Empire Company Limited

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Empire Fourth Quarter, Fiscal 2020 Conference Call. At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you need assistance, please press star zero for the operator. This call is being recorded on June 18, 2020.

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

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

Thank you, Joanna. Good afternoon and thank you all for joining us for our fourth quarter conference call. Today we will provide summary comments on our results, what we are seeing in the industry today, 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 www.empireco.ca. There is a short summary document outlining the points of our quarter available on our website.

Joining me on the call this afternoon are Michael Medline, President and Chief Executive Officer; Michael Vels, Chief Financial Officer; and Pierre St-Laurent, Chief Operating Officer, Full Service.

Today's discussion includes forward-looking statements. We caution that such statements are based on management's assumptions and beliefs and are subject to uncertainties and other factors that could cause actual results to differ materially. I refer you to our news release and MD&A for more information on these assumptions and factors.

I will now turn the call over to Michael Medline.

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

Thanks, Katie. Good afternoon, everyone.

These are truly unprecedented times. Our thoughts are with all those affected by COVID-19. We at Empire are doing everything possible to ensure the health and safety of our teammates and customers, to keep our shelves stocked, and to support charitable organizations across Canada. I'm incredibly humbled by the efforts of our frontline grocery and pharmacy heroes and of our teammates in our distribution centres. We've asked so much of them over the last few months and they have shown up every day determined to serve Canadians. Today I want to talk to you about a few things. The emerging trends as a result of this pandemic, our performance this quarter, and our strategic initiatives FreshCo, Farm Boy, and Voilà.

This pandemic has fundamentally impacted how Canadians shop for food and forced grocers to rethink how to serve our customers. In the three months since we last spoke we have seen so much change. The most noticeable difference we have seen is the increased safety protocols in our stores, such as plexiglass, occupancy limits, and one-way aisles. For as long as we are without a vaccine, and probably even when we do find one, we believe customers will shop stores that continue to invest in safety and sanitation. Retailers that do the right thing and don't let up on their important protocols will be preferred by customers. We are committed at Empire not to let our guard down.

We have seen consumption shift from restaurants and hospitality businesses to grocery stores, as physical distancing requirements made it difficult for these industries to operate and people are encouraged to stay at home. Grocery sales won't be as high going forward as during the first portion of the pandemic, but we believe this trend will continue. Canadians are also shopping less frequently but consolidating the trips to reduce exposure to COVID. These shifts in shopping behaviour have basket sizes way up and transaction count down. We have seen the number of customers with a basket size over $100 triple since the pandemic began. We believe that the days of many individual customers visiting many grocery stores in the span of a week are over for the foreseeable future. All of the trends I speak about today are more pronounced in areas of the country that have been most hit by this terrible virus.

Many Canadians are gravitating toward one-stop shop grocery stores that meet all of their household needs. As we head into uncertain economic days ahead, we know that the discount format has historically performed well in such times, but in our view, this is not 2008. First, discount already makes up a much greater percentage of grocery stores than 2008. There's a good balance between discount and full-service stores. Second, full-service grocery stores are much more sharply priced now. And third, a pandemic induced recession may be different as Canadians seek out safe and healthy places to complete their one-stop shop while also receiving value for their money.

Now we don't profess to know everything, we're not soothsayers, but it's our belief that many Canadians will continue to favour one-stop shops more than at any time in the recent past, making the future look quite different than the past. That's all to say that we believe safe, well-stocked, and customer-friendly grocery stores will thrive, whether they be full service or discount, but we believe that full service will grow faster than discount in at least the short to medium term.

We have also seen a shift to online grocery, which was a relatively nascent industry in Canada before the pandemic hit. Online grocery penetration has seen an increase in three months to levels we anticipated in the next three years as the pandemic caused Canadians to trial grocery e-commerce. E-commerce has been super charged because of COVID, but it is of course still a relatively small percentage of the total market and definitely will not be the death knell of stores.

Overall, online grocery sales in Canada have more than tripled, but let's put this growth into perspective. It's off such a small base – probably at 1.5% penetration before the pandemic. We think it could triple over the next few years and could comprise about 5% or so of the market. So still small, well below UK and US penetration rates, but high growth. Canada is basically catching up to where the rest of the world was. Bricks and mortar will continue to rule in terms of market share for a very long time, but online will become more and more important and will grow the fastest. Online, executed well, will also put a halo over the bricks-and-mortar brand.

Now, we applaud all grocers who serve customers through store pick over the crisis. There will continue to be opportunities for store pick as opposed to a central fulfillment model in certain regions of the country, but it's just not as customer friendly. It disrupts the store, isn't easily scalable, and is very difficult to be meaningfully profitable. E-commerce has to be really well done. Done badly, it can cause brand damage, and consumers will not put up with a poor e-commerce experience in the future the way they did in the middle of a pandemic.

Changing topics, I can finally say what I've been waiting to say for the last three years. Our three-year transformation strategy, Project Sunrise, was successfully completed this quarter. The changes we made positioned us well to not only navigate this crisis but to be able to optimize our business for the emerging trends. We have accomplished so much through Project Sunrise. We have reset our foundation, transitioning from a regional to a national structure. We have sharpened our leadership and developed a more accountable culture with a team that is results-oriented and strives to win. With the new structure we have leveraged our purchasing scale, adopted best practices, and have standardized our operational processes across the country, contributing meaningfully to our bottom line. And the final piece of Sunrise was our category reset program. We assessed every single category to put our underlying cost base on an even playing field with our competitors and to ensure our shelves are stocked with the items customers want most. This took us nearly two years and was one of the most difficult and successful projects in our Company's history.

Through all of this, we removed over $550 million of costs from our business and executed our transformation even beyond our expectations, all initiatives on time, meeting or exceeding all financial targets. And we didn't stop there. We delivered these cost savings and positive same-store sales while setting ourselves up for long-term growth by expanding our discount banner FreshCo to the West, partnering with Ocado to bring a game-changing grocery e-commerce solution to Canada, and acquiring

Farm Boy, the fastest-growing grocery retailer in Canada. There are very few Canadian retailers that have executed a transformation of this size with this level of success.

So now let's get to our performance this quarter. Same-store sales excluding fuel this quarter were at an unprecedented 18%. The solid momentum we saw in the second half of the third quarter carried into the fourth quarter and was obviously really amplified by the impact of COVID. At the end of February, we began to see significantly higher same-store sales that peaked at 50% growth during the March 8th through March 21st period in all formats excluding fuel as customers stocked up in preparation for possible stay-at-home requirements. Sales, excluding fuel and the impact of the Easter period, then stabilized at a lower level of approximately 23% for the quarter.

As stay-at-home restrictions were put in place, consumption shifted from restaurants and hospitality businesses to grocery stores. According to Nielsen, the Canadian grocery industry grew $3.7 billion in the 16 weeks ending April 25th and we were able to gain a significant portion of this market share. We believe, based on the data, that we gained the most market share over the past three months, in both full service and discount. I'm not going to give you a number, but to put into perspective, we saw market share gains over the back half of the quarter that we would have been happy to achieve over the next five years. We plan to protect a good portion of these share gains as we move forward.

Our market share gains can be attributed to four things:

One, our full-service format outperformed other bricks-and-mortar food retail formats throughout this pandemic. As many customers sought to minimize their grocery store visits, they gravitated toward one-stop shop grocery stores that met all their household needs. This clearly favoured full service. Given that our store network is more heavily weighted toward full serve, we were positively impacted by this shift in behaviour.

Two, the resilience of our supply chain. Our highly automated distribution centres have enabled high velocity restocking of store shelves, ensuring a broad assortment is available to our customers.

Three, our in-store execution. We moved with urgency to invest in increased safety and sanitation procedures to ensure our customers and teammates felt protected while shopping and working in our stores. And we did not let up on these protocols. We continue to closely monitor the impact of the pandemic on food retail around the world and to implement even better processes and best practices.

Four, significant gains in discount. We finished refreshing all of our Ontario stores to the evolved FreshCo 2.0 branding in the fall. We also launched an ad campaign at the beginning of the quarter to reintroduce customers to FreshCo and it was a big success. Improved customer satisfaction and awareness resulted in very strong same-store sales gains at FreshCo early in the quarter and, combined with the impact of stock-ups and increased baskets, positively impacted our discount business.

Through the pandemic period in these times of high demand, we have been focused on ensuring costs to consumers are held in check and that prices continue to be competitive. Our flyers are still operating, running the promotions we can, and we are spreading them over an entire week to continue doing what we can to smooth traffic in our stores. We will continue to be vigilant in our attempts to avoid passing on cost increases to our customers.

Our gross margin dollars were significantly impacted by increased sales. When we look at the underlying gross margin rate improvement of 50 basis points over last year, our margin strength can be attributed in large part to Project Sunrise, which we were able to complete amidst the pandemic. The customers shift toward full service, a slightly less promotional environment due to supplier stock availability, and higher private label penetration also positively improved margin.

Over the last two years we have been working hard to improve our private label business through the rebranding of our entire Compliments portfolio, increased product innovation, and the reset of key categories. We are now beginning to reap the benefits of these improvements. Our penetration of private label has been growing faster than the industry for all of fiscal 2020, which has only been further amplified in the past 15 weeks during the pandemic. We will continue to improve our private label brand portfolio, as it will become increasingly important in uncertain economic times.

EBITDA margin rate, our most closely watched number, improved by 70 basis points excluding IFRS 16. Sunrise savings and improvement in core gross margin positively impacted the rate. We continue to make strong progress closing the gap between us and our two major competitors.

EPS of $0.67 is the highest in our Company’s history. It reflects the success of Project Sunrise, the impact of COVID, and the hard work of all 127,000 of our teammates across the country. Our teammates in our stores and distribution centres came through for Canadians. They are the reason we could put food on the nation’s tables, why our stores were safe and clean. They became essential workers. They were and will continue to be heroes.

We are now halfway through our first quarter. Our store operations have started to return to a more normal state, if you can even call it that. All of our service counters are up and running, our garden centres are open, and most stores have returned to their normal operating hours. During the first six weeks of Q1, as provinces gradually started to ease restrictions, we have seen same-store sales excluding fuel range from 9% to 17%, averaging 13%, slower now than at the beginning of the quarter. All of our grocery banners are performing well, but full-service stores continue to lead the way in same-store sales growth by a large margin. Pharmacy has rebounded very well and we were seeing fuel beginning to recover.

As provinces execute their reopening plans, other retailers open, and consumer behaviour shifts, we felt this was a natural time to end our temporary Hero Pay program and did so on June 13th. We also provided our frontline and distribution centre teammates with a one-time bonus equal to two weeks of Hero Pay based on average hours worked per week from March 8th to June 13th. We also pledged to our teammates that we will institute a meaningful teammate discount program in the fall.

Now I want to take a few minutes to speak about three of our key strategic initiatives, FreshCo, Farm Boy, and Voilà. FreshCo same-store sales growth this quarter ended up pretty well equal to our full-service banners. Discount and big-box formats did very well in the first few weeks of the pandemic but, as time progressed, full services growth outpaced these other formats. FreshCo's business outperformed other discounters and took market share from their discount competitors in the markets where they compete. FreshCo has a great price position but is also viewed by customers as a very clean and safe store to shop.

Farm Boy continues to be a weapon for winning share in urban markets in Ontario, where we are under penetrated. At the outside of the pandemic, Farm Boy faced some challenges, as a large portion of their offering is focused on prepared foods, which meant their same-store sales weren't as high as usual. However, the exceptional leadership team at Farm Boy was able to think creatively to adapt their stores and offerings to continue to serve their loyal customers. Farm Boy's private label products are now being offered on Voilà soon, allowing customers another way to access this tremendous brand.

As I noted earlier, online grocery penetration in Canada is growing dramatically. Our own e-commerce businesses in Québec through IGA.net and in BC through Thrifty Foods have experienced exponential growth and have septupled their sales since the crisis began. To put this in perspective, there was one five-week period where we hit the anticipated sales we had forecasted for the next year in Québec and British Columbia.

We continue to have the number-one market share in Québec for grocery e-commerce. The customer launch of Voilà, our game-changing online grocery home delivery service, has been accelerated to meet the increasing demand from customers for delivery. Voilà will launch in areas of the GTA starting this month and will continue its phased rollout to customers across the GTA over the next several months.

While everyone is seeing spikes in their e-commerce grocery solutions, customers will ultimately stay with the online providers that deliver an exceptional experience. The world has turned in our direction. Automated, centrally picked, grocery e-commerce is the future. I am so glad we made the decision nearly three years ago to partner with Ocado and obtain exclusivity in Canada over their world-leading grocery technology. It is safe, with very little human contact, and it is profitable over the long term.

Ocado's end-to-end technology, combined with our freshness guarantee, affordable prices, and white glove delivery service, bring the best online grocery solution in the world to Canadians. We are well positioned to win grocery e-commerce in Canada.

Now, with the successful completion of Sunrise, we removed more than $550 million of costs and have a solid foundation to build on, but we know we still have substantial value that we can extract from our business. Our strategy for the next three years positions us well to take the offensive and win the next generation of grocery retail. We are almost ready to unveil our new strategy. The launch was delayed from early May in light of the current environment and the focus that all our teammates have in keeping stores filled and serving customers and to allow us the time to adapt our strategy slightly to address the social and behavioural changes resulting from the pandemic. In July, we'll unveil the bold ambition we have set for our next chapter. I think it's fair to say that we are better set up to succeed going forward than we were even three months ago.

And with that, over to Mike.

Michael Vels — Chief Financial Officer, Empire Company Limited

Thanks, Michael. Good afternoon, everyone. Three years ago we discussed Project Sunrise with you for the first time, which also happened to be my first Empire conference call. It was a big goal and many doubted that we could achieve it. The COVID-impacted fourth quarter sales does distort our fiscal 2020 results somewhat, so although we of course had Sunrise benefits in Q4, looking at our Sunrise progress up to the end of the third quarter is more accurate.

Over the three years, our gross margin rate increased by 80 basis points, our SG&A rates excluding IFRS 16 improved by 90 basis points, and our sales trends were consistently positive as we went from negative to positive same-store sales and saw our same-store sales metric grow 430 basis points. This led to growth in our adjusted EBITDA margin of 160 basis points, closing a significant portion of the gap to our largest peers. Our compound average growth rate and adjusted earnings per share over this period was 47%. If we add in the fourth quarter performance, excluding COVID, these numbers would have been higher as the fourth quarter does include material amounts related to Sunrise benefits.

It's important to remember that all of these positive metrics were achieved in spite of some material headwinds and some internal strategic reinvestment. We invested in a new strategic sourcing team to build our cost management muscle, a project management team to accelerate our execution capabilities, and build a full e-commerce team that will launch Voilà to customers this month. We also felt the headwinds of a significantly increased minimum wage in Ontario and negative results from drug reforms over the past three years. And, although we called Sunrise a three-year program, the positive momentum will follow through into this and future years, continuing to provide benefits to margins and costs.

For our fourth quarter, gross margin rate improved 50 basis points from last year. Sunrise benefits were a large part of the growth along with the customer shift towards higher-margin, full-service sales, a less commercial environment due to many suppliers finding it difficult to keep up with production demand, and higher private label penetration. These margin improvements were partly offset by approximately 35 basis points as we needed to close higher-margin service counters in the store, like deli, seafood, and meat, and some regulatory changes that impacted our pharmacy.

We also made a concerted effort to hold the line on pricing even as underlying costs increased particularly in meat, poultry, and produce.

SG&A as a percent of sales improved by 50 basis points over last year excluding the IRFS 16 accounting standard. Improvements in SG&A were offset by higher payments to our teammates, both via our Hero Pay program for frontline employees in stores and distribution centres and higher incentive bonuses paid to front-of-store management. We also made investments in increased sanitation, safety, and protective equipment to ensure the safety of our teammates and customers and will continue to invest in whatever measures are necessary to keep Canadians safe. The effect of all these investments was an increase of approximately $80 million in SG&A costs in the fourth quarter. EBITDA margin excluding the impact of IFRS16 improved this quarter by 70 basis points.

As Michael said, we chose to hold the line on prices in store through this period to the benefit of our customers; however, the mix of sales in our stores changed materially with many more sales at regular store pricing and elimination of sales in areas like deli and other service counters. As a result, any internal inflation calculation is not meaningful and we have not disclosed an inflation number. We don’t think that implied tonnage calculations are meaningful as a proxy for market share at any time and certainly not this quarter.

Equity earnings were lower than last year, primarily due to a prior year gain in Crombie REIT on a disposal of a parcel of assets. Other income was comparable to the prior year and included a gain on the surrender of a lease in Western Canada in order to enable redevelopment and construction of a new store on that site.

The effective income tax rate for the quarter was 26%, consist with our expectations and slightly lower than the statutory income tax rate. The effective income tax rate for the year was 26.4%. Excluding the effect of the impact of any unusual transactions or differential tax rates on property sales, we're estimating that the effective income tax rate for fiscal 2021 will be between 26% and 28%.

We had previously disclosed an estimate of capital investment for fiscal 2020 of $600 million; however, due to the shutdown of non-essential construction in some provinces, several real estate projects were put on hold and, as a result, our capital spending for the year was slightly lower than our expectations at $575 million. Having said that, we still managed to refresh a number of our stores. We converted ten stores to FreshCo, opened three new Farm Boy stores, and completed the construction of the first Voilà CFC in Vaughan.

COVID did cause a slight delay in two FreshCo store openings in BC, but they're now open and we're pleased with their early results and our team should be commended for safely opening new stores during this pandemic to serve our customers. We recently announced an additional six locations, including our first two stores in Alberta. We opened our 18th FreshCo store in Vernon, BC earlier this morning, this store total includes three ethnic-oriented Chalo FreshCo stores. We have ten stores that are in different stages of design and construction, all expected to open by the end of fiscal 2021.

We are planning to announce our next three-year strategy, as Michael said, in July. We are finalizing our revised capital plans in the context of delays caused by COVID and we will provide a capital and investment estimate for fiscal 2021 at that time.

The returns generated from our strategic initiatives, operating earnings, and capital spending discipline have resulted in a strong cash flow position with free cash flows of $595 million for the quarter. Our strategy of returning cash to our shareholders continues to be a priority. Today we announced an 8.3% increase in Empire’s quarterly dividend. This marks the 25th consecutive year of Empire dividend increases.

We also continue to believe that share buybacks are a good use of cash flow in addition to reinvesting back into our business. In fiscal 2020, we have repurchased $100 million of Empire shares. Today we announced that we have renewed our normal course issuer bid to repurchase up to five million shares. We will continue to repurchase shares on a disciplined basis, taking into account our liquidity expectations, market conditions, and our outlook on fiscal 2021.

Fiscal 2020 ended with the successful completion of Sunrise and the employee testing launch of Voilà, our online grocery home delivery service. We expect Voilà will be dilutive to earnings per share by approximately $0.05 in the first quarter of fiscal 2021. Due to the current high demand for online grocery, we do expect that ramp-up for Voilà will be faster than we initially forecasted. We will be able to let you know what we think the full-year effect will be in fiscal 2021 when we update you on our next three-year strategy next month. At high level, the remaining three quarters of fiscal 2021 won’t be materially different from the first quarter.

Fiscal 2020 ended on a note none of us expected, but we’ve adapted and continue to move quickly to keep our teammates and customers safe while operating in this different environment.

We're almost halfway through our first quarter of fiscal 2021 and same-store sales have slowed down since Q4 and in the first six weeks averaged 13% with the range of 9% to 17%. Our temporary Hero Pay program was in effect for part of the quarter and we estimate that, combined with the cost of maintaining our sanitation and safety measures, these costs will increase our selling and administrative expenses by approximately $60 million in the first quarter of fiscal 2021. In total, since the start of COVID, we've invested over a $140 million, mostly in extra employee pay in addition to safety procedures and equipment.

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

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

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

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys.

The first question comes from Karen Short form Barclays. Please go ahead.

Karen Short — Analyst, Barclays

Hi. Thanks very much. A couple questions. First is you gave that dollar amount, the $3.7 billion I think, shift in into grocery, but can you maybe just frame your comp relative to what you think the overall industry would have been on a like-for-like timeframe? Because I know you obviously have gained share but just curious to get a sense on an actual kind of comp basis. And then if you could parse that out on discount versus regularly conventional.

Michael Vels — Chief Financial Officer, Empire Company Limited

Karen, we're not going to disclose our total number for market share gains. I understand you'd like us to provide the statistics to back into it, I think we'd just like to leave it there that our market share gains were healthy and, as Michael said, something that we're going to strive to retain and continue to hold on to for the rest of the year.

Karen Short — Analyst, Barclays

Okay. And then in terms of the e-com growth comment, I'm curious why do you think that the Canadian e-com growth rate might be or percent penetration may be lower than it would be in the UK and in US, just philosophically. Just curious.

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

I think it's structural. It's that the Canadians have not been afforded as many good alternatives for grocery e-commerce as have the UK and the US and that we believe over a long period of time that it should be equal. There's no reason it shouldn't be. But it's really that we just don't have as many choices. And now, with what we're going to offer and then with our growth in e-commerce, we'll be able to offer that and will help drive e-commerce penetration in this country, but it'll take a little bit of time to get to where the others are.

Karen Short — Analyst, Barclays

Okay. And then last question just in terms of the gross margin, do you have a basis point number excluding fuel? And I know you've been clear that you've held in in terms of promotions, but obviously there has been puts and takes there, but any colour on that because I think fuel is a negative impact on gross margin.

Michael Vels — Chief Financial Officer, Empire Company Limited

Could you just help me? I didn't catch the first part of your question. You'd like to know the margin number excluding fuel, is that what you said?

Karen Short — Analyst, Barclays

Well, the basis point change in gross margin ex-fuel, because I believe fuel was actually negative for you, so the expansion would have been higher without fuel. Or if I'm right on that or wrong on that and clarify.

Michael Vels — Chief Financial Officer, Empire Company Limited

No, because the margin rates for fuel is lower, so the fact that we had significantly lower sales and litreage in fuel from a mix perspective would have been marginally positive to our margin rate.

Karen Short — Analyst, Barclays

Right. But do you know what the gross margin basis point change would have been when you exclude the gas profit like per liter versus, you know, excluding the gas sales in the denominator and the gas profit in the numerator?

Michael Vels — Chief Financial Officer, Empire Company Limited

That's not a number that we have right to hand right now, Karen. I'd rather not guess anything.

Karen Short — Analyst, Barclays

Okay. Thanks.

Operator

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

Patricia Baker — Analyst, Scotiabank

Good afternoon and thank you for taking my questions. First thing Michael, when you start thinking about the supermarket industry in Canada and beyond the real accelerated push to digital that's a result of COVID-19, are there other things that you think, other profound changes to the industry long term that will come from this?

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

Yeah, there will be. I mean the emphasis on even more safety and health, at least at Empire and I'm sure many of our competitors. And got to give them a lot of credit too for how they conducted themselves during the pandemic. That's going to be an uptick. I foresee that, not right now but soon, that we'll see more and more prepared foods being purchased at our grocery stores. We have seen people baking, I said once before, at a level we haven't seen in decades, and that's continuing now, but we're also seeing more and more people wanting to come to our stores and have prepared foods or easy-to-prepare foods and so that's something we're going to be really emphasizing. I think that, as we go forward, private label has been growing at a good clip through COVID and will continue to do so and I think we have a real opportunity to grow our private label business there. List goes on and on but maybe I should ask Pierre whether he had anything to add to that list that I just said.

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

I think we'll continue to see less stores shopped to do the weekly groceries, continued preference for one-stop-shops, something that will remain to a certain degree. I think sanitation in store will remain key. A frictionless customer experience will remain as well. These trends will continue for sure.

Patricia Baker — Analyst, Scotiabank

Okay. Thank you both. And just another question, and it might be difficult for you to answer, but obviously with the sales level that you had in Q4, it's obvious that you're attracting to a certain degree of customers that you've never had before. Do you have any insight, Michael, into whether that is the case, that you're attracting people who've never shopped the Sobeys or FreshCo banners in the past, and any kind of indication how big that impact might have been?

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

Let's split it into two things. One, yes, of course, we're attracting new customers and I think part of that is attributable to our store operators and our teams who have made it very, very safe and healthy to shop in our various banners. And so, yes, we're attracting people who feel safe and who can get the full shop.

But secondly, what we're also seeing is that our most loyal customers are turning to us for more of their basket and they're also finding, as we have really done a great job at keeping prices down, that were not only a great and safe place to shop but our value is superb across all of our banners, including of course, our full-service banners. That's the combination we saw in Q4 and that we continue to see even last week. That's continuing. And so it's a combo.

Patricia Baker — Analyst, Scotiabank

Okay. Thank you. And just a quick one for you, Mike Vels: As the sales levels have tapered off, are you able to scale your labour hours pretty easily as you see that happening?

Michael Vels — Chief Financial Officer, Empire Company Limited

Yes. That's a discipline that all of our stores, both corporate and franchised, engage in every day and there are elements of our store staffing that we have put in place that we won't change. So, to the extent that we have extra employees who are helping customers navigate the store or helping with line ups and occupancy limits and that sort of thing, those people have become a more permanent part of our stores and they're there to make sure that our customers feel comfortable and welcomed. But with that exception, we are able to be flexible and adjust as sales increase up and down.

Patricia Baker — Analyst, Scotiabank

Okay. Thank you for that.

Operator

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

Mark Petrie — Analyst, CIBC World Markets

Good afternoon. Obviously, Sunrise and the category resets brought a significant amount of change to your assortment, but I'm curious just to hear how you think about the assortment today given the shifts by many suppliers to concentrate production on key SKUs and also the growth in private label that you talked about. So like I know there's obviously still shifts and evolution going on in the market today, but I'm just sort of curious to hear your thoughts about how the assortment evolves from here, how that affects the store experience overall, and what that means for your business.

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

I think on a temporary basis, we have been able to adjust our planograms based on product availability with suppliers. Obviously, there has been pressure on many categories, and we have been able to adjust our assortment. But once again, like we said, the first two weeks were crazy at 50% same-store sales growth and now I think we're more in the new normal, so we are in position to re-adjust our planogram based on the job we did through category resets. Temporarily, obviously, we have been in a position that the assortment was different, but every week we're making progress to come back in a new normal and come back to what we did before COVID in terms of assortment and planograms.

Mark Petrie — Analyst, CIBC World Markets

So, not materially different kind of six months from now than it was four months ago, I guess.

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

There's still a couple of categories to continue to work on, but I think I will say that we are 75% where we were before COVID. And depending on how the situation will evolve, we'll be in a position to come back to where we were six months ago.

Mark Petrie — Analyst, CIBC World Markets

Okay. Thanks. And then just regarding e-commerce, I mean obviously the focus is Voilà, but that's just serving one market for you guys and the one where you have, I guess, your smallest presence in the country. So could you just talk about how you can seize the e-commerce opportunity in your other regions? And I guess most specifically I'm interested in Western Canada.

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

Yeah, great question, Mark. By the way, I hope all of you asking questions are doing well and are safe and healthy and your families are. Yeah, Mark, it's a great question. Obviously right now, as we prepare to go live, all our energies are on the GTA and to open strongly and successfully, which I know we will, led by Sarah Joyce and her team. We are working at Montréal, but I don't think I'm going to ruin anything to say that when we talk about accelerating e-commerce we're talking about accelerating e-commerce in all portions of the country in the best way we can serve customers in those markets.

And so our strategy for e-commerce was always aggressive, but we are looking at ways we can accelerate it, because we know we have the best mousetrap and we know we can win, just getting to the customer and thrilling the customer, that's what we want to do. And I think we can update you more when we talk in July about Sunrise 2.0.

Mark Petrie — Analyst, CIBC World Markets

Okay. I'll leave that for then I guess. And then just a last question, I guess, Michael, in the past you've talked about investing in the Company's analytical capabilities, and obviously Voilà presents a new opportunity in that front, but could you just talk about the investments you've made thus far and what still needs to be done, recognizing that it's obviously never completely over, but what still needs to be done and most material opportunities you see over the next 24 months.

Michael Vels — Chief Financial Officer, Empire Company Limited

So, it's a good question, Mark, and you're right, the Voilà ecosystem comes with a very, very good database and an ability to segment and market on an individual basis to customers. It's one of its strengths. In the rest of the business we have been spending material time to work through optimizing the data across the business, accessing the data that we have access to via our loyalty programs and other sources and starting to do some very, very high-end analytics on finding ways to add value in the store but at the same time still maximize the value of our promotions.

We’ve also started digging into some pretty advanced work that we’re excited about around productivity throughout the store, both sales and profit productivity. And any impact on adjacencies and some, at the margin, space allocations. So we’ve been working on it for some time. We’ve seen good positive outcomes. I think we’re still in the early stages though and I think there’s a significant amount of future potential we can tap from that work.

Mark Petrie — Analyst, CIBC World Markets

Okay. Thanks for all the comments. I’ll pass the line. And all the best.

Operator

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

Irene Nattel — Analyst, RBC Capital Markets

Thanks and good afternoon, everyone. If I may, I just want to continue a little bit on the e-commerce side of things. Coming back to the comments you made about the rest of Canada, it sounds from what you’re saying as though your preference really is to stick with the Ocado model as opposed to, let’s say, the IGA model that you have in Québec.

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

We’ll pursue market share and customer satisfaction in all ways across the country in the best way we can. How was that for an answer? So I think you should read into that that we’re looking at all sorts of possibilities right now and some of them are quite interesting.

Irene Nattel — Analyst, RBC Capital Markets

Okay. And just a question; Does sort of the Ocado CFC need to be a purpose-built physical building or can you convert an existing building?

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

It's an interesting question. It's probably better purpose-built. You could convert an existing building, but it's difficult. In Toronto, it was half and half. There was a building that had some basic infrastructure already going up and we caught it just in time, which saved us, oh lord, I don't even know how many months. So there's different ways you can do it, but it's mostly purpose-built.

Irene Nattel — Analyst, RBC Capital Markets

That's great. Thank you. And just before I leave the subject of e-commerce, actually two questions. Number one, in the $0.05 that you called out the cost in fiscal Q1, can you walk us through what that encompasses please? What's in that $0.05 impact of Voilà? Like what are the elements that go into that number? What are you including there?

Michael Vels — Chief Financial Officer, Empire Company Limited

Sure. Well, the assumption is that it's the beginning of a ramp up, but in order to deal with the significant demand and to ramp up as fast as we can, what you'll see in that number is, firstly, the amortization of our building, of our infrastructure, and the fees that we pay to Ocado to manage the facility. So those are all now, the facility is now operating and so all of that is payable and is being charged to earnings. In addition to that, we have taken receipt of a significant number of delivery vehicles and we are hiring and training drivers at a significant rate. And so what occurs is that we have material investment in advance of the sales and through this quarter and every quarter following we're going to keep doing that, we really want to avoid running out of capacity as we go up the curve as we get towards scale.

We have accelerated our hiring. We've accelerated that investment. Because of COVID, we do expect that the ramp-up or the curve will be steeper than it would have been otherwise. So, in addition to all of the back office, which has been in place this last fiscal year, the most significant increase in cost and what you see in the $0.05 is really all of our associates and teammates that we're hiring in the facility, the vans and trucks for our delivery fleet, and also the drivers, who are all on staff now and in the process of being trained up.

Irene Nattel — Analyst, RBC Capital Markets

So then the $0.05 doesn't include any incremental spend that you might have on marketing or, you know, marketing and promotional spend to gain trial?

Michael Vels — Chief Financial Officer, Empire Company Limited

Yeah, thank you. That's a great point. Yes, there is definitely some marketing spend in there where we are going to, particularly on social media and other means, you know, we're not going to go out totally silent. But at the same time, as we have said before, we think one of the COVID impacts, at least in the early going, is that we would not require as much of a heavy marketing investment in the early days.

Irene Nattel — Analyst, RBC Capital Markets

Yeah. Built-in demand as it were.

Michael Vels — Chief Financial Officer, Empire Company Limited

Yes.

Irene Nattel — Analyst, RBC Capital Markets

That's great. And then just turning for a moment to FreshCo, the commentary just indicated that it's doing very well. Can you talk about what kind of acceleration in sales you saw on the FreshCo stores in Toronto that have been converted for a little bit longer and what you might have seen in Western Canada where it was not perhaps as well known coming into this?

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

Yeah, it's Michael. I think, you know, no good comes out of COVID, but I guess we were fortunate that we were already rebranded and made so many amazing improvements in all the stores in Ontario and then moved into Western Canada. I'd say it's a change all across the board. It's a great value proposition for customers and it's a great shopping experience.

I think that the rebranding, as I noted in my script, we were already seeing a meaningful growth in market share at FreshCo, and I'll just talk about Ontario because the West is smaller and newer, but in Ontario because of that rebranding.

Then we had a lot of customers trialing FreshCo because of COVID-related reasons and because FreshCo is not only amazing value but is seen by customers, and actually always has been seen by customers in our customer and brand studies, as a very clean, safe shop. I think it gave them a certain advantage.

Irene Nattel — Analyst, RBC Capital Markets

That's great. Thank you.

Operator

The next question comes from of Vishal Shreedhar from National Bank. Please go ahead.

Vishal Shreedhar — Analyst, National Bank Financial

Hi. Thanks for taking my questions. You had the Voilà pilots going on. I'm wondering what you saw in that pilot and if there are any learnings or any things that needed improvement through that pilot.

Michael Vels — Chief Financial Officer, Empire Company Limited

So the first thing, Vishal, is we're just super thrilled that we made that decision to go with the friends-and-family concept. It really did provide us with a rich, rich vein of feedback and we were able to actually make adjustments to both the web shop and some of our operational procedures that made sense and doing it based on day by day and very detailed and constructive feedback from our test group.

In terms of learnings, I think when you put something together this complex, you learn a lot, you know, including how to bring potentially differently packaged products into the warehouse, how to deal with data, different UPCs, make sure your back-end works. But we're thrilled to say that the system really operated as designed. It's really been a little bit more the training of our drivers and making sure that they're up to speed. We've recently introduced produce, chilled and frozen into the facility and that's gone very well. We recently delivered some frozen ice cream to one of our suppliers and I think the comment back was, "This is the best ice cream I've ever had delivered and well done guys."

So we're happy with the resilience of the supply chain. COVID has had an impact on suppliers and so we did make a decision to reduce the assortment, at least going out, with an intention to increase the number of items in the assortment by significant numbers every month after launch. And that's really just to make sure that suppliers who are still rebuilding the supply chains are able to deliver to us in time and we don't disappoint any customers.

So, I don't know if that helps. I think the takeaway is that we've been through some rigorous testing, we're happy with it, and we're ready to go.

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

Well said. I don't have anything to add to that.

Vishal Shreedhar — Analyst, National Bank Financial

Thank you for that colour. Is it too early to determine if there are differences to the basket size, maybe basket composition, margins, and order frequency? Is it too early or do you have a sense of that already?

Michael Vels — Chief Financial Officer, Empire Company Limited

It's way too early. It's a test set. As you can imagine, we were ramping up our assortment throughout the test, so it's not a fair comparison.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. Just moving on here, in terms of Ocado store-pick technology, do you have exclusivity on that as well?

Michael Vels — Chief Financial Officer, Empire Company Limited

Yes, we do.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. And I suppose you'll answer at a different point whether you intend to use that.

Michael Vels — Chief Financial Officer, Empire Company Limited

That would also be correct.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. FreshCo, you're getting a decent quorum of stores running. I'm now talking FreshCo in the West. Is that still a drain to earnings or is it now inflected?

Michael Vels — Chief Financial Officer, Empire Company Limited

It's still a marginal dilution. The stores that have been in place for some time are doing very well from a sales perspective, in most cases better than the store that they replaced. We are starting to get more of a cadence on margins, promotions, pricing, and store labour is becoming much more efficient month by month. So those stores are starting to turn towards the performance that we had anticipated, but we have new stores coming on all the time. So, still marginally dilutive, but nothing material enough to call out.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. And just switching gears here a little bit, the comment about conventional and one-stop shopping being more appealing to the consumer was interesting. I'm wondering if, as COVID evolved, call it from March to April to May, I understand the demand for one-stop shop is still strong, but has it faded consistently perhaps in line with social distancing orders easing and a little bit more freedom on behalf of the consumer?

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

It's Michael here. Hi, Vishal. Yeah, as I pointed out from the script, it's kind of somewhat. I mean it's not the same intensity everywhere and at the same level at the same time, as I also said the trend continues, that the people are doing that more than at any time in the past that we know of and we can expect that trend to continue. And it also depends on how this pandemic evolves. But we think there's going to be a strong trend going forward on one-stop shop at least in the short to medium term and maybe longer.

Vishal Shreedhar — Analyst, National Bank Financial

Thanks for the colour.

Operator

The next question comes from Peter Sklar from BMO. Pease go ahead.

Emily Foo — Analyst, BMO Capital Markets

Hi. Good afternoon. It's Emily Foo for Peter. Just a couple questions. Going back on the market share gains that you've had in recent weeks, do you have any insights as to who these new customers are and are you able to direct communications or target the sets of new customers? And how do you plan on going forward to try to retain them?

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

If you ask Pierre, I think half of his time is spent taking market share and retaining that taken market share. Emily, thanks for the question, and it is a good one, but one which we will not give any details on because we have a lot of ideas and plans.

Emily Foo — Analyst, BMO Capital Markets

That's fair. And also we have another question about flyers and with the drastic changes in consumer behaviour and also with the supplier issues and maybe potentially less than the focus on flyers now, we're just wondering if there's been any changes in flyer strategies like say pre COVID or so far through the prices. Any insights would be helpful.

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

In terms of flyers, we continue to believe that it is important to distribute both paper and digital flyers. We're also communicating with our customers, with different vehicles, but we continue to believe in both. And for us it's very important to maintain a good offering to customers and I think it's one of the reasons why we have had success with market share, it's because we have been able, with agility, to maintain the flyer in place. Obviously, we had to be agile in adjusting our assortment and flyer and we had the issue with supply, but I think one of the big achievements we have been able to do during COVID is maintaining the flyer and continuing to be relevant for the customer. And I think the flyer remains very, very important for value perception for customer. So we need to be appealing tor customers, and paper and digital are both important to maintain our portfolio.

Emily Foo — Analyst, BMO Capital Markets

Okay, thank you. Just switching gears now to Voilà, you said that rollout will start in June, so does that mean that it has not begun yet?

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

Correct.

Emily Foo — Analyst, BMO Capital Markets

And also you said the completion of the rollout is expected in a few months, so like do you have, you know, few more like three months or six months?

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

We have a plan and we'll be agile on that plan but we'll be rolling out by certain market by market, which makes a lot of sense to us.

Emily Foo — Analyst, BMO Capital Markets

Okay, thank you. Those were all my questions.

Operator

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

Chris Li — Analyst, Desjardins Securities

Thanks. I just have a couple of quick ones. So, Mike, you mentioned the $0.05 Voilà dilution will be similar in the next few quarters. I'm wondering if that takes into account sort of incremental sales that you should get to partly offset some of the cost that you mentioned or is that including incremental sales from Voilà as you scale it up?

Michael Vels — Chief Financial Officer, Empire Company Limited

You know, it is a forward-looking comment for sure and, yes, the basis for that is, I think I mentioned to Irene, was that sales are going to ramp up relatively quickly and faster than we thought. On the other hand, we're also increasing our costs by investing forward at a faster rate in personnel and rolling stock, fleet rather.

So we think that we can we can manage it that way, but really the message is we don't anticipate any material incremental costs or difference in impacts that would be materially different from the first quarter estimate that we provided.

Chris Li — Analyst, Desjardins Securities

Okay. That's great. Thanks. And, Michael, I know patience is a virtue, but I was wondering if you can give us a preview of what type of financial targets you plan to share with us in July?

Michael Vels — Chief Financial Officer, Empire Company Limited

Well, we probably shouldn't. We certainly could, but I think that would be a mistake. And I think if I did that I would incur the wrath of quite a number of communications and operating people around the table, so I'm afraid we're going to have to just keep it for July.

Chris Li — Analyst, Desjardins Securities

Okay. Well at least I tried. Well, have a great weekend and continue to stay safe, everyone.

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

Thanks for that, Chris, and stay safe. Thanks.

Operator

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

Michael Van Aelst — Analyst, TD Securities

Thank you. I was wondering if you've seen the level of promo activity rebound at all as things start to normalize a little bit and if, I guess, as the supply chain starts to adjust. And if so, where do you stand with your ability to optimize these promotions with AI?

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

I think, obviously, our focus is to refill shelves and improve service levels every single week and it's exactly what we're doing and we're making progress every week. Data is data, so the good news is with AI we can adjust quickly. We have recent and refreshed data related to COVID behaviours and we started using AI to optimize promotions before COVID, so the tool is in place. We continue to use that data. I'm not seeing any issues in using AI in the current context. It's data and will optimize our promotion. The good news is we'll be able to adjust our promotion quicker, doing less trial and error with that tool than we did before. So, no, I think promo innovation is alive more than ever.

Michael Van Aelst — Analyst, TD Securities

Okay. And just to follow up on that, and this will be the end of my questions, if you're kind of five years ahead on your market share gains and you're starting with some promo activity or optimizing your promo activity, what are the other steps? Like isn't this what you needed to close the gap versus your peers? You know, higher sales and better promo efficiencies?

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

It's the recipe of retail, I would say. Yes, there are many initiatives. I think being compelling for customers, it's not only prices and promo, it's also quality and assortment, and I think over the last year we had a lot of progress and during COVID I think a lot of customers discovered our improved overall assortment and value proposition for our customers.

We did things before COVID in some categories and I think during COVID the customer benefited from these on format, on assortment, on quality. I think we have made a lot of progress and now it's well recognized, but there is still a lot of room for improvement. So, yes, promo is one thing, but I think the overall value proposition for our customers made progress over the last year and it just amplified the speed at which the perception is changing.

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

I think, Michael, that in July we owe you a good discussion on that question. It's apropos. So I think we'll talk more about that.

Michael Van Aelst — Analyst, TD Securities

Okay. Looking forward to it.

Operator

Thank you. There no further questions. You may proceed.

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

Great. Thank you, Joanna. Ladies and gentlemen, we appreciate your continued interest in Empire. If there any unanswered questions, please contact me by email. We look forward to having you join us for our first quarter fiscal 2021 conference call on September 10th. Have a great day. Goodbye.

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.