



# Q2 F2021 Earnings Call

**December 10, 2020**

# CEO's Direct Reports



**Michael Medline**  
President &  
Chief Executive Officer



## Second Quarter Highlights

- Same-store sales excluding fuel increased by 8.7%.
- Earnings per share of \$0.60 compared to \$0.57 last year.
- Food Retailing net earnings increased 27.3%.
- Gross margin increased by 30 basis points.
- Project Horizon growth plan underway.
- E-commerce sales growth of 241%.
- Third Voilà home-delivery customer fulfilment centre (“CFC”) announced to serve Alberta market in 2023.
- Share repurchase program started during quarter; \$29.4 million repurchased to date.
- Strong cash flow enabled over \$525 million of debt repayments to date.
- Additional Farm Boy location announced today in Stittsville, Ontario. 34 Farm Boy stores open and operating as at December 9, 2020.
  - 8 future locations confirmed.
- 22 FreshCo stores are open in Western Canada with 8 in different stages of development.
- See slide 5 for COVID updates.

# Second Quarter Financial Summary

|  | Quarter 2 |           |
|--|-----------|-----------|
|  | Actual    | Last Year |
| Sales                                    | \$6,975.4 | \$6,436.5 |
| <i>Same-store sales, excluding fuel</i>  | 8.7%      | 2.0%      |
| Gross Profit                             | \$1,751.1 | \$1,595.7 |
| <i>Gross margin</i>                      | 25.1%     | 24.8%     |
| Selling and Administrative Costs         | \$1,462.6 | \$1,351.5 |
| <i>Selling and administrative margin</i> | 21.0%     | 21.0%     |
| EBITDA                                   | \$513.4   | \$477.7   |
| <i>EBITDA margin</i>                     | 7.4%      | 7.4%      |
| Earnings per Share                       | \$0.60    | \$0.57    |
| Free Cash Flow                           | \$75.2    | \$28.7    |
| Capital Expenditures                     | \$120.7   | \$150.4   |

# COVID-19 Update

The novel coronavirus (“COVID-19” or “pandemic”) began to impact the Company in February 2020 and resulted in restrictions by government authorities and the encouragement for Canadians to practice public health measures. Impacts on the Company include increased safety protocols in stores and distribution centres, and shifts in consumer demand and consumption.

- Management’s top priorities remain the health and safety of employees, customers and communities while maintaining a resilient supply chain to meet the needs of Canadians and supporting charitable organizations.
- The Company continues to invest in increased safety and sanitization products and procedures to ensure customers and employees are protected while shopping and working in stores.
- COVID-19 and related restrictions materially impacted the Company’s operating results and financial performance in the second quarter of fiscal 2021.
  - ❑ Same-store sales growth, excluding fuel, for the second quarter ended October 31, 2020 was 8.7%.
  - ❑ Over the **first five weeks of the third quarter**, the Company’s same-store sales growth, excluding fuel, has **ranged from 8% to 13%, averaging 11%**. Management anticipates that a percentage of the consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores.
  - ❑ During the **second quarter**, the cost of maintaining sanitization and safety measures increased selling and administrative expenses by approximately **\$14 million**.
  - ❑ The Company introduced a temporary Lockdown Bonus for frontline employees in stores and distribution centres in Manitoba and some regions of Ontario. The Lockdown Bonus could also be introduced in additional geographies if further government-mandated lockdowns are put in place.
    - ❑ The Company estimates the cost for Manitoba and Ontario combined Lockdown Bonus could be **up to \$5 million per quarter**, assuming the current lockdowns continue for that long.
  - ❑ Including the Lockdown Bonus estimate, it is expected that the Company will continue to incur approximately **\$15 million to \$20 million in selling and administrative expenses per quarter** related to the increased cost of maintaining sanitization and safety measures, lockdown bonuses and other COVID-19 related costs.
  - ❑ In Canada, online grocery sales have continued to grow, although at a slower pace than when COVID-19 began. The Company’s e-commerce business experienced **sales growth of 241% in the second quarter** compared to the prior year.
- **The Company’s balance sheet and cash flow remain strong.** As of October 31, 2020, Empire had:
  - ❑ \$756 million in cash and cash equivalents.
  - ❑ Access to approximately \$756 million in unutilized, aggregate credit facilities that do not expire until fiscal 2023.

# Discount Expansion West and Store Closure & Conversion Costs

## OVERVIEW

### DISCOUNT EXPANSION TO WESTERN CANADA

Empire expects to convert up to 25% of its 255 Safeway and Sobeys full-service format stores in Western Canada to its FreshCo discount format. The Company has now confirmed 30 of approximately 65 locations in Western Canada and is on track to open 10 to 15 FreshCo stores in fiscal 2021.

Of the 30 confirmed FreshCo locations:

- **22 stores are open and operating** at December 9, 2020:
  - 16 in B.C.
  - 4 in Saskatchewan
  - 2 in Manitoba
- **6 stores** expected to open in **fiscal 2021**:
  - 4 in Manitoba
  - 2 in Alberta
- **2 stores** are expected to open in **fiscal 2022**:
  - 1 in Alberta
  - 1 in Saskatchewan

### STORE CLOSURE AND CONVERSION COSTS

- In the second quarter, the Company expensed \$2.8 million in store closure and conversion costs related to Farm Boy and FreshCo conversions.
- Due to revised estimates related to store closures and conversions, \$0.4 million was reversed during the quarter (2020 – \$9.8 million).
  - As a result, the net expense included in selling and administrative expenses in the second quarter of fiscal 2021 was \$2.4 million (2020 – recovery of \$9.8 million).



## ***New three-year growth strategy for core business expansion and e-commerce acceleration.***

Management targeting an incremental \$500 million in annualized EBITDA, driving an improvement in EBITDA margin of 100 basis points by fiscal 2023.

To be achieved through:

### **1) Growth in market share**

- Invest in Empire's Store Network
- Improve Store Space Productivity
- Win Canadian Grocery E-Commerce
- Grow Empire's Private Label Portfolio
- Provide Best in Class Customer Personalization

### **2) Building on cost and margin discipline**

- Drive Non-Merchandising Sourcing Efficiencies
- Continue Merchandising Sourcing Efficiencies
- Invest in Best in Class Analytics to Enable Effective Promotions
- Optimize Supply Chain Productivity
- Improve System and Process



Benefits are expected to ramp up over the three-year period with the largest benefits reflected in year three.



Large portion of benefits are expected to be achieved through initiatives related to store productivity, private label, store renovations, and new stores.



Management believes that the Company can continue to grow faster than its key competitors, improving EBITDA margin by another 100 basis points on a higher sales base.

- Expected to generate a CAGR in EPS of at least 15% over the three years.



Capital spend is expected to average approximately \$700 million annually over the next three years.

## Forward-Looking Information

This presentation contains forward-looking statements which are presented for the purpose of assisting the reader to contextualize the Company's 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 "anticipates", "expects", "believes", "estimates", "intends", "could", "may", "plans", "predicts", "projects", "will", "would", "foresees" 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 estimates regarding future capital expenditures which includes renovations and new stores, spending on advanced analytics technology and other technology systems, acquisitions of property, equipment and investment properties as well as additions to intangibles, which may be impacted by operating results, impacts of the pandemic and the economic environment. The Company's expectations regarding the financial impact of Project Horizon and its underlying initiatives, including expected growth in market share, cost and margin savings resulting from this strategy, and the expected timing of the realization of incremental benefits, which could be impacted by several factors, including the time required by the Company to complete the initiatives, impacts of the pandemic including changes in customer behaviour;
- 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, availability of sellers, changes in laws and regulations, and the results of operations;
- 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, the projected number of store openings, and the location, feasibility and timing of construction and conversions, all of which may be impacted by COVID-19, construction schedules and permits, the economic environment and labour relations;
- The Company's expectations regarding the implementation of its online grocery home delivery service, its plans to expand its Voilà Curbside Pickup service, and the expected dilutive effect on Empire's earnings per share of approximately \$0.20 per share in fiscal 2021, which may be impacted by COVID-19, future operating and capital costs, the customer response to the service and the performance of its business partner, Ocado;
- The Company's expectations regarding the timing and amount of expenses relating to the completion of the second CFC in Pointe-Claire, Montreal and the third CFC in Calgary, Alberta, which may be impacted by supply of materials and equipment, construction schedules and performance of construction contractors;
- The Company's anticipation that a percentage of food consumption that has shifted from restaurants and hospitality businesses to grocery stores will remain in grocery stores, which may be impacted by the duration of the shutdown due to COVID-19, the severity of the pandemic across Canada, the ability for restaurants and hospitality businesses to re-open and resume operations as well as the ongoing demand for restaurants and hospitality services in the near term;
- The Company's same-store sales disclosure for the first five weeks of the third quarter of fiscal 2021 is not necessarily indicative of future performance;
- The Company's expectation that it will continue to incur approximately \$15 million to \$20 million per quarter in selling and administrative expenses, including up to \$5 million per quarter in costs related to its temporary Lockdown Bonus for frontline employees in Manitoba and certain regions of Ontario and additional spending required to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19, the severity of the pandemic on people's health across Canada, and safety precautions required; and
- The Company's estimates regarding future capital expenditures which includes renovations and new stores, spending on advanced analytics technology and other technology systems, acquisitions of property, equipment and investment properties as well as additions to intangibles, which may be impacted by operating results, impacts of the pandemic and the economic environment

## Non-GAAP Financial Measures & Financial Metrics

There are measures and metrics included in this earnings call presentation 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 Management's Discussion and Analysis for the second quarter ended October 31, 2020.