

Empire Company Ltd.

Reaches Agreement to Acquire 51% of Longo's & Grocery Gateway

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CORPORATE PARTICIPANTS

Katie Brine

Empire Company Limited — Director Finance, Investor Relations

Michael Medline

Empire Company Limited — President & Chief Executive Officer

Anthony Longo

Longo's — President & Chief Executive Officer

Michael Vels

Empire Company Limited — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Mark Petrie

CIBC World Markets — Analyst

Chris Li

Desjardins Capital Markets — Analyst

Irene Nattel

RBC Capital Markets — Analyst

Vishal Shreedhar

National Bank Financial — Analyst

Michael Van Aelst

TD Securities — Analyst

Peter Sklar

BMO Capital Markets — Analyst

Kenric Tyghe

ATB Capital Markets — Analyst

Patricia Baker

Scotiabank — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Empire Company Limited Reaches Agreement to Acquire 51% of Longo's and Grocery Gateway Conference Call.

This call is being recorded, on Tuesday, March 16, 2021.

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 morning and thank you all for joining us for our call today.

There is a presentation available for download in the Investor Center on empireco.ca, highlighting what we will discuss today. This call is being recorded and the audio recording will be available on the Company's website.

Joining me on the call this morning are Anthony Longo, President and Chief Executive Officer of Longo; Michael Medline, President and Chief Executive Officer, Empire; and Michael Vels, Chief Financial Officer, Empire.

Today's discussion includes forward-looking statements about the proposed transactions and the companies involved. 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 for more information on these assumptions and factors.

In addition, please note that throughout the presentation this morning, Management may make references to non-GAAP measures such as EBITDA. Management of Empire believes that these non-GAAP measures provide useful information to both Management and investors in discussing the proposed transaction. These measures do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similarly titled measures within Empire publicly traded peers.

I will now turn the call over to Michael Medline.

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

Thanks, Katie, and good morning everyone. It's nice to be speaking to all of you again so soon and thank you for joining us on short notice.

It's a big day. Empire is excited to announce that we have reached an agreement to acquire 51% of Longo's, including Grocery Gateway. Longo's is a grocery crown jewel of the Greater Toronto Area and Southern Ontario, with a very strong brand and legions of loyal satisfied customers. The close of the transaction is subject to customary closing conditions. The partnership is expected to close in the first quarter of our Fiscal 2022.

Initially, Empire will acquire 51% of the Longo's shares. Longo's and Grocery Gateway will continue to be led by President and CEO Anthony Longo, who is here with us today, and his team of talented executives. Over time, there are opportunities that allow the remaining 49% to be acquired by Empire. Mike will take you through that in a moment.

We've always been impressed with the business the Longo family has built. I met Anthony shortly after I joined the grocery industry and we struck up a friendship. He brought me into the Grocery Foundation Charity where we built a great relationship, and I have a ton of respect for Anthony as a leader

and a person of values. We had a conversation during COVID and it started a further discussion around what it could look like if we ever brought our two companies together. Negotiating a deal through the pandemic has certainly been interesting, but here we are. Anthony will speak more to why the Longo family decided Empire was the right partner for the next phase of their Company's history.

The partnership with Longo's accelerates Empire's growing presence in Ontario, and more specifically the Greater Toronto Area, Canada's largest and fastest-growing grocery market. Longo's is one of the most successful and sought-after brands in the GTA. Those of you close to this market well know the Longo's and Grocery Gateway banners.

The first Longo's store was opened in Toronto in 1956 by three brothers; Tommy, Joe and Gus, and since then, it has been family owned and operated. It has grown to 36 store locations and an e-commerce business with an unwavering focus on delivering an impressive grocery retail experience to its customers.

Longo's wins with customers by offering fresh, high quality products, including an exciting prepared food offering and an exceptional assortment of 1,300 premium private label products. Their unique loyalty program now has over 420,000 households, representing approximately one million customers, or guests, as Anthony and his team call them.

The Longo family has always taken a long-term strategic view of their business and has continuously invested in its growth over the years. Longo's was one of the first grocery retailers to invest in online delivery when they purchased Grocery Gateway in 2004. Because of this early investment, today, Longo's is the leader in grocery e-commerce in the GTA, with over 70,000 loyal customers. Like Empire and its Voilà business, Longo's uses a central fulfillment model with a dedicated distribution center for its Grocery Gateway business.

As I have said before many times, central fulfillment is the only profitable approach to grocery e-commerce over the long-term. With Grocery Gateway's years of experience in the GTA market and our automation and AI capabilities, there are learnings we can share to deliver an even better customer experience on both platforms.

Also of great importance, Longo's is family-built business and is very much aligned with Empire's values and culture. In fact, the first time we met, we swapped books on the history of our companies: Anthony gave me a copy of *The Longo Way* and I gave him a copy of Frank H. Sobey's biography, *The Man and the Empire*. It was clear from day one that both businesses are based on strong family values. This includes our customers first mentality, a commitment to our teammates and community and a dedication to philanthropy.

With the greatly admired Longo's brand store network across the GTA, thriving grocery delivery business and strong fit with our Company, I cannot say strongly enough what a great addition this is to Empire's family of banners. We know this is just the beginning of a long and successful partnership.

Now that you know why we're so excited about the partnership, let me get ahead of a few questions you may have. First, in terms of how we will operate the business, Empire will become the majority shareholder, but Longo's will be managed separately. This model of keeping the brands separate has been extremely successful with Farm Boy, and we believe it is imperative to do the same with Longo's. As I pledged when we acquired Farm Boy, let me say to Longo's customers and team members, we will not change or spoil what has made Longo's great. Like Farm Boy, Longo's will benefit from Empire's national scale, infrastructure and strong capabilities in areas such as sourcing, logistics and real estate.

Both Empire and Longo's believe these benefits will be meaningful. However, Longo's and Grocery Gateway guests will see no changes to their experience, unless it is to make Longo's even better.

Second, why do we need two e-commerce platforms? Simple answer, we believe we appeal to more customers with the two platforms, as they provide different value propositions for customers. Both platforms are growing materially and are adding customers so we can further accelerate our online penetration by operating them separately.

At the same time, the two groups will collaborate to generate ideas and opportunities. Grocery Gateway has decades of e-commerce experience in the GTA that Voilà can benefit from. Voilà uses world-class technology and analytics, which could make Grocery Gateway operations more efficient. But, for right now, we want them each to focus on capturing market share in the growing online market, as well as avoid distractions and disruptions.

Third, we're not even through our first year of Horizon. Can your team handle this? Let me be crystal clear: this will not disrupt Horizon. In fact, it aligns with our overall Horizon agenda and complements our goal to win e-commerce. We have a lot on the go, but we have strong Management with smart teams and detailed plans to successfully complete Horizon. In addition, Anthony will continue to run Longo's and Grocery Gateway with his talented team. This structure allows for Empire's operators and merchants to remain laser-focused on running the business and executing on Horizon.

As I noted last week at our Q3 Earnings Call, we are very proud of the strategic investments we've made in Farm Boy, FreshCo, and Voilà. Today, we add Longo's to that growing list. We are building momentum as the fastest-growing grocery retailer in Canada, and are focused on our customers, on growing our market share, and on having a superior rate of return to our owners, our shareholders.

This partnership with Longo's, alongside our strong core business and strategic initiatives, makes us even more confident than ever that we have the assets to drive that growth.

With that, I'll pass the call over to Anthony Longo to say a few words. Welcome, Anthony.

Anthony Longo – President & Chief Executive Officer, Longo's

Great, thank you, Michael. Good morning, everyone. It is very humbling to hear Michael speak of our family business as a crown jewel of grocery.

In 1956, my father, Tommy, and my uncles Joe and Gus, set out to build a business based on our family values. Their founding philosophy, treat people like family, has become a trademark for our distinctive services and is why we are committed to providing our guests a superior experience. Now here we are, 65 years later, and we've grown to 36 retail locations with more than 6,000 team members, and we proudly operate our e-commerce business, Grocery Gateway. We are a strong competitor in Southern Ontario's hyper-competitive grocery market, and we're still a family business, with three generations of Longo's working in the business.

I can tell you with confidence, our values have not changed from day one. Our team members, our guests, our supplier partners and the communities we serve are a top priority and are always treated like family. Working through this year has been an adventure, as Michael noted. The pandemic brought unique challenges, but Michael and I were able to talk and meet when required, and of course, we had to make our discussions private. In fact, one afternoon, we met on a bench outside of the Adelaide building, which is what normally is a very busy location in Toronto, and there wasn't a single person around. That would not have been possible in normal times.

Together, we persevered through the difficulties of the pandemic, and today I'm thrilled to announce that we are joining the Empire family. As we look to the future, Empire is the perfect partner in the next chapter of our Company's history. Together we will become even stronger, more competitive to grow as a trusted food partner for Canadian families.

The more I learned about Empire as I spoke with Michael, the clearer it became we had a strong foundation of shared values. Empire's notable success through the Sunrise turnaround, along with the success of their Farm Boy acquisition, gave me and my Leadership team the confidence that Empire will meaningfully invest in our growth while preserving and nurturing what makes us great. I completely support Michael's perspective of supplier partnerships, his commitment to philanthropic giving, and I have a lot of respect for his experience and effective retail strategies.

I want to reiterate what Michael has already said, the experience of our guests will not change. Our guests have come to expect the world-class produce selection that we offer. They love our exceptional collection in deli, cheese, seafood, meat and bakery, as well as our signature prepared foods like fresh hand-piped cannoli and seasonal celebrations, and of course, the ability to do one-stop shopping with a curated assortment in center store. Our guests appreciate our team members who are dedicated to exceptional service. Empire agrees, our guest experience is part of the magic at Longo's. The only changes would be those that make our stores and the experience even better.

We will be becoming more efficient through Empire. They have impressive sourcing, logistics and real estate that we will benefit from. We'll also have access to new supplier partners as we look to add exciting new products to our Longo's Essentials, our Longo's brand, and our Curato private label programs.

As a family, we are really excited to be joining Empire, another successful Canadian-built business founded by another great Canadian family, the Sobey family. I know that together, our future looks very

bright. So far, we've only been able to meet the Sobey family virtually, and it was a great meeting with them, but I'm very much looking forward to a trip out to Atlantic Canada to meet them in person as soon as it is safe to do so.

Thanks very much, and with that, I'd like to turn it over to Mike Vels.

Michael Vels – Chief Financial Officer, Empire Company Limited

Thank you, Anthony. I'd like to personally welcome you and your teammates to our business.

I'll provide a little more colour on the financial aspects of the deal. We're purchasing shares in Longo's based on an implied enterprise value for the total Company of \$700 million. As Michael said, we are purchasing 51% of the business today, for an initial consideration of \$357 million. Embedded in the calculation of the acquisition price is the valuation for the stores, the online grocery business, and then a variable payment for the remaining 49% over time.

I thought it would be helpful to give you some background on how we have thought through the valuation of the business. First, we've purchased the well-established online business with over 70,000 customers, with a central fulfillment capability. This provides another arrow in our quiver into the online channel, and over time, we're intrigued with the potential of collaborating between the Voilà and Grocery Gateway businesses to further our goal of winning the online channel in dense urban areas. We do not intend to separately disclose our valuation for Grocery Gateway, but it would be fair to say that we placed a significant premium on the ability to own Grocery Gateway and have its loyal customer base as part of the Sobey's family.

Second, the total multiple for 100% of the business will fluctuate based on both the timing and the variable multiples faced for the remaining 49%. Regarding future growth in earnings, we are assuming that Longo's will add more stores in the Toronto area over the next several years. Over the last five years,

Longo's opened 10 new stores. The cadence of store openings in the future will be driven by the Longo's team, based on their assessment of market opportunities, and supplemented by our real estate team's expertise and access to sites. Any additional stores will be incremental to our existing strategic plans and will not impact the pace of the Farm Boy rollout.

Our valuation does include meaningful non-customer-facing synergies. These synergies have been identified by Anthony and his team working with us, and will be a priority for both teams. We expect to see the value of these synergies fully accruing to results in the second year following acquisition. I want to emphasize that these synergies are non-customer-facing and will not impact Longo's team members. The areas we will focus on are procurement, supply chain and other non-headcount-related overheads. A large portion will come from procurement, as Longo's will leverage Empire's national purchasing power. Longo's has a well-functioning supply chain and we expect that introducing their warehousing and logistics capacity into our network will improve customer experience and net delivery cost for both businesses.

With our real estate relationships and expertise, we will provide support as Longo's delivers their store expansion plans, as we have done for Farm Boy. For e-commerce, we will monitor and assess potential opportunities and efficiencies between Voilà and Grocery Gateway, for example, by increasing efficiencies of using Ocado solutions technology in Grocery Gateway distribution center over time. It's extremely important to both Management teams that Longo's and Grocery Gateway customers see no changes in their experience.

Regarding synergies with the Farm Boy acquisition, synergies were minimal. However, this is not the expectation with Longo's, as the Longo's stores have more overlapping categories with the Empire assortment, and together with Empire, will have larger scale that will enable more efficient procurement. But it is key to note that we don't expect the benefits of this acquisition to be one-sided. As Farm Boy

brought an enormous amount of knowledge to us, we will work with Anthony and his team in the same collaborative spirit. From what we've seen so far, they have a commissary capability, for example, that we like a lot, including a great line of high-quality meal kits, a strong loyalty program and a strong private label that we'll take lesson from, the same as we did with Farm Boy.

We will fund the initial purchase by issuing up to \$125 million in Empire shares, as requested by the Longo's family, using cash on-hand of approximately \$197 million and acquired debt of approximately \$35 million. As we noted on our quarterly call last week, we expect to significantly increase our normal course issuer bid in Fiscal 2022 and expect that the total shares repurchased through the end of Fiscal 2021 and into Fiscal 2022 will more than exceed the shares issued to the Longo's family.

Longo's had approximately \$1.1 billion in sales for the year ended February 28. This is a strong business with significant upside that we believe we'll be able to unlock with Anthony and his team. We've completed a great deal of diligence and spoken extensively with Anthony and his team, and we're confident in the success of this acquisition and the ability for it to drive a solid return for our shareholders.

As Michael said, we have structured the deal as a partnership, with an accomplished and committed Management team. There will be minimal impact on our resources, and we do not expect that this will impede any other Horizon projects. With Farm Boy adding seven to eight stores per year to Horizon, Voilà's order volumes growing week-over-week, plus our strong base of Sobeys, Foodland and FreshCo banners in Ontario, and now Longo's and Grocery Gateway, we are making great strides to grow our presence in the largest grocery market in Canada.

We're excited to add Longo's and Grocery Gateway to the Empire's family of banners and believe they're a tremendous addition to our portfolio. We look forward to partnering with Anthony and his team to grow our presence in Ontario, win Canadian e-commerce and bring benefits and learnings to both

companies to make both even stronger. Again, welcome to our business, Anthony. I can't wait to start working with you and your team.

With that, Operator, if you can open the line for questions? Thank you.

Operator

The first question comes from Mark Petrie at CIBC. Please go ahead.

Mark Petrie – Analyst, CIBC World Markets

Hey, good morning. Obviously you're adding some very strong assets to the portfolio that are differentiated in the market. But clearly, just given the geographic overlap, there are overlaps both stores and online. Could you just elaborate on your plans, on how you would expect to prioritize store growth, specifically for Longo's and Farm Boy? But then also with regards to online, for Gateway and Voilà?

Michael Vels – Chief Financial Officer, Empire Company Limited

Sure. Good morning, Mark. I'll deal with the online first. We really like the Grocery Gateway business, it's the only other central fulfillment business in Ontario of scale. We believe that having the two brands and the two businesses operating in the market are going to be positive to increasing our sales over the short to medium-term.

As I mentioned, the two Management teams are for sure going to collaborate together to figure out how, through a combination of assortment, innovation and efficiency, how we can make both businesses more efficient. But at this time, owning both brands and running them together in the market, we believe is going to yield significantly more customer growth with owning both of them versus just Voilà. Happy to add both of them, and they're going to run separately for a period of time.

On the stores, we've done a significant amount of work to work through the possibilities and the opportunities for Longo's to grow their store base, alongside with the Empire banners. We are very comfortable with the ability to grow all those banners over a period of time, and we don't see any significant issues in terms of overlap between the banners at this point.

Mark Petrie – Analyst, CIBC World Markets

Okay. How does this affect your real estate plans for the existing Sobeys business? It seems like there might be an opportunity to convert locations to the Longo's banner; it may be a better fit than Farm Boys, given source sizes. Any comments there?

Michael Vels – Chief Financial Officer, Empire Company Limited

Well, there's no doubt that adding another banner and a great Management team, always gives you more flexibility. But we don't have any plans to convert Sobeys stores to Longo's at this point, and we have no plans to convert Longo's to Sobeys. These FreshCo, Farm Boy, Foodland, Longo's and Sobeys are all strong, strong banners in their own right. They fit well into market segments and we plan to grow our square footage, and we don't see the Longo's acquisition as a means to convert Sobeys stores. We expect to see the Sobeys banner maintained and growing in the marketplace as well.

Mark Petrie – Analyst, CIBC World Markets

Okay, thanks.

Then just one more. I wonder if you can provide any commentary with regards to how the deal will be evaluated, any triggers with regards to future valuation and incentives for Longo's Management? Is it growth in sales and earnings, or is it number of stores; what are the key drivers there?

Michael Vels – Chief Financial Officer, Empire Company Limited

I think the only thing I'm going to say, Mark, on that one, is it's geared to growth. As you can imagine, one of the ways you achieve that growth is through new stores and organic growth, so a combination of synergies, top line organic growth and new stores. Clearly, both the Longo's Management and the Sobeys Management are jointly incentivized to grow more Longo's stores in the marketplace.

Mark Petrie – Analyst, CIBC World Markets

Okay, thanks. I'll pass the line, and congratulations to you all.

Michael Vels – Chief Financial Officer, Empire Company Limited

Thank you.

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

Thanks, Mark.

Anthony Longo – President & Chief Executive Officer, Longo's

Thanks.

Operator

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

Chris Li – Analyst, Desjardins Capital Markets

Good morning guys, and congrats on the partnership. Maybe a first one for Anthony, if I may. Anthony, can you give us, maybe, a bit more background in terms of just the timing of the decision to sell now, and was it a competitive bidding process?

Anthony Longo – President & Chief Executive Officer, Longo's

Sure, happy to answer the question, Chris. We were not in a process at all, this really started when Michael and I were talking about COVID in the summer, and as we were talking about how our various companies are helping our customers and our team members stay safe. It just led to a discussion around how well the Farm Boy acquisition was going, and then we started talking more about, "What would it look like if Longo's and Empire came together?"

The more Michael and I talked, the more I was convinced that if we were to sell, they'd be the right partner because of the values that they bring and their commitment to their team members, their commitment to their supplier partners and community. It just continued to get reinforced, and at that point I brought it to our families, saying why don't we at least consider this, and we did, of course. It brought us to today, so we're really thrilled that we chose Sobeys to partner with. They're a tremendous family and a tremendous Management team led by Michael, so we're really happy to be part of this.

Chris Li – Analyst, Desjardins Capital Markets

Great, that's very helpful. Another one maybe for Michael; Michael, just maybe a follow-up to Mark's question earlier. When you compare the return on capital from acquiring the Longo's store versus opening more Farm Boy stores, what was your conclusion? I understand there are obviously a lot of great benefits from Longo's, but at the same time, you're doing a really good job expanding the Farm Boy presence in the GTA for some great real estate opportunities. Just wondering, what was the conclusion when you did the analysis internally?

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

The conclusion from the analysis was I wanted them both.

I got greedy. These are very different customer propositions. There are some similarities in terms of how successful they are, how they drive sales per square feet and how loyal their customer base is. That would be a similarity, but these are different businesses.

Back in 2017 when Mike and I and others put together the first strategic plan, it was so clear to us that there were two things we needed: Ontario, especially the GTA, and e-commerce. We're never done, but we've improved all of our organic banners, the Sobeys, the FreshCos, the Foodlands. Now we've added Voilà, we have this superb Farm Boy, and we're soon going to add the jewel of Longo's.

We're simple people. We have a strategy and we go execute on it. But when Anthony and I started that chat back last summer, just talking about how to keep people safe and we started talking about this opportunity, I don't know, I think I felt a little giddier than even Anthony was, because I've always looked up to Anthony. Even when I was at hard goods and soft goods, I really liked what they were doing in terms of their brand, in terms of their customer proposition.

That was the long answer. The short answer is, I wanted them both.

Chris Li – Analyst, Desjardins Capital Markets

That's helpful. Maybe my last question, I remember when you bought Farm Boy, you provided some useful metrics in terms of EBITDA margin and sales per square foot. Can you maybe share that with us again for Longo's?

Michael Vels – Chief Financial Officer, Empire Company Limited

The information that we provided so far, Chris, is the extent of what we are providing at this stage. What I can tell you, which may be a bit helpful, is the Longo's stores have a number of different formats, all the way from three quite small stores that operate in the PATH of the Toronto underground, to larger stores in the 50,000-55,000 range. If you look at sales per square foot and productivity, they would fall roughly between our Sobeys and Farm Boy stores, in terms of productivity.

Chris Li – Analyst, Desjardins Capital Markets

Got you, okay. That's helpful, and congrats again.

Michael Vels – Chief Financial Officer, Empire Company Limited

Thank you.

Operator

Thank you. The next question comes from Irene Nattel at RBC Capital Markets. Please go ahead.

Irene Nattel – Analyst, RBC Capital Markets

Thanks and good morning, everyone. Congratulations on the transaction.

Just following up on Chris' last question, if we were to assume, broadly speaking, that valuation metrics and anticipated synergies were consistent with the Farm Boy transaction, would that be reasonable?

Michael Vels – Chief Financial Officer, Empire Company Limited

We know that we will yield more synergies from this transaction than the Farm Boy transaction. As I mentioned on the call, there's significantly more overlap between the assortments, and so we believe there would be higher procurement synergies. Longo's is also all in the GTA, unlike Farm Boy which was in Ottawa. From a warehousing and supply chain and logistics perspective, we see more upside there than Farm Boy.

Actually, a fairly significant element of our valuation is driven by those synergies, which as I mentioned, we expect to be able to mostly attain by the end of the second year following our acquisition.

Irene Nattel – Analyst, RBC Capital Markets

In terms of the headline multiple?

Michael Vels – Chief Financial Officer, Empire Company Limited

It's more complicated than Farm Boy because we're buying an online business, and also we're effectively paying a control premium upfront and then a variable premium over the rest of the 10 years, or at least up to the next 10 years and potentially beyond that. Mathematically more complex, but over

time, we'd expect the multiple paid for 100% to be excluding Gateway which would be a separate valuation, roughly equivalent to multiples you'd see in this industry.

Irene Nattel – Analyst, RBC Capital Markets

That's very helpful. Then just taking a step back, now you've got multiple private label brands, you've got two different online banners, you've got Longo's and Farm Boy. I think that there's probably a reasonable degree of customer overlap between those two. Can you walk us through thinking around how you keep those separate identities, versus what could be some interesting potential benefits of cross-fertilization, if you will, of some of the offerings and private label banners?

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

Hi, it's Michael. Thanks, Irene, good morning.

Irene Nattel – Analyst, RBC Capital Markets

Good morning.

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

Thanks for your question, it's a good one, one I think about quite a bit.

Sometimes I wake up in the morning and wish we only had one banner and they were all the same sized stores, but then I slap myself when I realize what a huge prize our complexity actually gives us and the number of banners we have, and that it's a strategic advantage. There is obviously, in all grocery or any retail, there's some overlap. There's not as much overlap in terms of the banners we have as one

would think, and having these different banners is the best way to grow. It also makes us more local, actually, I got a text from someone this morning that said, you feel local because you have all these banners that grew up in certain regions of the country, and I agree with that.

I think though that the temptation in all this is always to think that you can cross-fertilize and you can move people from banner to banner and you can be cute with it, but in every acquisition I've ever done, I don't believe that. I think that we have to be ultra-careful that these banners and these brands represent different things to Canadians at different times, different seasons, at different times of the day, different dates of the week even. Now as we do more and more analytics and we get better at it, I'm seeing, even in our own banners, the complexity of thinking this through and getting it right, and we're getting it right organically in our current business.

We'll always err to keeping these separate. Only through a ton of work and a ton of time would we ever do anything to touch Longo's. I think Farm Boy is a perfect example of how to buy an incredible banner, which Longo's is too, and to integrate it. We didn't mess with it at all. We freed them up to get some great real estate and put up more stores than they ever had before, but not going to cover up the ball. But then, over time it ended up working and it's actually Farm Boy who gives us the ideas, and it'll be Anthony and his team that give us ideas, "Hey, why don't we carry some private label at Voilà?", "Why don't we offer some private label at Pete's in Nova Scotia and see how that goes?"

Then we have the great learnings from JL Bellemare and Jeff York that they're bringing over on commissaries, on private label, on fresh. It's got to come that way, and since the summer, that's mostly what Anthony and I talk about. I keep saying to Anthony, "We're not going to disturb you, but we need you. We need your ideas and the brains of you and your team", so that's how we look at it.

Irene Nattel – Analyst, RBC Capital Markets

That's very helpful, thank you.

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

Thanks, Irene.

Operator

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

Vishal Shreedhar – Analyst, National Bank Financial

Hi, thanks for taking my questions and congrats to the Longo's family for building a great company over time. I remember when I was younger, my father used to shop at the Malton location.

Okay, so maybe you can just help me with the materials here. It says that the Longo's family aims to be long-term shareholders of Longo's over time, and then it also says Empire can achieve 100% ownership over time, so how should I think about that?

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

Okay, why don't I answer it, then Anthony will answer it. From our perspective, you always have to have a potential end game. You have to. However, our wish is that the Longo's family stays forever and that we continue to own 51%, they own 49%, and they're continuing to do the great job they've always done. That's our hope.

Anthony Longo – President & Chief Executive Officer, Longo's

We really enjoy the business. We love retail and we love grocery, so we'd love to be able to stay involved with Empire for decades to come. As I mentioned earlier, we have three generations that work in the business and they're all very committed to continuing to grow Longo's and grow our family legacy, it's just we'll grow it under the great Sobey family umbrella, so we really are looking forward to continue to build on that.

The Empire shares we took back because we think that Empire has a great strategy and we believe that that value will grow over time as well. We fully intend to hold those for the long-term.

Vishal Shreedhar – Analyst, National Bank Financial

Okay, thank you for that.

Along the same lines of questions that others have been asking, but maybe you can help me understand why Empire would require multiple e-commerce DCs for the GTA market. Maybe you've already answered it and I'm missing the message here. But wasn't the biggest driver of improvement for Voilà volume, and wouldn't pushing Grocery Gateway's volume into Voilà, wouldn't that help profitability for all parties?

Michael Vels – Chief Financial Officer, Empire Company Limited

Of course. I think saying that we require it would be incorrect. We've been very clear that Voilà is a winning proposition, and that's been the investment we've elected to make to win the online grocery channel in Canada. But we're thrilled to have Grocery Gateway. If you have the choice, you'd love to run two material online grocery e-commerce businesses, especially being that Grocery Gateway has central

fulfilling, which we think, over time, is the only way to be consistently successful; so, not required, but we're really, really happy to have it.

Over time, as I mentioned, we're going to figure out how to be the most efficient we can be between the two businesses and make the most money between the two businesses that's possible to make. Today, they're both gaining customers and they're both growing, which is just a great situation for us to be in once we close this transaction. Just thrilled to have it, and we see there's all kinds of potential upside in terms of working together and collaborating, and happy to have two great online grocery brands.

Vishal Shreedhar – Analyst, National Bank Financial

Okay. Is Grocery Gateway profitable after all the fixed costs are levered in?

Michael Vels – Chief Financial Officer, Empire Company Limited

We're not going to disclose profitability for the business separately. I'd say it's a business that does well and is, I think, one of the more efficient ones out there, considering the necessity to provide customers with online options.

Vishal Shreedhar – Analyst, National Bank Financial

Okay. Will this business be fully consolidated in the P&L on your EBITDA line?

Michael Vels – Chief Financial Officer, Empire Company Limited

Yes. We're going to consolidate all lines, sales, EBITDA, etc., and we'll have a minority interest representing 49%.

Vishal Shreedhar – Analyst, National Bank Financial

Okay. Will it be immediately accretive to the EBITDA margin, or down the road?

Michael Vels – Chief Financial Officer, Empire Company Limited

It's going to be immediately accretive to net earnings.

Vishal Shreedhar – Analyst, National Bank Financial

Okay. When you report e-commerce growth, will you include Grocery Gateway's growth in your e-commerce growth numbers?

Michael Vels – Chief Financial Officer, Empire Company Limited

I suppose we will, yes.

Vishal Shreedhar – Analyst, National Bank Financial

When Longo's comes to Empire and Empire was providing resources and procurement and so on and so forth, is there a transfer cost between the organizations, representing that the shareholders don't get 100% benefit for Longo's currently?

Michael Vels – Chief Financial Officer, Empire Company Limited

I'm not sure I understand the question. I think I do, Vishal, but if I clearly didn't understand and I give you the wrong answers, just let me know. I think what you're saying is, is there a conflict of interest because we might want to do things that would be more beneficial to the Empire shareholders versus

Longo's. I think that's a valid question just because of the different shareholders, but over time, I've, and Michael has as well, run many, many different configurations, joint ventures. As you know, for a lot of my career, I was involved with a publicly traded minority interest company. The one thing that I have learned is that your operators and your Management need to be focused on making the most money for both companies. At the end of the day, you need to incentivize driven Management teams like Anthony Longo's team to make the most money possible, and bend over backwards to do it.

That's our plan, and that's what we're going to do. If we can find ways to provide incremental benefit to the Longo's business, then we're all in on that. From our perspective, it's totally academic that we happen to own, say, 51% of a Longo's store versus 100% of a Sobeys store. I don't look at Farm Boy that way. I look at Farm Boy and the rest of our Management team look at Farm Boy every single day as if we owned 100% of it, and that's how we look at Longo's. That, I can tell you, is the only way to run a business, and it's the only way to generate trust, and it's the only way to maximize your profitability.

Vishal Shreedhar – Analyst, National Bank Financial

Thank you.

Operator

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

Michael Van Aelst – Analyst, TD Securities

Hi, good morning. Congratulations on the transaction. Earlier you talked about the two e-commerce platforms having different value propositions. Can you give us more detail as to how you would describe those two value propositions? Then, what might be the trigger for you to decide to merge the two e-commerce businesses down the road? Whether from a logistics standpoint, and/or from a customer-facing standpoint?

Anthony Longo – President & Chief Executive Officer, Longo's

I think our two banners compete with very different consumers. In our case, in Grocery Gateway, I think our assortment is different than that of Voilà. We really focused on the perishables side of our business, that's what our strength is. We have a good center store offering, but I think our focus is on the perishables. The other component, I'd say, is really leveraging the Longo's brand so people know what they're going to get from an experience as they think about Longo's as a brick-and-mortar store, so more of an omnichannel type arrangement, I'd say, for consumers.

Then I'd also say, in terms of service levels, I haven't shopped Voilà yet; I'll probably try it soon, but our service levels, because we've been at it for so long, many of our customers know their driver and their driver knows them, and we really built that up over the years. Voilà has only been in the market for just under a year, so they still have an opportunity to build that, but I'd say we really have very different views in the marketplace or perceptions in the marketplace.

The other thing that we do that I don't think Voilà does, is we do take hundreds of orders from seniors each week that call in because they don't have the capability to do it online, so we help them with that. That is a service that we do as well.

Michael Vels – Chief Financial Officer, Empire Company Limited

To answer your second question, Michael, it's going to be about the guest and the customer experience. If there's a way to find a way to enhance our guest and customer experiences, we'll run at that. But both businesses are growing, and we're confident in the outlook for both of them. There's no imperative for any platform, at this stage, to bring them together.

We might make a little bit more money if we got more efficient or accelerated growth in the Voilà CFC, but we really want to see how we can maximize and increase the size of the pie here with two businesses. We're going to run them and see how it goes. As Anthony said, there's a very, very loyal customer base in Grocery Gateway and similar to the stores, there's a certain expectation they have and we're not going to mess it up, for the sake of a few dollars and cents here and there.

Michael Van Aelst – Analyst, TD Securities

Okay. Given the scale or the size of Voilà's CFC, is there any barrier to merging the two supply chains at least, or the two logistics departments?

Michael Vels – Chief Financial Officer, Empire Company Limited

Well, I think what I'll say is two things, really. One is that Voilà CFC, of course, is very flexible, and can handle a large variety of different online businesses, and clearly, Longo's grocery business. Second though is, there are some products and some very innovative and unique and specialty products that Grocery Gateway actually delivers, where, for example, they cut their own meat in the back room and have unique cuts delivered to their customers. There's some innovation and some things that Grocery Gateway does that's not really that suited to a high-volume robotic operation either. As Anthony said, the

two do bring, at the margins, slightly different experiences to their customers, and that's what I mean by collaborating and learning between two businesses.

But yes, to answer your specific question, our CFCs are very efficient and they're very flexible and can take on a lot more business.

Michael Van Aelst – Analyst, TD Securities

Okay. Then just getting back to real estate allocation. How would you decide between a Farm Boy and a smaller Longo's store, if you're going into the GTA and you had a parcel of land, what would be a key criteria in determining which brand or banner goes there?

Michael Vels – Chief Financial Officer, Empire Company Limited

What we've agreed with Anthony's team is we're going to look at those exactly the same way as we look at our other banner decisions. It's on the basis of the right fit in the right market, and then relative financial returns. Today, if it makes more sense to put a FreshCo into a market instead of a Farm Boy, we'll do it, and you've actually seen us do that several times since we bought Farm Boy. All of our banners are going to, obviously, compete for capital, and we're going to make the right financial decision for all the businesses.

We don't see that as being an issue at all because the Longo's format and the Longo's stores are going to work in locations that a Farm Boy won't. We're comfortable that both Farm Boy and the Longo's banner are going to fit well into the portfolio.

Michael Van Aelst – Analyst, TD Securities

Can you just clarify what locations would work for Longo's but not for Farm Boy?

Michael Vels – Chief Financial Officer, Empire Company Limited

Well, generally, a location where you want to build—either because of the demographics or the market growth – you want to build a one-stop shop. A larger, conventional store would be one example of a location where you'd say, "You know what? Actually we're going to maximize our revenue by putting a larger store in here rather than a Farm Boy", for example. There are going to be some areas where they're going to be competing head-to-head and it's going to be a hard decision. We welcome that. It's a nice problem to have, right? But over time, we're very comfortable with Anthony's cadence of store builds, and we're going to be able to accommodate both.

Michael Van Aelst – Analyst, TD Securities

Great, thank you very much, and good luck.

Michael Vels – Chief Financial Officer, Empire Company Limited

Thank you.

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

Thanks.

Operator

Thank you. The next question comes from Peter Sklar at BMO. Please go ahead.

Peter Sklar – Analyst, BMO Capital Markets

At this point I just have a couple of questions for Anthony, if I can. Anthony, I would've thought that, given that this is a multi-generational business, it sounds like you have kids or nephews in the business, so this must've been quite a big decision to sell control to Empire. I understand you have the personal relationship with Michael Medline and you both thought through ways that you could operate together and maximize the two businesses, but can you talk a little bit more about you and your family's motivation to—so for example, everyone knows that the grocery business is just changing so rapidly now with e-commerce and data, so many layers of complexity. I'm just wondering, has that played a role in just generally what the family thinking was?

Anthony Longo – President & Chief Executive Officer, Longo's

For us it was an exciting opportunity to grow our business even faster and with a great partner. We've been in business now 65 years, so when we saw this, we were always talking about, what's the next chapter going to look like? We really saw that having a strong partner like the Sobey family and Empire, helps us ensure that our family legacy continues for generations to come. That's why we chose Sobey's, because they do have a long-term view of the business, they have a long-term view of everything that they try to accomplish, whether it's in the communities or with their team members and with their customers.

For us, it just made a ton of sense that our next chapter should be with a partner with national scale, giving us more firepower to grow our business and really solidify opportunities for our teams and our guests, of course, as well.

Peter Sklar – Analyst, BMO Capital Markets

Okay. Then the other thing I wanted to ask you about is, you yourself said that part of the brand strength of Longo's is in perishable. I would've thought that your brand positioning is a lot closer to Farm Boy than it is to Sobeys, for obvious reasons. I'm just wondering if you could articulate how you think about your positioning and your value proposition versus Farm Boy, and can you really carve out a differentiated position versus Farm Boy?

Anthony Longo – President & Chief Executive Officer, Longo's

Sure, happy to answer that, it's a great question. We have a lot of respect for what Farm Boy has done; JL and Jeff have done a great job of building that business, and that was a family business as well that scaled in the last few years. We're very strong in produce; that's how we got our start in 1956, and over the years we've added more and more perishable departments. But I think some of the biggest differences would be in our curation of our center store, so we have a full-stop shop market, that's how we've positioned ourselves, and Farm Boy has had a different positioning, which has worked extremely well for them and will continue to work well long into the future. But our curated, center store position is I think what makes us different in the marketplace.

Then I'd say, in terms of private label, we're behind where Farm Boy is, but we're also investing a significant amount of time and effort in building our private brands, and we're looking forward to learning from Farm Boy and how they've been able to do it. They've got a tremendous following of the Farm Boy brand, and our following of our Longo's brand and our Curato Italian brand is going really well. I think we can continue to learn from each other in that area. That's how I think we differentiate from them.

Peter Sklar – Analyst, BMO Capital Markets

Okay. Thank you for your comments.

Anthony Longo – President & Chief Executive Officer, Longo's

You're welcome.

Operator

Thank you. The next question comes from Kenric Tyghe at ATB Capital Markets. Please go ahead.

Kenric Tyghe – Analyst, ATB Capital Markets

Thank you and good morning.

Michael, I'm going to risk being that guy and take a crack at a long-shot question here as an opener. You've called out the 70,000 customers on Grocery Gateway. I don't suspect you're going to be willing to highlight the actual online dollars, but could you speak to either customer growth over the last period or two and/or just the percentage growth within that business, just so we can try to contextualize Grocery

Gateway and Grocery Gateway sort of share and share trends over the last couple of years? Any incremental color there would be great.

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

Anthony or Michael, you can stay away from numbers but give some background, it would help Kenric.

Anthony Longo – President & Chief Executive Officer, Longo's

Sure. I'll start and then Mike can jump in. For Grocery Gateway, we've had a great run with Grocery Gateway and it was growing nicely, in the double-digits. We re-platformed Grocery Gateway about three years ago or so, so we thought we saw some really good growth. This past year, of course, with the pandemic, our volume did have a tremendous increase, basically doubling where it was, so it got ahead of where we had projected it to be. We projected it to be where we are today but in two years or three years from now, so that's been very helpful, of course, and people have stuck with buying online, and we think that that's going to continue to be a strong growth opportunity for us.

The comments we're getting back, just anecdotally, well, I guess more than anecdotally, hundreds of people have written to us to say they can't believe how easy it is to shop online with Grocery Gateway and how easy it is for millennials to be shopping for their parents, for example, and get groceries so they don't have to worry about mom and dad leaving the house and things like that. Yes, so it's been really good growth for us, and we're looking forward to continuing to grow it on top of what we've grown last year.

Kenric Tyghe – Analyst, ATB Capital Markets

Okay. Then if I could, just a separate one, one of the other callouts here has been the unique loyalty program, one with which I'm familiar. Within the confines and constructs, Michael, of your Air Miles agreements and Air Miles loyalty program, can you speak to the ability or the want to, perhaps, take some of those learnings or some of the opportunity from what Longo's does well in loyalty and in positioning of that loyalty proposition, and whether you'd be able to use any of that within your broader business? I mean, yes, it's unique, it's attractive and well-positioned, but are there some obvious learnings there and some obvious ways for which you can increase your messaging or improve your loyalty proposition or positioning, taking the learnings from the Longo's program?

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

Absolutely, learnings. We haven't been able to share every single thing because of competition rules, etc., that get in the way of that at this point, but we've had certain discussions that we are allowed to have in terms of talking about the loyalty program. I think Longo's, for a company that's big, but it's not as big as many, but \$1.1 billion, it's done an amazing job in terms of the loyalty program, and as you said, in the customers. That's exactly the kind of thing that we'll be talking to them about in terms of how we can learn. By the way, I just got an email from the CEO of Air Miles, and he's very happy, he liked the deal. That was good as well.

But I think there's learnings all over. We have one of the best marketing groups in the country, in any retailer, any company. I think there's things that Anthony and his team can learn, and there's probably more that we can learn. You're right on that, that's where we'll aim. But all the while, not changing the customer-facing proposition other than to make it better.

Kenric Tyghe – Analyst, ATB Capital Markets

Thanks, Michael.

Just one quick final one, just on send to store and assortment; to your minds, is there an obvious and near-term opportunity with respect to, again, using the data that both parties have to perhaps further enhance the Longo's send to store and send to store assortment, given we all know how strong Longo's is in fresh. But are there any obvious opportunities; we've touched on procurement, logistics, etc., but are there some very obvious near-term assortment type opportunities that can help drive increased share of the total grocery wallet being directed through a Longo's store?

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

The short answer is of course, and we'll work towards that. At the same time, Anthony's going to drive that on the Longo's side, and we'll make available everything we have, from real estate to logistics to our great data and analytics team, if that's what Anthony wants to do, if it makes sense to him and his team. At the same time, we're going to want to understand better some things that he understands, especially in the center of the store as well, and in produce.

Yes, it's going to be a learning. This isn't new stuff; we've been doing this for two years with JL and Jeff over at Farm Boy, and Jeff was so helpful, by the way, in working on this deal. I think Anthony, you and Jeff have been friends for a long time as well. Yes, there's just learnings to be had here to better serve customers. I think all of us have the same attitude, that we don't have all the answers, and by just trading information, we can serve our customers better. Although over at Empire we may be larger, we're not overly proud; we learned so much from Farm Boy, and we're going to learn a ton from Longo's.

Kenric Tyghe – Analyst, ATB Capital Markets

Thank you. Congrats and good luck.

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

Thanks very much. Thanks for the questions.

Operator

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

Patricia Baker – Analyst, Scotiabank

Good morning, everyone. My first question is for you, Anthony. Store growth has featured prominently in the last five years, and certainly, Michael alluded to the fact that we will see store growth for Longo's going forward. Do you have any new stores in the pipeline currently, and if so, what size format are you focused on, of your three formats?

Anthony Longo – President & Chief Executive Officer, Longo's

Yes, we do have stores in the pipeline, and the stores are typically around 40,000 to 42,000 square feet, and that's what we kind of consider our sweet spot. We'll continue to build them roughly at that size.

Patricia Baker – Analyst, Scotiabank

Okay, thank you for that.

Then, Michael, if I may, and I missed part of the call so you might have addressed this. When you joined Empire, one of the considerations was the fact that the footprint in Ontario, and more particularly in the GTA, was not as sound as it needed to be. With the completion of Farm Boy, and when you complete Longo's and the Voilà platform, do you now feel really good sitting here in 2021, your GTA set of assets to address that market? Do you feel like the job is done there?

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

Well, the job's never done, but boy, I'm breathing a lot easier, let's put it that way. This is a key market, the largest market, the fastest-growing market, and we were sorely underrepresented. Now, through the improvements by the banners we already had and through Project Sunrise and now Project Horizon, our banners of Sobeys, FreshCo, Foodland are just knocking the cover off the ball. Now we have Voilà, Farm Boy, we're going to have Longo's soon. It just puts us in a position where not only are we competitive—we still won't have the market share, but boy, do we have some great weapons to go into battle with in this very competitive marketplace.

Patricia Baker – Analyst, Scotiabank

Okay, excellent. Then quickly for Mike; Mike, how quickly can you get at procurement synergies?

Michael Vels – Chief Financial Officer, Empire Company Limited

Immediately. Yes, we've already taken a look, obviously, on a confidential basis as we've gone through diligence, so we have a good feel for the way we'd rollup to start. We're going to do it, obviously, respectfully, and we're going to do it contract by contract, so that'll take a little while to do. We'll start immediately after the transaction closes.

Patricia Baker – Analyst, Scotiabank

Okay, thank you very much.

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

Thanks, Patricia.

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 2021 Conference Call on June 23. Talk soon.

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.