. Are you able to quantify that?

Michael Vels — Chief Financial Officer, Empire Company Limited

No. We're not disclosing it, Michael.

Michael Van Aelst – Analyst, TD Securities

Okay. And just finally, the FreshCo conversion, as they open, do they tend to be accretive to your same-store sales initially? Or is there like a period at the beginning where they're coming in below year-ago levels, the stores that were converted, and then they ramp up?

Michael Vels — Chief Financial Officer, Empire Company Limited

Almost without exception, across the board, they'd be higher than the normalized sales of the stores that they replaced, unless we've made a modification to the size of the box. But on an apples-to-apples basis, they're actually producing better and higher sales.

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

And then we expect a good comp off of that.

Michael Van Aelst – Analyst, TD Securities

Perfect. Thank you.

Operator

Thank you. The next question is from Chris Li from Desjardins. Please go ahead.

Chris Li – Analyst, Desjardins Securities

Hi. Good afternoon. Just a few quick ones for me, hopefully. Just with respect to the inflation that's driven by the weaker Canadian dollar, just generally speaking, are you able to fully pass on the higher costs so far? Maybe just some colour on that would be helpful.

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

We haven't seen any inflation yet. It's just been such a sudden fall in the Canadian dollar, and I think everyone is dealing with a lot of other issues. Our supplier partners are busy just manufacturing and getting their products to market in many cases. What we're saying is and what Mike said was is if there was a sustained lower Canadian dollar that people are going to try to pass on cost increases to us and we will act like we always do, which is to resist those cost increases as long as we can, and then if we have to , we would have to pass them on. But we would try to avoid that at all costs.

Chris Li – Analyst, Desjardins Securities

Okay. And are you seeing any sort of indirect cost inflation that's related to the virus in terms of the impact on supply chain and transportation costs, et cetera?

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

No.

Chris Li – Analyst, Desjardins Securities

Okay. And just with respect to the $0.02 of EPS dilution from the FreshCo stores re-openings, it seems like, based on the pace that the stores will be open over the next few quarters, is it fair to assume that $0.02 will stay with us for at least the next few quarters incrementally?

Michael Vels — Chief Financial Officer, Empire Company Limited

That's hard to fully forecast at this point, because there is some rate of improvement and market response factors into that. So with that caveat, I will say that that's a reasonable assumption.

Chris Li – Analyst, Desjardins Securities

Okay. And Mike, how big is your wholesale business? I know it's not a meaningful part, but obviously you had some impact on your margin this quarter.

Michael Vels — Chief Financial Officer, Empire Company Limited

You're correct. It's not totally meaningful to the total business, but it does have the ability on a quarter-over-quarter basis to change the mix.

Chris Li – Analyst, Desjardins Securities

Is it mid-single digits, would you say in terms of the percentage of revenues?

Michael Vels — Chief Financial Officer, Empire Company Limited

We don't segment out our results that way.

Chris Li – Analyst, Desjardins Securities

Okay. And then just maybe sort of philosophically, I mean given the market selloff, obviously, your share price is also impacted. I mean you guys do have a strong balance sheet and strong free cash flow. Why wouldn't you guys continue to be active with your share buyback?

Michael Vels — Chief Financial Officer, Empire Company Limited

We've said that we're not going to do anything until the end of our fiscal year, which is fairly close. We still have the NCIB filing. Obviously, it extends beyond that. We just believe that in times of uncertainty, such as what we're seeing, shareholders and debt holders generally just prefer that management wait to assess the situation, understand what's going on, and then, as there's more certainty in terms of future earnings and cash flows, that would be the time to deploy incremental money. A lower stock price, such as what we've seen recently because of market action, would lead one potentially to say, well, you should maybe buy some more, but I think we are just better off to be prudent and wait until this period of uncertainty is behind us and we have more confidence in potentially giving back to the market. We've been very consistent in saying that we are going to, every year, reserve some of our capital for share buybacks. That has not changed. And I think you can expect to see guidance from us fairly shortly on that.

Chris Li – Analyst, Desjardins Securities

Okay, that's fair. And then last one for Michael is, obviously, you've been saying all along that you think your margin should be comparable to your competitors, adjusting for various structural differences. On the call in May, is it reasonable to assume that after the call we'll come away having a better appreciation of what the margin gap is and would you go as far as to sort of give some guidance in terms of how much of a gap you're able to narrow over the next three years?

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

I think that's a fair assumption.

Chris Li – Analyst, Desjardins Securities

Okay. And a very last one, and a small admin one: Does the leap year extra day have an impact on your same-store sales this quarter in Q4?

Michael Vels — Chief Financial Officer, Empire Company Limited

I don't think so. It'll certainly have an impact on total sales, but from a same-store sales perspective, I think this becomes a lost day.

Chris Li – Analyst, Desjardins Securities

Okay. Thanks very much and hope everyone stays safe from the virus.

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

Yeah, you too.

Operator

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

Patricia Baker – Analyst, Scotiabank

Thank you very much. I have two questions for you, Michael. First of all, in your remarks, you noted a new hire in the West. Can you repeat the name and then maybe give us some background on this new hire?

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

Yes. Her name is Bonita Birollo and just a phenomenal operator. You can Google where she was, because I don't want to name all of the companies she was at, but just a wonderful operator. As soon as we met her, we knew we had to get her. She is bilingual but she's based in Calgary, knows the western market like the back of her hand. Started as a young woman working as a part-time cashier in a Safeway and now she's coming home to look after the stores. It's a nice story. And we just felt that we needed even more leadership in Western Canada to understand our customers and our stores and to have a closer eye on what's going on there. And I can't say Bonita has changed the world yet, she's only been around a week, she may change the world, but she's a very strong operator and you just can't have enough strong operators. They're as rare as hen's teeth.

Patricia Baker – Analyst, Scotiabank

Okay. I agree with that. And my second question is on your third strategic initiative, which of course is Voilà, and Michael, you noted that you're going to be aggressive with this and you'll use the right tools to get share. Obviously, this implies a solid marketing plan and I was going to ask you, as we look through F2020, when will we see the marketing spend accelerate, but you've obviously indicated earlier that you're not going to give us any hints or anyone else any hints about when we'll see the launch. But perhaps can you just share with us a little bit about how you're thinking about the Voilà marketing in the context of the overall Sobeys' marketing? Is there a shift of the marketing dollar from one to the other or is this a completely separate incremental spend?

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

First of all, you've hit on something that's top of mind with me and one of the things I'm most interested in with how we're marketing and telling people about the best e-commerce solution in the world and we've got to get them to try it. Once they try it, they are going to be hooked. And so it's really key to excite people and the quicker we can get up to capacity in the CFC, the better for customers and the better for us, for sure.

This is incremental marketing spend. It's a new business. We're not going to take away marketing, which is working very well right now, from our full-service, discount, or related businesses. We're pretty good at making our dollars work and I've personally been spending a lot of time with Sarah and her team and our marketing team and some others to ensure that we grab attention right away. It's different though, right? There's going to be a rollout. So there's rollout marketing, then there's full GTA marketing, and then there's keeping-it-going marketing. There's three different ways. I don't want to say too much more than that except that it's probably the best thought out marketing plan I have seen in my career. I am very impressed with what the team has done.

Patricia Baker – Analyst, Scotiabank

Okay, thank you and good luck with that.

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

Thank you. Thanks for asking.

Operator

Thank you. There are no further questions. At this time, I will now turn the call back over to Katie Brine for closing comments.

Katie Brine — Director Finance, Investor Relations, Empire Company Limited

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 2020 conference call on June 18, 2020. Thank you. Bye.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and we ask that you please disconnect your lines. Enjoy the rest of your day.