Q3 F2021 Earnings Call

March 10, 2021

CEO’s Direct Reports

Michael Medline
President &
Chief Executive Officer

				
Pierre St-Laurent Chief Operating Officer, Full Service	**Vivek Sood** Related Businesses	**Mike Venton** Discount Format	**Sarah Joyce** E-commerce	**Michael Vels** Chief Financial Officer

				
Simon Gagné Chief Human Resources Officer	**Sandra Sanderson** Marketing	**Doug Nathanson** General Counsel & Corporate Secretary	**Danielle Amirault** Chief of Staff, Office of the CEO	**Mohit Grover** Innovation & Strategy

Third Quarter Highlights

- Same-store sales growth, excluding fuel of 10.7%.
- Earnings per share of $0.66 an increase of 47% compared to $0.45 last year.
  - Includes $0.04 (2020 - $0.01) of Voilà dilution.
  - For fiscal 2021, Voilà is expected to have a dilutive effect of approximately $0.18 after tax.
- Gross margin increased by 130 basis points.
- Project Horizon growth plan on track.
- E-commerce sales growth of 315%.
- 37 FreshCo locations in Western Canada confirmed; 23 stores open and operating as at March 9, 2021.
- 36 Farm Boy stores currently open and operating as at March 9, 2021; 6 Farm Boy stores to open in the remainder of calendar 2021.
- $100 million in common shares purchased to date.
- The Company intends to complete the current NCIB and purchase up to 5.0 million Class A shares before July 1, 2021. Following the completion of the current NCIB, management intends to apply to renew its NCIB with the TSX, at a higher level of share purchases.
- See slide 5 for COVID updates.

Third Quarter Financial Summary

EMPIRE COMPANY LIMITED
Sobeys inc.

	Quarter 3	
	Actual	**Last Year**
Sales	$7,018.7	$6,395.2
Same-store sales, excluding fuel	*10.7%*	*0.8%*
Gross Profit	$1,803.9	$1,557.7
Gross margin	*25.7%*	*24.4%*
Selling and Administrative Costs	$1,508.2	$1,357.1
Selling and administrative margin	*21.5%*	*21.2%*
EBITDA	$533.5	$426.9
EBITDA margin	*7.6%*	*6.7%*
Earnings per Share	$0.66	$0.45
Free Cash Flow	$315.7	$283.1
Capital Expenditures	$207.1	$106.4

COVID-19 Update

EMPIRE
COMPANY LIMITED

The novel coronavirus ("COVID-19" or "pandemic") began to impact the Company in February 2020 and has resulted in restrictions by government authorities, and the encouragement for Canadians to practice public health measures. This has continued to lead to increased safety protocols in stores and distribution centres, shifts in consumer demand and consumption, and volatile financial markets.

- 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.
- In Canada, online grocery sales have continued to grow, although at a slower pace than when COVID-19 began. The Company's e-commerce businesses experienced **sales growth of 315% in the third quarter** compared to the prior year.
- In the second quarter, the Company introduced a temporary Lockdown Bonus for frontline employees in stores and distribution centres in the impacted regions. The Lockdown Bonus could also be introduced in additional geographies as government-mandated lockdowns are put in place.
  - The cost of these bonuses will be dependent on how long the lockdowns last and how many regions are impacted.
- During **the third quarter**, the cost of the Lockdown Bonus and maintaining sanitization and safety measures increased selling and administrative expenses by approximately **$19 million**, including **$9 million for the Lockdown Bonus**.
- Currently, the cost of the Lockdown Bonus for the fourth quarter is estimated to be up to $4 million. In the fourth quarter, it is expected that the Company will incur approximately $15 million to $20 million (2020 – $80 million) in selling and administrative expenses related to the increased cost of maintaining sanitization and safety measures, the Lockdown Bonus and other COVID-19 related costs.
- The Company has begun to lap the period when significant stock up activity was experienced in stores. As such, sales in the fourth quarter compared to last year will be less meaningful as they will not provide a full indication of underlying performance.
  - Over the first five weeks of the fourth quarter, the Company's same-store sales growth, excluding fuel, was 9% compared to last year, an increase that is unlikely to be sustained through the fourth quarter as a result of the significant COVID-19 driven sales last year.
- In the fourth quarter of fiscal 2021, the Company also expects to incur increased marketing costs related to the timing of ongoing initiatives, including its sponsorship of the Canadian Olympic team.
- **The Company's balance sheet and cash flow remain strong.** As of January 30, 2021, Empire had:
  - $784 million in cash and cash equivalents.
  - Access to approximately $742 million in unutilized, aggregate credit facilities that do not expire until 2023.

Project Horizon

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.

For additional information on the strategy, please click here to view the full news release.

Project Horizon – Discount Expansion West

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 37 of 65 locations in Western Canada – over half of the original target – and is on track to open 10 to 15 FreshCo stores in fiscal 2021 as planned.

Of the 37 confirmed FreshCo locations:

23 stores open and operating at March 9, 2021	5 stores to open in the remainder of fiscal 2021	9 stores to open in fiscal 2022
• 16 in B.C. • 4 in Saskatchewan • 3 in Manitoba	• 3 in Manitoba • 2 in Alberta	• 7 in Alberta • 1 in Saskatchewan • 1 in Northern Ontario

STORE CLOSURE AND CONVERSION COSTS

- In the third quarter, the Company expensed $16.4 million in store closure and conversion costs primarily related to FreshCo and Farm Boy conversions.

Project Horizon – Voilà

January 22, 2018:
- Sobeys signs agreement with Ocado to bring world's leading online grocery delivery solution to Canada.
- Central Fulfilment Centre ("CFC") #1 announced in the GTA.

May 9, 2019:
- Announced name and brand for online grocery delivery service in GTA, Ottawa and Quebec – *Voilà by Sobeys* and *Voilà par IGA*
- CFC #2 announced in Montreal; will deliver to customers in early 2022.

June 22, 2020:
- ***Voilà by Sobeys*** **launches for GTA customers.**

September 15, 2020:
- Launched curbside pickup service in Nova Scotia

December 10, 2020:
- Location of CFC #3 announced in Calgary, Alberta; will deliver to customers in the first half of 2023.
- Curbside expansion announced in Alberta.
- Early Voilà operating metrics:
  - Weekly on-time delivery score 98.6%
  - Fulfilment of 99.6%
  - Net Promoter Score of 87 (vs industry best-in-class target of 70)

February 18, 2021:
Launch of curbside pickup service in Alberta.

March 10, 2021:
- First CFC #1 spoke(1) location open
- Building construction for CFC #2 complete – Ocado is now building the internal grid.

(1) Spokes are cross-dock facilities that allow Voilà to get closer to our customers and improve efficiencies at CFCs.

Project Horizon – Store Network Optimization

- Over the course of Horizon (three years), Empire plans to renovate approximately 30% of its store network.
- In fiscal 2021, capital spending is expected to be \$650 million to \$675 million with approximately half of this investment allocated to renovations and new stores.

Number of locations renovated

Q1 F21	Q2 F21	Q3 F21	**F21 YTD**
20	18	19	**57**

Sobeys Mumford Road (Halifax, Nova Scotia)

Before

After

Before

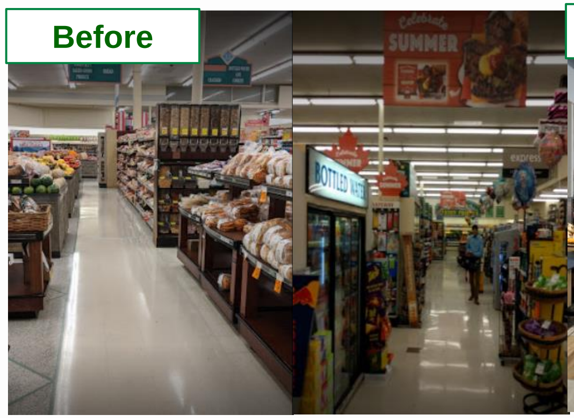
After

Safeway Garneau (Edmonton, Alberta)

Before

After

Before



After

Disclaimers

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 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 and impacts of COVID-19 including changes in customer behaviour;
- The Company's plans to purchase for cancellation Class A shares under, and to renew, its normal course issuer bid which may be impacted by market and economic conditions, changes in laws and regulations, and the results of operations;
- 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 $0.18 per share in fiscal 2021, which may be impacted by COVID-19, future operating and capital costs, customer response to the service and the performance of its business partner, Ocado
- 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 shutdowns due to COVID-19, the ability for restaurants and hospitality businesses to re-open and resume operations, and 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 fourth 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 $4 million in fourth quarter fiscal 2021 costs related to its temporary Lockdown Bonus for frontline employees in impacted regions, and additional spending required to respond to COVID-19, which may be impacted by the duration of the shutdown due to COVID-19 and safety precautions required;
- The Company's expectation that it will incur increased selling and administrative expenses in the fourth quarter of fiscal 2021 related to compensation accruals, right-of use asset depreciation and marketing spend timing;
- The Company's plans to further grow sales and profitability of its private label brands, which may be impacted by future operating and capital costs, and customer response;
- 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, 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 timing and amount of expenses relating to the completion of the second CFC in Montreal and the third CFC in Calgary, which may be impacted by supply of materials and equipment, construction schedules and performance of construction contractors; 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, and 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 third quarter ended January 30, 2021.