

Empire Company Limited

First Quarter 2022 Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Empire First Quarter 2022 Conference Call. At this time, note that all participant 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 immediate assistance, please press star zero for the Operator. Also note that the call is being recorded on Thursday, September 9, 2021.

I now would 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

Great. Thank you, Sylvie. Good afternoon and thank you all for joining us for our first quarter conference call. Today, we will provide summary comments on our results and then open the call for questions.

This call is being recorded, and the audio recording will be available on the Company's website at 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 and Chief Executive Officer, Empire Company Limited

Thanks, Katie. Good afternoon, everyone.

We are pleased with our first quarter results, especially as we cycled extraordinarily strong COVID-heated sales and earnings last year. We continue to perform strongly and consistently.

Our sales and market share were solid. Our margins matched last year's outstanding performance, which had limited promotional activity last year, and are actually up strongly when you exclude fuel.

Our SG&A is solid, even as we invest in Horizon, and our bottom line is strong, especially when you back out last year's real estate gains. These are good results, driven by great work from our team, and we expect more of this as we progress through Horizon.

I don't have much to say, actually. We're happy with our results and focused on delivering Horizon. We continue to lap last year's COVID-driven sales bump but are seeing the behaviour changes we expected as vaccine rates increase. With that in mind, I'll cover two topics today—our performance this quarter and the trends we're seeing in the market.

First, our results. As I said last quarter, two-year sales stacks are the more meaningful indicator of sales as we lap COVID. With that in mind, our two-year sales stack for Q1 same-store sales was 8.1%. Our same-store sales versus last year were negative 2.2%. Total sales increased 3.7% as we added Longo's and fuel pricing and consumption rebounded.

E-commerce sales this quarter were up substantially. We continue to believe that winning the e-commerce channel with the right business model, combined with strong bricks-and-mortar offerings, is critical to success in grocery here and, as you can see, around the world.

We are particularly pleased with our progress in Ontario, Canada's largest grocery market, where we have gone from zero to hero in a very short time, as we saw significant increase in Voilà sales as it grew rapidly in its first year and added Grocery Gateway through our Longo's acquisition. We continue to deliver the best e-commerce experience in Canada to our customers and believe we have the winning formula. In Ontario, we are now closing in on achieving a leading market share in a remarkably short period of time.

We continue to be extremely pleased with our gross margin performance, delivering a gross margin rate of 25.1%. Just like last quarter, we continue to match last year's outstanding margin performance, even as promotional activity has picked up again.

Our food margins are strong. This is a direct result of the progress we are making on Horizon, as well as the addition of Longo's and recovery of our service departments. Our sales mix, especially increased fuel sales, created some noise in our margins even as our Horizon benefits provided strong margin support, and Mike will speak about that more in a moment.

With our strong sales and margin performance, we delivered EPS of \$0.70 this quarter. Last year, our EPS had a \$0.04 net benefit from unusual impacts, including a gain in real estate and payment tied to collective bargaining. Removing these, EPS actually increased a noteworthy 4.5% over the prior year, even without last year's large COVID bump.

As I've said before, returning capital to our shareholders is an important part of our strategy. Results like these allow us to deliver on that. Over the last three years, we have grown our dividend per share at a compound annual growth rate of 10.9%. We increased our NCIB in April, after we announced

the Longo's acquisition, and renewed it in July. After only one quarter with Longo's, we have already repurchased all the shares we issued as part of that transaction.

Next, trends we are seeing in the market. Last quarter, we spoke about our future expectations as vaccinations accelerated. We are seeing those expectations play out in the market through the quarter.

First, as others in the industry are experiencing, customers are shopping a bit more as restrictions ease and vaccinations increase. We're seeing traffic up and basket sizes down, but these have not returned to the same levels as before COVID.

Second, Canadians are starting to shift some spend back to the restaurant and hospitality industries. As we expected, this means customers are spending slightly less on groceries than at the peak of the pandemic.

Third, as others have mentioned, promotional activity is pretty well back to the same it was pre-pandemic.

And fourth, we continue to believe customers are seeing the value in our full-service offering more than ever. We are seeing more pre-pandemic customer behaviours returning, such as customers returning to our higher-margin prepared foods and service counter offerings. While we are seeing the split between full-service and discount banners slightly stabilize, it's certainly not to the degree of pre-pandemic norms.

Altogether, we expect same-store sales will continue to be elevated when compared to pre-pandemic levels but obviously a bit lower than the unusually high industry sales of fiscal 2021.

As we expected, the grocery industry is in a period of transition. While the industry undergoes these changes, we remain focused on delivering against our strategic objectives, as this team has done for

the last four-plus years. By keeping this focus, our team has achieved an impressive amount in that short period of time.

A few examples. At the start of Sunrise, we were honest about two important issues that we needed to resolve. One, we needed to fix our big Western Canadian businesses after the Safeway integration, and two, we needed to grow our share in Ontario, Canada's largest and fastest-growing market and the region in which we had the lowest share.

Today, I can say to you that we have fixed our Western business, turned it around. Operational performance, sales, and profitability have significantly improved, and we have more upside to go.

And in Ontario, we have materially grown our market share by improving execution in our existing stores, expanding Farm Boy's presence, launching Voilà, and partnering with Longo's. Our market share in Ontario has grown roughly 30% since fiscal 2017.

Finally, two accomplishments our team is very proud of over the last month.

First, if you live or work in Quebec especially, I'm sure you're aware of the newest member of the IGA family, RICARDO Media. After working together for many years, I'm pleased to officially welcome Ricardo Larrivée and Brigitte Coutu to the family. We're excited to see the innovation and growth fuelled by this continued partnership in Quebec and throughout Canada.

Second, we released our fiscal 2021 sustainable business report. Our sustainable business report outlines our journey and shares much of our progress. It also, for the first time, includes disclosure against SASB, a world-leading disclosure framework to improve visibility and comparability of our performance. At Empire, sustainability, and diversity, equity and inclusion have been on our agenda for many years. And while there is more to be done, I'm very proud of the progress we've made and where we are going.

And with that, I'll hand it over to Mike.

Michael Vels — Chief Financial Officer, Empire Company Limited

Thanks, Michael, and good afternoon, everyone. I have a couple of comments on the quarter, our performance, and then we'll move straight to questions.

Our gross margin rate was strong this quarter, even against a tough comp last year. And if you remove the impact of fuel, it was 40 basis points stronger than last year. Overall, we continue to be very satisfied with our margin discipline throughout the business and the positive impact that Horizon initiatives, such as our promotional optimization program, are having on margins.

SG&A as a percent of sales was 38 basis points higher for a few different reasons. We now include the Longo's business that has higher costs and margins than our average. And we'll continue to see this effect until we comp their results next year. Both our management teams at Empire and Longo's are working to unlock synergies and are making good progress.

We continued our expansion of Farm Boy and Voilà in Ontario, both of which result in higher SG&A. And finally, our depreciation is higher, largely due to an increase in right-of-use asset depreciation under IFRS 16, reflecting an increase in occupancy costs. These SG&A increases were partially offset by reduced COVID costs in the current year and the non-recurrence of the prior-year cost related to the Alberta labour agreement.

The effective income tax rate for the quarter was 24.5%. And we estimate that the effective rate for fiscal 2022 will be between 26% and 28%, excluding the effect of any unusual transactions or differential tax rates on property sales that we may have. The effective income tax rate for the quarter was positively impacted by non-taxable capital items and differing tax rates of various entities.

Earnings per share this quarter was net of \$0.05 per share of Voilà dilution, the same as last year. Total Voilà costs will increase as CFC 2 in Montreal begins operations, we build CFC 3, and we continue to

expand our store pick e-commerce solution across the country. As CFC 1 continues to earn the respect and loyalty of our customers, welcome new customers and expand its geography, we expect it to reflect positive EBITDA results towards the end of its third year of operations, which will partially offset the impacts of opening new CFCs.

Equity earnings increased year over year due to higher earnings from our Genstar real estate developments and higher Crombie REIT earnings, due to improvements in their bad debt levels post the COVID impacts last year.

Free cash flow continues to be strong this quarter, and we have great projects to invest it in. We improved 25 stores this quarter through renovation, redevelopment, or conversion. And also, as of this week, in fiscal 2022 year to date, we have repurchased approximately 3.3 million shares for a consideration of \$133 million.

So our fiscal 2022 is off to a good start. Q1 was a solid quarter, especially when compared to COVID-driven results last year. We know that we will be up against the tough comp of COVID for the next few quarters, but Horizon is on track. Our teams are engaged and working hard, and we are ready for what the remainder of the year has to bring.

Before we get into questions, it's hard to imagine that we spent a little over a year talking to Longo's, first in partnership talks and then, for the past five months, as part of the Empire family. We've had great early interactions already, and there's been significant work between the two management teams, reviewing synergies and growth opportunities, and we're so happy to have them part of the family.

And with that, Katie, I'll hand the call back to you for questions.

Katie Brine

Great. Thank you, Mike. Sylvie, you may open the line for questions at this time.

Q&A

Operator

Thank you. Ladies and gentlemen, if you do have a question, please press star, followed by one on your touch-tone phone. You will then hear a three-tone prompt acknowledging your request. And if you would like to withdraw your question, simply press star, followed by two. And if you are using a speakerphone, we ask that you please lift the handset before pressing any keys. Thank you.

And your first question will be from Karen Short at Barclays. Please go ahead.

Karen Short — Analyst, Barclays

Hi. Thanks very much. I had two questions. The first question is just, when you think about the competitive environment today versus pre-pandemic, it sounds like you're saying that it has returned to normal. So, the question I had is, how is the actual environment from an in-stock perspective? Because one of the things that's happening, at least in the US, is that in-stock levels are still not back to normal, which is making the promotional environment remain much more muted for a much more extended period of time. So I was wondering if you could kind of contextualize that? And then I had one other question.

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

That's a good question. You're absolutely right. We're not back to where we were before pre-pandemic in terms of supply from even big suppliers. But we are able to manage it efficiently. I don't think it's visible for customers. Our shelves are full. But you're absolutely right. We're still in allocation with major suppliers. So, the service level is not back at the same level. But once again, I don't think it will compromise the customer experience in our store.

Karen Short — Analyst, Barclays

Thanks for that. But going forward, you do expect the promotional environment to be more or less relative to 2019 levels?

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

Like Michael said, we're almost back to the same level of promotional activity. I think as we move back to normal—like we said, last year it was less promotional for all the reasons we know. And this year, we're almost back to the same level that we were pre-pandemic. Nothing major to call here.

Karen Short — Analyst, Barclays

Okay. And then with respect to the remainder of the year, maybe could you just give a little colour on puts and takes to think through on both the gross margin and the operating expenses as we go through the year?

Michael Vels — Chief Financial Officer, Empire Company Limited

Sure. I see the effect of the increased fuel sales continuing to create some mixed impacts on our gross margin rate because although fuel sales did increase, there's more room for them to increase as reopening occurs. So you should expect that mix impact to reoccur in our gross margin line.

We're comfortable and actually very happy with the progress so far on our Horizon initiatives, which do come through and have come through mostly, really, in margin expansion, insofar as we're working on promo optimization and that sort of thing. We expect that to improve and continue through the year.

The sales lifts and the impacts of our renovations have been strong. We've been happy with those. The Farm Boy stores—and we've opened a lot of them over the last month to 18 months—are all performing strongly, and we expect those to be residual and continuing improvements through the rest

of the year. And our discount business is managing its margins very well. And we're continuing to see our market share increases in discount in Western Canada as we open new stores in Western Canada.

So those are all positive impacts, mostly internally generated. We do expect to see some mitigation in our ongoing COVID costs, but they're now down to a relatively low level. Other than that, I'm not sure I'd call out anything beyond that.

Karen Short — Analyst, Barclays

Okay. And then just last question for me. I think the comment was specifically, you have leading e-comm share, I think in Ontario, is what you said. Maybe can you just clarify or if you could provide what you think that share is? And then when you make that comment, are you including click-and-collect in that calculation? Or how are you defining the market?

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

Yeah. It's Michael. We include everything in that calculation. And we are accelerating on everyone in the market. And we will be a leading e-commerce player, if not now, very, very soon. We started from zero e-commerce in Ontario, basically 12 months ago, and the combination of Voilà and Grocery Gateway puts us in a great spot.

And I think people sometimes don't look at e-commerce the right way. You look across the globe, you cannot succeed in the long term without being great at bricks and mortar and e-commerce. And it's a key part of our strategy, not just on the e-commerce side but to drive our business going forward. So I can't wait to get the other two CFCs open as well, and then we can see the kind of success we're having in Ontario.

Karen Short — Analyst, Barclays

Great. Thanks very much.

Operator

Thank you. Next question will be from Kenric Tyghe at ATB Capital Markets. Please go ahead.

Kenric Tyghe — Analyst, ATB Capital Markets

Thank you and good afternoon. I wonder if you could provide some insights, just from your seat, the ebb and flow of the sort of working through the pandemic here? And just directionally, even, some of that consumer behaviour and again, how that could evolve? I mean, we're all sitting in different seats and have different perspectives, but it would be really useful, even directionally, just to understand how you see the range of outcomes through the balance of this year with respect to the same-store sales, potential sales comps. Just trying to get a better feel and able to triangulate a little more accurately than we can now.

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

Hey, Kenric, it's Michael. Great question and I'll start this like I started an answer six months ago, that I'm no soothsayer. But we've been pretty darn accurate in terms of what we thought ever since the beginning of the pandemic in terms of at least customer behaviour.

I think people talk too much about the difference between conventional and discount. That's not the main driver here. The main driver is customer behaviour and trips to the grocery store and basket size. It's not so much conventional/discount. That's on the margin compared to some of the other things. People talk about that way too much, and it's not what we see in the market for sure.

I don't know where it's going in terms of waves throughout the country and, hopefully, this starts to dry up. But I'd say that each wave has had a smaller impact on this industry than the previous wave. And that's what we've seen throughout, that's what we thought would happen, and we continue to see that.

Compared to two years ago, this is a different industry. We're seeing elevated performance in our stores and online. But unless there's some strange phenomena that I can't foresee right now, I don't think there's going to be—I hope there's not – a sudden rush on grocery, and that everything starts to get better.

I've talked about this before. Although behaviours are getting back to normal, they may never get totally back to normal. And that's something that we've got to watch. Even in markets where there are relatively few cases and not too much worry about the pandemic, we're not seeing exactly the behaviour we saw before. We're seeing more people going to grocery store and spending more money.

Is that helpful, Kenric? Is that what you were looking for?

Kenric Tyghe — Analyst, ATB Capital Markets

Thank you, Michael. That was great. Some really good insights. Just one quick further question for me. Just on the margin profile, can you sort of speak to are there any learnings? And which way are those learnings flowing in fresh, sort of our first quarter in on Longo's here? Clearly, a high gross margin profile in that business and a very fresh, forward business. Are there any insights you can share whether there have been any learnings? Or whether you see any real opportunity there on the sort of margins in fresh and your fresh profile going forward?

Michael Vels — Chief Financial Officer, Empire Company Limited

Well, we're very familiar with Longo's, of course, we've been watching them for a long time and respected them for all that time. And they do have, to your point, a different mix and different format, and their customers are very loyal.

So in terms of learnings between the two businesses, for sure, similar to Farm Boy, pooling all of our expertise relative to private label is something that all of the management teams kind of immediately looked at as an obvious. And that's all about innovation and new products and positioning our private label. So that's been something that's been a great area of cooperation and collaboration.

We are looking at how we all buy fresh. We all have different ways of buying all fresh, particularly for produce, and there's a little bit that each business can teach each other on that one. And we have particular suppliers, sometimes local, sometimes not, that we can leverage.

Beyond that, we're still getting to know each other and exploring other areas of opportunity.

Kenric Tyghe — Analyst, ATB Capital Markets

That's great. Thanks so much, gents. I'll get back in queue.

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

Thanks, Kenric.

Operator

Thank you. Next question will be from Patricia Baker at Scotiabank. Please go ahead.

Patricia Baker — Analyst, Scotiabank

Thank you and hello, everyone. I've got a couple of questions. First of all, Michael, for you. I'd really like to talk a little bit more about the progress that you've made in Ontario with those market share gains that you shared with us. So obviously, Farm Boy plays a role here. Voilà plays a role, Longo's, FreshCo 2.0. Those are big changes in the market in Ontario, strategically, that you've addressed. But can you also point to work that you've done on the brand and perhaps in early days with Horizon on store renovations and expansion, that sees you with a higher share at the organic Sobeys business in Ontario as well?

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

Yeah. Thank you. I think the last part's really important because, obviously, we set out, as we were pretty clear on, that we had some weaknesses four-and-a-half years ago in Ontario, in the GTA and in e-commerce, and we set out to fix them. And we've more than fixed them, and my colleagues would be mad at me if I didn't also point out the incredible progress we've made at Sobeys and FreshCo in Ontario.

And the banner we don't talk a lot about, which has been on fire even before COVID and during COVID and now, is Foodland, where the performance there, it's just been extraordinary, led by three of our great individuals who are coming up through the Company.

And so I think a lot of it has to do—and it always comes down to execution in store by our merchants and especially our store operators. And it is night and day in our stores across the country, but especially in Ontario, in our stores.

But the brand investment that we began in 2017 which is, as you probably know, takes time and work, over and over again, is paying off. The perception of our brands in terms of how they're situated, how they are in the community, what the pricing is—we haven't seen a better price perception in our banners, well, certainly since I've joined, as we have in the last three to six months.

All of this contributes—and I've never said this before—retail is detail, and it's true. And it's a bunch of different things coming through to put us in this position where we are so much stronger.

And I'm sick of talking about COVID for many reasons but one reason is because we performed really well in COVID, and now we're lapping that performance. And then others might not have performed as well, and now they're lapping that. And I think it's overshadowing the huge change at Empire Company that we've seen, and that will shine through very, very soon.

Patricia Baker — Analyst, Scotiabank

Okay. And then let me follow up on that, Michael, two quick things. So would it be fair to say that when we look at the whole Project Horizon and a big part of that is driving further market share gains and driving the top line. So with respect to the important market of Ontario, you believe that the share gains that you've got are, for the most part, sustainable? And that you actually see a path to—this is not the endgame—there's a path to further market share gain?

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

Oh, yeah. We're on the move in Ontario, and it has nothing to do with COVID. I really think people are overemphasizing some of the things now from COVID, and they're overemphasizing this conventional/discount thing instead of looking at execution out there.

And I have great confidence across the country. And you didn't point out the West, where I think we've made the biggest gains of anywhere in the country, and we had the farthest to go. But we have strength all through the country. But we were really not a player in Ontario, and we're a very important player on the move in Ontario now.

Patricia Baker — Analyst, Scotiabank

Okay. Just want to follow up on a point that you just made, that you said the brand investment's paying off. And maybe it's too early to tell, but I know that in the quarter, Sobeys was the sponsor of the Olympics. And I'm just curious what the impact of that campaign was on your brand. Do you have any indication that, that was a successful spend for you?

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

Yeah. We're really happy. It's our first time, we're the first official grocer of the Olympics. We had great exposure, as you saw, and can't wait for the Winter Olympics, which is even bigger in Canada, coming up and we'll be big there too.

We one hundred percent saw a positive impact. The Olympics is the most powerful and exclusive platform, and so we're lucky to be there. It's hard to quantify these things always, financially, especially in the short term. But we have really, really good ways of tracking impact of our campaigns in market.

And this is our first campaign, our first time we put the brand on this, and Sandra Sanderson and the whole marketing team, plus our operators and merchants, hit it out of the park. We were right at the top of impact among the sponsors with the viewing public. And I think if you saw our spots during the games, you'd probably agree. I think they were probably one of our best spots, if not the best spot we've ever had. So now Sandra's got to beat that for Beijing.

Patricia Baker — Analyst, Scotiabank

Well, good luck to her.

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

Yes.

Patricia Baker — Analyst, Scotiabank

If I could just ask one more question. In the release, you referenced the fact that the metrics at Voilà are going better than planned. Can you speak a bit to this? And then just I'm curious about how that experience with the Toronto CFC is informing your plans and expectations for what you're looking for out of Montreal?

Michael Vels — Chief Financial Officer, Empire Company Limited

Sure. I think the first part of your question was just some insight into the metrics for the CFC. Is that correct?

Patricia Baker — Analyst, Scotiabank

Yes.

Michael Vels — Chief Financial Officer, Empire Company Limited

Okay. In this respect, I'd say probably boring is good. The CFC started off with exceptional metrics and then has just either kept those metrics up or has got better. So on-time fulfilment and no substitutions and all of the other customer metrics have resulted in net promoter scores which have been remarkably high and remarkably stable throughout the entire process, which I think is impressive. Because as you start repeating customers, they start to get more picky, and it's important to keep the level of service up. So all of the customer-facing metrics are exceptional.

Inside the CFC—I've said this to quite a few people—I'm personally quite surprised at how quickly and efficiently it started up, very few teething issues. And that CFC is now operating, from an efficiency perspective, right at the top of all the Ocado facilities worldwide, so very smooth from that perspective. Yeah. They keep telling us that, and they're a little bit surprised about it, but I think it's absolutely right.

And then other metrics that are helping us and one of the reasons that we're improving those numbers is our shrink numbers are coming down as we get a better handle of our purchasing patterns. We're starting to get used to seasonality as we go through the summer, which is generally a slower time for e-commerce sales, and how to manage the capacity that frees up and how to just generate more sales through quieter periods.

So yeah. It's really on track, where just now it's how do we continue to thrill our customers; how do we increase the assortment; how do we improve price perception; how do we make sure that our promotions are on point, et cetera.

On the CFC, with CFC 2, it's not exactly rinse and repeat because it's a different place. It's different customers. We have an installed customer base. But certainly, from an operational perspective, tons and tons of learning, which I'm not going to bore you with.

The most significant difference, really, is that we have existing customers who are used to a certain level of service and assortment, and they love the IGA stores. And we're going to have to make sure that what we give them is at least as good as that and, certainly, our aim is to be better. They're very discriminating, they know what they like, and we need to satisfy their needs right off the bat without any learning curve.

Patricia Baker — Analyst, Scotiabank

Thank you very much.

Operator

Thank you. Next question will be from Michael Van Aelst at TD Securities. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

Great. Thanks. Good afternoon. I wanted to follow up on the e-commerce side. And maybe you could help me just understand some of the commentary. Because in the press release, you say that online grocery sales in Canada continued to grow. But then in the next sentence, it says, sales remain consistent for the Company's three e-commerce formats, excluding Grocery Gateway. Is the first one on the industry a comment for like the last 12 months? And then this one in the quarter, the three divisions? What do you mean by the three e-commerce formats were consistent?

Michael Vels — Chief Financial Officer, Empire Company Limited

Thanks, Michael. And I do feel that you're right that that could be somewhat confusing. So, our first comment was more industry in general and referred to more of a long-term retrospective so—obviously, to a large extent, driven by COVID there's been a step up in penetration. And we expect that to continue. And we expect it, over time, to grow. Yes, there was a COVID blip in there, so we're not talking about e-commerce sales increasing over the COVID numbers. So I could see how that would have been confusing. What we're just saying is that e-commerce is a strong channel. It has increased materially, and we think it's going to keep growing.

In terms of our own performance—and maybe we shouldn't have talked about the formats. So we have Voilà, which is new, to us at least, and growing as it ramps up and gains new customers. We have Grocery Gateway that we purchased through Longo's. And we have our in-store fulfilment format, which we started in Atlantic and we're rolling across the rest of the country.

And our experience in e-commerce in total for the quarter would have been a significant increase, but a lot of that driven by Grocery Gateway. If you take Grocery Gateway out, because it's an acquisition and doesn't have a comp for us, we would have experienced, in total, for the country, roughly flat e-commerce earnings.

As I said, we're in a bit of a lull because we're in the summer. And secondly, we're also coming off some very material COVID numbers in our Quebec business from last year.

Michael Van Aelst — Analyst, TD Securities

Okay. And last year, you only had Voilà up for, I think it was half the quarter. So how would that have performed—like excluding Voilà then, and Ontario and BC, I'd assume it was down a little bit, given you're lapping really tough comps?

Michael Vels — Chief Financial Officer, Empire Company Limited

No. Voilà continued to grow.

Michael Van Aelst — Analyst, TD Securities

Right. So Voilà grew but Quebec?

Michael Vels — Chief Financial Officer, Empire Company Limited

Quebec was off because of the very significant comp with last year's COVID numbers.

Michael Van Aelst — Analyst, TD Securities

Okay. Yeah. That makes sense. Okay. Great. And then I don't want to go straight to numbers but in the outlook, you say you're expecting earnings growth to be less than fiscal '21, but earnings growth in fiscal '21 was 25%. So that's a pretty wide range. Am I reading that correctly, in that you expect same-store sales to be lower than last year, but also sales and earnings growth to be less than last year? Or is it earnings to be lower than last year?

Michael Vels — Chief Financial Officer, Empire Company Limited

I'll try and clarify that. So we outlined when we started Horizon that as management, we were targeting, clearly, the EBITDA increase. But also, we felt that that should translate at the bottom line to roughly a 15 percent compound average growth rate in net earnings. And now here we are, finding ourselves in F'22 with an F'21 number that was significantly inflated by COVID. And all we're saying is, don't take the F'21 number and add 15%. So we're not saying that our numbers are necessarily going to be lower in F'22. We're just saying they're not going to be at a 15% growth rate if you take F'21 as a base.

Michael Van Aelst — Analyst, TD Securities

Yeah. That's clear. Thanks very much, Mike.

Operator

Thank you. Next question will be from Mark Petrie at CIBC World Markets. Please go ahead.

Mark Petrie — Analyst, CIBC World Markets

Good afternoon. I just wanted to follow up on your comments, Michael, with regards to the Western Canada business and with regards to that now sort of being fixed. Are you basing that more on sort of qualitative evaluations? Or is it more quantitative, be it insight on just store-level profitability? Customer feedback? What are you sort of basing those comments on?

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

Basing it on top line, bottom line, brand scores, including customer feedback, and the work we've done to turn around our stores in terms of renovations.

Mark Petrie — Analyst, CIBC World Markets

That's it? Okay.

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

But this is not just my opinion. Although my opinion is usually accurate on those ones but it's top line and bottom line. We've seen tremendous turnaround of our Western business and still have room to go.

Mark Petrie — Analyst, CIBC World Markets

Yeah. Okay. Understood. Appreciate it. And then actually just one small one following up on all of the Voilà discussion. I know customer retention is something that Ocado talks about a lot and hangs their hat on. Is your customer loyalty still exceeding expectation?

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

Yeah. It's very, very strong. The Ocado model, which we have here, is best in class. And we've got great customer retention.

Mark Petrie — Analyst, CIBC World Markets

And related to that, how have you adjusted your promotional spend as Voilà has sort of built awareness? Obviously, still room to grow that, but how have you adjusted your promotional spend? And your tactics? And is that sort of online or in line with your expectations? Or how has that played out?

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

Yeah. Mark, I know you watch the industry pretty well, and you're probably looking online and getting offers from us. And you've seen that we've been trying different things to make sure that we keep our momentum. I mean, summer's usually slow in e-commerce—we're now back to school, we're back in the fall—we want to make sure that we continue the momentum we had before.

We started off because we just wanted to make sure that we were offering, well, not very promotional. Went more promotional and tried different things, watched to see what worked. Kept what worked, got rid of what didn't. And now we're very happy with the promotional mix right now. But Voilà, with the literally hourly data that they get, is very, very agile in terms of attracting and retaining customers and doing what we have to do out there. You saw some of the monthly and annual passes that we put in place as well.

So with the things that we know what to do in Canada, plus, probably daily contact with Ocado and talking to the other partners—remember, almost all the great retailers on Earth have tried to get Ocado. And so we, now, are open to best practices across, I'd say, Europe, the United States, and soon to be Asia.

So we're not too proud. We'll take whatever works, and we're trying all that. Canada's a little different, and you've got to make sure it works for you. But I'm now happy with what they're doing in terms of promotion. It's right on.

Mark Petrie — Analyst, CIBC World Markets

Appreciate the comments. All the best. Thanks.

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

Thanks, Mark.

Operator

Thank you. Next question will be from Irene Nattel at RBC Capital Markets. Please go ahead.

Irene Nattel — Analyst, RBC Capital Markets

Thanks and good afternoon, everyone. Just wanted to shift topics a little bit for a minute and just talk about what you're seeing in terms of cost push, both on the labour side, around labour costs and availability? But also, the kinds of discussions that you might be having with suppliers, now that we're heading to this critical after-Labour Day period, and those conversations typically dry up?

Michael Medline

Pierre?

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

It depends on regions. So in some regions, it's more difficult than in others. Quebec is tough and BC, but in the rest of the country, it's manageable. I know suppliers have some issues in the labour availability as well. It's why we are in allocation with some of them. We believe that after summer, the situation will improve. And we have good tactics and plans to improve efficiency in stores and making sure that our labour will be used for customer experience and production versus non-value-added tasks.

So it was like that before the pandemic in some provinces. It's been accelerated through the pandemic. And now, we believe that we will come back to more pre-pandemic situation. And we had the plan before the pandemic. We had to pause it. But now, we're working on it to improve efficiencies at store level.

And in our RSCs as well, so we have a lot of labour in our RSCs. I think we've made good decisions in the past, to add automated DCs in Calgary and Ontario and Quebec. And I think we're in good position because of it, but it's not enough. We need to continue to work towards that.

Irene Nattel — Analyst, RBC Capital Markets

That's really helpful, Pierre. Which areas do you think have the most opportunity around, sort of, improving in-store labour efficiency? And eliminating non-value-added tasks?

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

To be honest, it's a cultural thing. And I think, internally, we can do a lot without compromising customer experience. As a backstage team, there's many opportunities where we can improve our performance, so doing the right thing first time, as the backstage teammates, will change life in store. And we strongly believe that we have the control on it.

Irene Nattel — Analyst, RBC Capital Markets

That's helpful. Thank you. And then just on the inflation question, what kinds of discussions are you having? And is it your expectation that we'll see another step-up in overall consumer pricing? And what has been the consumer response to date?

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

As you know, we had inflation in Q1 almost the same level—slightly lower than in the previous quarter, in Q4. It's very volatile depending on the category. In Q1, we saw more inflation in seafood. Now I think the talk of the town is meat.

But I think customers adjust their spending behaviours as prices increase. And often, they will purchase other substitute products. And it's our job to showcase these different commodities at the right price, at the price they're looking for. So it's our job; it's our day-to-day job. It's not new, seeing volatility in prices, especially on the commodities side. And when it's getting too high, customers changing their behaviours and going after substitutes.

Irene Nattel — Analyst, RBC Capital Markets

And what about centre of store at this point? It sounds like that's not really been a big factor so far.

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

We have been asked for cost increases from suppliers. We didn't take many cost increases. It's very important for us to be selective on taking cost increases, and we do our best for our customers all the time. But some of those increases are going to move to retail for sure, especially when we're challenging our supplier partners all the time. They know that. It's not new. But sometimes, it's commodity pressure; raw material costs are increasing. So we have robust processes to look at these asks. And most of the time, we are able to reach an agreement with our supplier and making sure that there's good backup for these cost increases. And most of those, when we're agreed on, are going to retail. But you're right, there are a lot of asks from suppliers for different reasons, but we continue to challenge these to protect our customers as much as we can.

Irene Nattel — Analyst, RBC Capital Markets

That's very helpful. Thank you. And then just finally, if I might, back to the whole subject of e-commerce. Just wondering how you're measuring those market share numbers? And what your data is showing you around sort of new customers that you are gaining or that you're, if you will, poaching from other e-commerce suppliers?

Michael Vels — Chief Financial Officer, Empire Company Limited

Sure. I'll start off by saying, Irene, that it's a remarkably difficult calculation. Figuring out exactly what the e-commerce numbers are for each and every participant in the market, not just the big players, is difficult. And so a lot of our work is internal triangulation and trending, in addition to some of the data that we get from market research companies. So that's all to say it's not necessarily a point estimate and clearly something that we look at on more of a trend basis.

But if you look at the numbers, and you look in terms of what we have visibility to, which is ours, we do fundamentally believe that we're gaining material share in the channel. And we're getting it from non-Sobeys customers. Now that's partly because we started with a relatively small share in Ontario, as Michael said. But I don't think people are discriminating. We're not getting customers because they used to shop Sobeys. We're getting it because of the brand, standing for customer service, great assortment, good pricing. And people are getting turned onto Voilà as a real option in their shopping, in addition to what they do in bricks-and-mortar stores.

Irene Nattel — Analyst, RBC Capital Markets

That's really helpful. Thank you.

Operator

Thank you. Next question will be from Vishal Shreedhar at National Bank. Please go ahead.

Vishal Shreedhar — Analyst, National Bank

Hi. Thanks for taking my questions. Just with respect to the improvement that you've been noting for several quarters across the business, once upon a time for Empire, there was a perception that Quebec was the region, maybe, where Empire was the strongest, maybe the West, not the strongest. Wondering how all these regions stack up to one another now. Is it more uniform? Or do you still think there's disparity across the Company?

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

Well, there's still some disparity, but they're closer.

Vishal Shreedhar — Analyst, National Bank

Okay. And in terms of the net promoter scores that you're seeing, is there consistent improvement, along with these numerous initiatives that you're implementing? And along with your comments that the West is substantially repaired from the state that you inherited it in, are those net promoter scores improving as well?

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

Yes. They're improving. It's been a long journey and it's starting to accelerate. And I said that before, it starts in the store and the people in the store, and then all the other things we've been doing. And we shouldn't underemphasize, the changes we made in Project Sunrise are really starting to pay off, and now Horizon is just at the beginning.

Vishal Shreedhar — Analyst, National Bank

Okay. And Empire's done a lot of work over the last few years at shoring up its market share in the GTA, and as you mentioned in your prepared comments, that was a focus for the Company. Is the market share where you need it to be with your multi-banner approach in the GTA? Or do you think there's still more work to be done there?

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

Well, we're way better than we even could've expected in 2017 because of some of the opportunities, like the Ocado/Voilà opportunity and the ability to buy Farm Boy and Longo's, which we didn't count on, to be honest with you. So we're way ahead.

I mean, as you know, we're not stopping Voilà nor Farm Boy nor Longo's expansion— we still have plenty of opportunity in our more historic banners to grow those. So, I believe that, if I were a betting person, which I'm not, I would think that we're going to be gaining market share for the next number of years.

Vishal Shreedhar — Analyst, National Bank

Okay. Yeah. Thanks for those comments. And maybe just a quick numbers question here. The gross margin, pre-fuel, up 40 bps, was a good result in light of the unusual quarter you had last year. And there are lots of moving parts in there, there's Longo's, there's Project Horizon, there's the service counters coming back, maybe other factors. Is it possible or are you able to prioritize, maybe, what the major drivers were for that gross margin?

Michael Vels — Chief Financial Officer, Empire Company Limited

Certainly, the expansion of Farm Boy and Longo's does have an impact on the net rate. But the largest positive, for sure, was Horizon. And then everything else sort of beyond that is relatively small.

Vishal Shreedhar — Analyst, National Bank

Okay. Yeah. Thanks for the colour. Much appreciated.

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

Thanks, Vishal.

Operator

Thank you. Next question will be from Peter Sklar at BMO Capital Markets. Please go ahead.

Peter Sklar — Analyst, BMO Capital Markets

Thanks. For Voilà, on the financial guidance you're providing, what you're saying is that you expect this year, fiscal '22, to be the peak dilution year. So I think that means you expect this year to be the peak year for losses from Voilà in aggregate, and then the loss rate coming down in fiscal '23. So how does that work? Because you've got the GTA CFC that should have less losses next year as you ramp it up but, on the other side of the ledger, you'll be in the peak of the losses of the Montreal facility as it begins to ramp. And plus, you'll be working on Calgary. So I just don't see how the arithmetic works for you to make that statement, and unless you get a pretty dramatic ramp-up in the financial performance of the GTA business. So if you could just give me some flavour around that?

Michael Vels — Chief Financial Officer, Empire Company Limited

Sure. Well, GTA is consistently improving which, clearly, on a consecutive basis, cuts into that dilution materially as you move towards a breakeven.

Montreal starts with an existing base of customers. That's very helpful for the business and helps us with a number of things, including lower shrink, less dollar cost, that sort of thing. And yeah. So those would be the two most significant moving parts.

We've also invested materially in our back office and supply chains, replenishment, and all of the administrative and SG&A that we need to run what is really a separate, self-standing business. We don't have to replicate that when we get into Montreal.

Peter Sklar — Analyst, BMO Capital Markets

Okay. And when do the Calgary costs start, Mike?

Michael Vels — Chief Financial Officer, Empire Company Limited

Much later in F'23.

Peter Sklar — Analyst, BMO Capital Markets

Okay. And then just my last question on a different topic. Michael, you brought up a couple times in your discussion today about promotional optimization, and that's been one of the factors in your financial improvement. What are you talking about there? What is it? Are you hiring more skilled merchandisers? Or you're using new analytical tools? Or you've brought in consultants who are looking at demand elasticity? What actually is going on there?

Michael Vels — Chief Financial Officer, Empire Company Limited

It is promo optimization. When you say what's going on, it really is informing our merchandisers across the board, so not just something to use merchandising meat, right? It focuses in on a category like meat, obviously, but it is the calculations and the outputs and the sensitivities that it reflects, rolling the effects through the entire store.

Which is very new for our business, and I think it's a big part of becoming great at category management. It forces a category manager to really understand the impacts that they're making on the store outside of their category to start with. And that may sound really obvious, but it's pretty powerful.

And then, because of the fact that it's very rich in data, and it enables us to do a lot of scenario analysis, virtually almost real time, it completely changes the discussions with suppliers. And we can talk about a \$0.05 or a \$0.07 difference on a promotion or a funding level with a supplier and show them, almost in real time, where they're incorrect as to what the impact of their promotion is going to be on that category and our store in total. And it enables our tactical negotiations on promotions with suppliers to be materially better.

And the reason that we think this is going to get better and better over the year and over time is we're only at the beginning of that. And we're still in the, call it, the training period in many respects, when you look at those higher-level discussions and those improved negotiations.

So it is as simple as putting incredibly strong, insightful data into the hands of people that were already pretty good at category management. But it's bringing it all together in an ecosystem and a cross-store set of processes that we're finding was most of the power, where people are becoming much more businessmen as opposed to just wondering about next week's promotion.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Thank you. That's all I have.

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

Thanks, Peter.

Operator

Next question will be from Chris Li at Desjardins. Please go ahead.

Chris Li — Analyst, Desjardins

Thanks for squeezing me in. Good afternoon. Can you update us on where you are in your journey with Own Brands? I know it was a huge initiative last year. How much of the benefits have been realized in the margin so far? And is there still a lot more benefits to come? Thank you.

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

Own Brands is part of Horizon. We're on track. We rebuilt categories, so Wave 1 is done—we are at the end of Wave 2 and it should be in stores in the next few months. So we are on track to deliver the benefits from Own Brands into the Horizon Project. We are really pleased with the progress in rebranding. And like I said earlier, in previous quarters, the rebranding is completed.

So we're now rebuilding the assortment to make sure that the assortment is relevant in every single category. And we're very happy with the results so far. Penetration continued to be better. And the margins continued to be better —we see an improvement year over year. And we expect to finish that rebuild this fiscal year and get all the benefits in the next fiscal year.

Chris Li — Analyst, Desjardins

Okay. Great. That's very helpful. And then maybe another question I have is just your Horizon plan implies, I think, EPS of roughly \$3.00 a share in fiscal '23, which would imply the very nice ramp-up from this year's level. I guess my question is how confident are you that this will be achieved since, I think, the back half of the Horizon plan is largely predicated on sales growth and market share gains, which are obviously a bit more risky because it's not fully within your control? Are there other levers you can pull to achieve that target even if, say, your sales do not pan out the way you expect? Thanks.

Michael Vels — Chief Financial Officer, Empire Company Limited

So that's an interesting question, Chris. I mean, I could be a little flippant and say both myself and Michael and the team we have, I mean we basically plan for success, right? So if you had to really ask us, we're not going to accept failure here. So in one way or the other, our goal and our job and our expectation—and it's been our expectation—is to hit targets. So that is still our expectation, and we don't feel we need to deviate from that whatsoever.

But having said that, that's a generic answer, doesn't help you much. Something Michael actually said to us, and we had a conversation about this not that long ago, was if you parcel out your strategy into three-year segments, right, like we have, inevitably, the second year's the hardest one because there's a lot of setup and a lot of maybe easier—I'm not sure it's easier, but the first year goes according to plan. Your targets become a lot higher in year two, and you have to hit them. But you need to have momentum heading out of year two into year three. And so a lot of the heavy lifting and the foundations and the details of what you put in place in year two is the most important part of that three-year period.

And it's not quite like you're just harvesting in year three, but you really need to get year two right. And so far, we feel good about it. We're on track. We have great plans. Our teams are engaged. And so far, so good. So this is a matter of execution, and we're executing on a number of items. That makes it, to some extent, a little bit lower risk because we're not just relying on one thing to happen. At the same time, it's a lot of balls to keep in the air. But so far, we're doing well from an execution perspective. So we see no reason why we can't hit our goals, and we expect to.

Chris Li — Analyst, Desjardins

That's helpful. Thanks, Mike, and best of luck.

Michael Vels — Chief Financial Officer, Empire Company Limited

Thank you.

Operator

Thank you. And at this time, I would like to turn the call back over to Ms. Brine.

Katie Brine

Great. Thank you, Sylvie.

We appreciate your continued interest in Empire. If there are any unanswered questions, please contact me by email.

We look forward to having you join us for our second quarter fiscal 2022 conference call on December 9th. Talk soon.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.