**Loblaw Companies Limited**

**Q4 2020 Earnings**

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## CORPORATE PARTICIPANTS

**Roy MacDonald**
*Loblaw Companies Limited – Vice President, Investor Relations*

**Darren Myers**
*Loblaw Companies Limited — Chief Financial Officer*

**Sarah Davis**
*Loblaw Companies Limited— President*

**Galen Weston**
*Loblaw Companies Limited — Executive Chairman*

## CONFERENCE CALL PARTICIPANTS

**Karen Short**
*Barclays Capital – Analyst*

**Mark Petrie**
*CIBC World Markets – Analyst*

**Irene Nattel**
*RBC Capital Markets – Analyst*

**Kendrick Jardim**
*ATB Capital Markets - Analyst*

**Michael Van Aelst**
*TD Securities – Analyst*

**Peter Sklar**
*BMO Capital Markets – Analyst*

**Patricia Baker**
*Scotiabank – Analyst*

**Vishal Shreedhar**
*National Bank Financial – Analyst*

**Chris Li**
*Desjardins Securities Research – Analyst*

## PRESENTATION

**Operator**

Ladies and gentleman, thank you for standing by and welcome to the Loblaw Companies Limited Q4 2020 Earnings Call.

I would now like to hand the conference over to your speaker today, Roy McDonald. Thank you. Please go ahead.

**Roy MacDonald** — Vice President, Investor Relations, Loblaw Companies Limited

Thanks very much and good morning, everybody. Welcome to the Loblaw Companies Limited fourth quarter and full year 2020 results conference call.

I'm joined this morning as usual by Galen Weston, our Executive Chairman, Sarah Davis, our President, and Darren Myers, our Chief Financial Officer.

Before we begin the call, I want to remind you that today's discussion will include forward-looking statements, which may include but are not limited to statements made with respect to Loblaw's anticipated future results and the impact of the COVID-19 pandemic.

These statements are based on assumptions and reflect management's current expectations and are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from our expectations. These risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulators. Any forward-looking statements speak only as of the date they are made. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than what's required by the law.

Also, certain non-GAAP financial measures may be discussed or referred to today. Please refer to our annual report and other materials filed with the Canadian securities regulators for reconciliation of each of these measures to the most directly comparable GAAP financial measure.

With that, I'll turn the call over to Darren.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Thank you, Roy and good morning everyone. The fourth quarter represented a continued improvement in our results. Our fourth quarter included an extra week this year, the 53rd week came in a little stronger than expected contributing approximately $0.10 to our fourth quarter earnings per share. My remarks today will focus on the comparable 12-week period.

On an adjusted consolidated basis, our reported revenue grew by 7.1 percent, Adjusted EBITDA was up 5 percent, adjusted net earnings were up 3.8 percent and adjusted earnings per share increased by 6.4 percent. Our same-store sales and drug retail increased 3.7 percent, front store same-store sales grew 2.8 percent while pharmacy same-store sales grew by 5 percent. Front store sales mix was driven by strong performance and convenience categories: food, household products and (inaudible), we continue to experience pressure to cosmetics in over the counter sales.

Food retail same-store sales grew 8.6 percent in the quarter. Demand across our formats increased with market growth of 10.6 percent and discount growth of 7.4 percent. Food retail sales continue to benefit from strong demand for essential food categories. Our food retail average article price was 3.9 percent for the quarter down from 5.3 percent in the third quarter. Similar to the third quarter, the average article price increase is not reflective of inflation, but rather a change in our sales mix, including consumers buying larger format items. Using CPI of 1.5 percent as a reference, our comparable basket inflation would have been closer to CPI for the quarter.

Our food retail basket size remained elevated while traffic continued to show year-over-year decline in the fourth quarter. Total retail gross margin was 27 percent, excluding the consolidation of franchises, decreasing 70 basis points compared to last year. In food, our rate of decline improved from the third quarter but was negatively impacted by sales mix and continue to focus on a relative pricing position. In drug our marketing continues to be under pressure for mix.

Retail S&GA as a percentage of sales was 17.3 percent, excluding the benefit from franchise consolidation improved by 30 basis points. Improvement reflects sales leverage and process efficiency gains, which were partially offset by COVID-19 related costs and incremental costs related to the growth in e-commerce. During the quarter, COVID related costs increased our spending by an estimated $42 million. Retail EBITDA excluding the benefits from franchise consolidation increased $40 million and EBITDA margin came in at 9.9 percent, a decrease of 10 basis points compared to last year.

Moving to PC Financial, revenue was $320 million, down $17 million from last year driven primarily by lower credit card spending. Adjusted EBITDA contributions were $62 million, down $8 million from last year primarily driven by lower credit card spending, partially offset by lower credit losses, lower customer acquisition costs and a reduction in the credit loss provisions. Adjusted consolidated EBITDA margin was 10.2 percent in the quarter. Normalized for the consolidation of franchises, EBITDA margin declined 40 basis points compared to last year.

In the quarter, on a 13-week basis, IFRS net earnings available to common shareholders was $345 million and fully diluted IFRS earnings per share were $0.98. On a comparable basis to last year after excluding $0.10 from the 53rd week, fully diluted IFRS earnings per share were $0.88, an increase of approximately 25.7 percent year-over-year.

Moving to cash flow, the Company generated $606 million of free cash flow and repurchased 5.5 million common shares during the fourth quarter.

Turning to the full year, on a 52-week basis, revenue grew 7.9 percent. We delivered same-store sales of 8.6 percent in food and 4.9 percent in drug. Our adjusted net earnings declined by 1.6 percent and fully diluted earnings per share grew by 1.2 percent. Net capital expenditures came in just under $1.15 billion and free cash flow was $2.25 billion, including $1.47 billion from our retail business, and we repurchased just under $900 million of common shares.

In 2020, Loblaws performance reflected higher costs and changes to consumer behaviour driven by the COVID-19 pandemic. Overall, sales increased but profitability was negatively impacted by company wide sales mix, growth in e-commerce, elevated COVID costs and the decision to keep prices low during the pandemic.

We invested to meet incredible demand in the marketplace for digital services quickly scaling to meet consumers need ending the year with $2.8 billion of e-commerce business. The growth in e-commerce represented a headwind of approximately $100 million, or $0.20 of EPS in the year.

Looking ahead, as we transition from year one to year two of the COVID-19 pandemic, there continues to be a high degree of uncertainty about the duration of the impact of the pandemic on the Canadian economy. As a result, we expect continued volatility in our business as shopping behaviours and demand for products and services continue to evolve. However, we believe our businesses are strong and are well positioned to meet the changing consumer trends.

In 2021, on a full-year comparative basis, we expect our retail business to grow earnings faster than sales and to grow year-over-year profitability at PC Financial. We expect earnings per share growth in the low double digits and to vest approximately $1.2 billion in capital expenditures and to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

In the four weeks following into the quarter, food, retail, same-store sales growth remained elevated and drug retail same-store sales growth slowed in front of store while remaining consistent in pharmacy. For the balance of the first quarter, both food and drug same-store sales will lap consumer stockpiling that began in the first quarter of 2020. COVID related costs are trending in the range of $40 million to $50 million for the quarter.

In conclusion, our performance in 2020 reflected higher costs and changes to consumer behaviour driven by the pandemic. Following the challenges of Q2, we have delivered steady improvements in performance and profitability. We are pleased with our positioning as we enter 2021.

As a matter of housekeeping, starting the first quarter of 2021, we have made changes to our non-GAAP financial measures policy to simplify improved pure consistency of our adjusting entries. Refer to the financials for details and a restatement of our 2020 adjusting entries to align with the new policy.

I will now turn the call over to Sarah.

**Sarah Davis** – President, Loblaw Companies Limited

Thank you, Darren, and good morning, everyone.

Twenty-twenty was complicated with many shifting dynamics but we ended the year having made steady and sequential improvements and entered 2021 with confidence. Our core business is healthy, we are managing COVID costs, operating well under modified conditions and adapting to pandemic related pressures on our mix. Most importantly, we are holding on to conventional drugs and beauty market share gains earned over the last year and improving our trajectory and discount.

The fourth quarter was an illustration of our sequential improvement. Demand for food and drive held our revenue growth high. Our retail GP rate declined but the trend in food improved from the prior quarter, and operating expense rates improved year-over-year.

In food, same-store sales increased 8.6 percent. Market stores were up 10.6 percent, holding strong against conventional competitors. Discount stores increased 7.4 percent closing the gap with conventional players and improving our trajectory. It is important to note that our foods divisional results were more balanced in Q4 than they have been since the beginning of the pandemic. This suggests discount customers are returning to discount stores following a short pandemic hiatus.

In our drug segment, revenue increased 3.7 percent, up 5 percent in Rx and 2.8 percent in front store. We continue to see some unusual sales results tied to pandemic conditions. For example, we've largely skipped the flu season and beauty continues to be affected by lockdowns. These are not long term concerns. Further, Shoppers is seeing strong results in convenience and food and expanding its role as a health and wellness destination. Our pharmacy services business increased by over 30 percent in 2020.

Specific to COVID-19, we are supporting everything from public health education campaigns to regional school reopening to contact tracing. We are proud to contribute and our pharmacies are ready to play a key role in the nationwide vaccination effort. Our 1,300 pharmacies are within 10 minutes of most Canadians, our supply chain can deliver vaccines that they would receive them and we can administer 1 million shots per week.

Loblaw Digital continue to operate at higher than normal levels with Q4 revenue up 160 percent. For the year, we hit $2.8 billion in online sales compared to the $1 billion we celebrated a year ago. Online grocery lead our digital growth more than tripling to $2 billion, which was rounded out by strong pharmacy front store, GM and Joe Fresh e-commerce sales.

The rise of digital retail has been dramatic. No matter where it settles, we are well positioned with a scalable national e-commerce platform. We know this is where retail is headed, but it creates a challenge. Online grocery is a higher cost channel, so we are taking steps to manage margin impact over the medium term while maintaining our leadership position.

Our payments and reward strategy is propelling forward. Our new banking product, the PC money account, enjoyed rapid uptake exceeding expectations, and PC Optimum was just named among Canada's 10 most influential brands on the strength of our member engagement, advanced personalization, and loyalty loop.

Finally, in a year where health and wellness was front of mind, our long term connected health care network strategy really took root. Centered on OMNI Channel health tools, we've been connecting Canadians to resources, like physicians in our health clinics, mental health resources, and our new PC Health app, making care more convenient. The app was launched as a pilot in September and will be rolled out nationally this year as a virtual front door to health products and services.

As we put 2020 in the books, it's clear that our Company and our team did a great job reflecting our purpose, helping Canadians live life well. Early in the pandemic, we made a commitment to keep prices low and drive access for customers. We expanded and advanced strategic services to keep Canadians fed and well. We reacted quickly to public health guidance and invested hundreds of millions in colleague’s safety and support, and we invested in the long-term health of our relationships with our colleagues and our customers. It's telling that both our customer satisfaction and our colleague engagement scores have never been higher. Those metrics have never meant more.

We didn't get everything perfect, but we have all the pieces in place. The consumer value position is very strong across our banners. Our core business has financial momentum, we are improving gross margins, but not at the expense of customers or market share, we pushed our strategic growth ventures forward dramatically and we have never been more confident in our ability to serve our customers today and tomorrow.

I will now turn the call over to Galen.

**Galen Weston** — Executive Chairman, Loblaw Companies Limited

Thank you, Sarah, and good morning.

As we close 2020, there are many areas that deserve reflection. First is the success of our teams across Loblaws network who kept Canadians fed and well throughout the challenging year. I would once again like to express my heartfelt thanks for their efforts. In the last two quarters, we've established positive financial momentum and strengthened our customer relationships by delivering consistent value and service. Combined, these will drive strong core performance in 2021; that is our focus.

We can also reflect on the acceleration of our growth strategy as each of our pillars scaled up in 2020. Our digital retail businesses evolved and grew nearly threefold. Our PC money accounts enrollment in loyalty engagement exceeded expectations and millions of Canadians chose us for physical, mental and primary health services in person and online system. This validates our strategies and the strength of the growing number of ways that we are serving Canadians every day.

Looking forward, our outlook is solid. In the near term, we will provide the essential, vaccinations and support our customers need, whatever COVID may bring. Longer term as we emerge from this pandemic, Loblaw will be well positioned with stronger consumer relationships, conviction in our core business and momentum in growth areas that match the lives of Canadians.

Thank you. I’ll now turn the call over for questions.

**Roy MacDonald** — Vice President, Investor Relations, Loblaw Companies Limited

Thank you, Galen. Cheryl, could I ask you to please introduce the Q&A process?

**Operator**

Your first question is from Karen Short of Barclays. Please go ahead. Your line is open.

**Karen Short** — Analyst, Barclays Capital

Hi, thanks very much. I just wanted to—one clarification and then I had one or two questions. On the earnings base with respect to your low double digit earnings growth guidance, I'm assuming these 408 as the base, meaning for 418 backing up the $0.10 for the extra week.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Yes, that’s right, Karen.

**Karen Short** — Analyst, Barclays Capital

Okay. Then I guess I want to talk a little bit about, so what you're seeing with respect to the discount versus the market stores, as you, Sarah, pointed out, that gap has definitely narrowed in 4Q relative to the other quarters. So, a little colour on what you're seeing on the behaviour friend and the Canadian consumer. Then that last question I had is just what you're seeing from vendors in terms of cost increases and how you look at that in terms of your ability to pass on cost increases. So, cost inflation versus retail inflation going into ’21?

**Sarah Davis** – President, Loblaw Companies Limited

Okay. So, on the first question about discount versus conventional. So certainly, in Q2, when the pandemic started, we saw a flight to conventional, which had a significant impact on our discount business, as well as a significant positive impact on our conventional business. What we've been doing through the year is trying—because our business is predominantly discount, about 60 percent discount versus 40 percent conventional in our food businesses, we have been working to win that market share back, and what we saw in Q4 is just the closing of the gap. So, a little bit more growth in the discount business, over 7 percent versus the over 10 percent that we saw in conventional.

So, what we are seeing is a little bit of change in consumer patterns, maybe not just the one shot. Like through parts of the pandemic, people were guided to only go shopping once per week, one member per family. They chose conventional, where it was a more complete shop that they could do. Now it's opened up a little bit, we're seeing a few more shops doing more than one shop in a week, perhaps shopping in a few different banners as well. So, that's really what we're seeing. So far in Q1, we're seeing a similar trend, but these things are super hard to predict but that’s what we're predicting for the beginning of 2021 as well.

Then on your second question about what do we expect in terms of inflation? We never really give our predictions, it’s so hard to predict but I think what we are expecting is that it's going to be low. We're always in the sort of a 1 percent to 3 percent range of inflation is what we're expecting to see in 2021, that would be our best guess.

**Karen Short** — Analyst, Barclays Capital

Okay. Then just, sorry, last question. How are you thinking that the competitive environment with respect to the fact that most of you will probably see comps turn negative? Are you preparing for much more promotional environment, kind of as the food away from home pie begins to contract and—sorry, food at home pie begins to contract and food away from home hopefully starts to re-accelerate in Canada? Just thoughts on that.

**Sarah Davis** – President, Loblaw Companies Limited

Yes. It’s true. Yes, it's true. So, I would say in Q1, we do start to lapse. We have a few weeks in Q1 where we lapsed the absolute height of the panic buying and then Q2, we would have, obviously, the heightened as well. From our position, we feel very well positioned from a price perspective across all of our banners, across both our conventional business and our discount business. So, we feel like we're actually in a very good position to meet the changes in consumer demand as we go through it.

**Karen Short** — Analyst, Barclays Capital

Great, thank you.

**Operator**

Your next question is from Mark Petrie of CIBC. Please go ahead. Your line is open.

**Mark Petrie** – Analyst, CIBC World Markets

Yes, good morning. Thanks for the disclosure on the online earnings impact. I know you're taking steps to improve profitability, but could you just summarize some of those key steps and how should we think about that dilution evolving in 2021?

**Sarah Davis** – President, Loblaw Companies Limited

Okay, so I think Darren and I might both have something to say on this one. So, I'll start, maybe he can add in Little bit. So Yes, we had some—because had such rapid increase tripling the sales, specifically on our grocery business in 2020, we did see a large financial impact of that. In 2021, we're not expecting to have the same kind of increase. We're not exactly sure where it's going to land, but we don't expect it to triple again this year. So, we're not expecting the same type of financial pressure.

Yes, to your point, we are looking at ways to improve the profitability, but I would say 2021 is going to be very much about improving execution. So very much about improving the customer service associated with digital focus on two key areas, one being substitutions and the other being wait times. In addition, we're going to focus on improving our cost to serve. So, that will involve some forms of automation, and different methods, as well as improving just the in-store process that we have as well. So, different ways to improve profitability there. Then over the longer term, I would say we're looking at ways to margin up, improve adding extra items to the basket in order to improve margins, as well.

I don’t know, Darren, if there’s anything you want to add.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Maybe, Mark, just the way to think about it. I mean, clearly, it's a higher cost to serve model or channel and so we tried to give a little more colour this year, so you can understand that impact. As you think forward, there's the improvements we're making and then it's going to depend on the penetration. If the penetration rates go up, it will be diluted still, and if it stays kind of where it is today, then with the improvements that we're making, it would be relatively neutral year-over-year. From everything we see or how we think people will react, as Sarah just said, I don't think we'll see a lot of growth there, may be some growth, but I actually don't think it will be a major financial headwind going into 2021.

**Mark Petrie** – Analyst, CIBC World Markets

Okay, thanks. Then just to dig a little deeper, I guess, on the food gross margin, could you just help us understand some of the moving parts there that's leading to the pressure that you're talking about? I mean, you know, improved trajectories, you said from Q3 but there's a lot of tailwinds on your food gross margin, be it mix between channels, online, which as I understand it, is generally a higher gross margin. Is it really just sort of price investments that’s sort of offsetting that, or maybe just help us understand that a little bit? Then again, sort of the outlook for 2021?

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Sure, let me start with I mean, I think the themes are consistent with what we've been talking about since the second quarter. What’s been really promising is that we're showing fundamental improvement each quarter, and this quarter, we saw a nice improvement over the third quarter. It's still down, I would say. It's primarily mixed and our focus on keeping our price position in a relatively strong position, which helps us going into 2021.

We think we're in a really good position there, but the mix impact is areas like, which we've talked about on previous calls, apparel, HMR, deli, areas like that, that continue to still impact us, and then you add to that the pricing side of things. But all in all, we're making improvement, we've be doing it in a measured way and pleased with the trajectory that we're on right now.

As we think of next year, certainly, our objective will be to continue to improve our food gross margin going through this year, or this year, I should say, yes.

**Mark Petrie** – Analyst, CIBC World Markets

Okay. And then I guess maybe just to sort of follow up on that with regards to the 2021 guidance, in terms of EPS growth. Obviously, you've got a lot of cost efficiency efforts and those have been substantial, but there are a lot of moving parts on the SG&A. So, what type of SG&A dollar or margin change is sort of embedded in your ETF guide?

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Mark, I'm smiling because I thought that was a nice try. No, listen, we've tried to take a big step forward with given the kind of the earnings expectation with low double digits. I think people should think about that and call it the 10 percent to 15 percent range, like it's a pretty big range.

There's obviously lots of dynamics going on right now. I expect to see some gross margin increases but it's a little hard to predict the SG&A right now with all the moving parts and how long does the pandemic last and what do the costs look like and there's just too many factors there. So, trying to be as helpful as you can be though.

**Mark Petrie** – Analyst, CIBC World Markets

Okay. Appreciate all the comments and all the best.

**Operator**

Your next question is from Irene Nattel of RBC Capital Markets. Please go ahead. Your line is open.

**Irene Nattel** – Analyst, RBC Capital Markets

Thanks, and good morning. A couple of follow ups on some of the discussion that we've had already. So, just the $100 million in e-commerce headwind in 2020, presumably that included waiving the period during which you waive the fees, which you're not going to do again this year. Correct?

**Sarah Davis** – President, Loblaw Companies Limited

That’s right.

**Irene Nattel** – Analyst, RBC Capital Markets

Okay. It also would have included sort of the cost to scale up quickly. So, some of those are a one-time costs. So, wondering where the incremental is coming from for 2021, if you will.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Sorry, I'm not sure where, maybe I'm misquoted before or misspoke but I don't think I've said we'd expect incremental in 2021, all else being equal.

**Irene Nattel** – Analyst, RBC Capital Markets

Right, no, but I mean, if you had some one-time cost last year that aren't going to recur this year. Just trying to kind of I guess, square that circle or whatever it is around where you're going to be. Like is it spending around the initiatives that is going to keep it at that $100 million level?

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Well, the big chunk of that is it's just the higher cost to serve. Those are great points that you raised that are within the number, but the lion's share of it is all the labour costs, the depreciation, all the costs that go into fulfilling an online order. So, for the majority of it all falls in that category. So, those continue and our job is to keep trying to reduce that dilution over time. As Sarah outlined, there's a number of areas we're looking at over the long term to do that.

**Irene Nattel** – Analyst, RBC Capital Markets

I'm sorry, sorry to keep harping on this one segment. I'm just trying to understand some of the some of what your assumptions are. So, you're assuming that e-commerce is going to be sustained at around current levels over the course of 2021?

**Sarah Davis** – President, Loblaw Companies Limited

We're not expecting a huge increase. We don't know exactly how it is going to land but I think it's fair to say we're not expecting the same increase we saw in 2020. So, everything else being equal, your point about the $100 million would be that it would be it could be a little less because we don't have some of the one-time costs. But at the same time, the majority of that cost is the cost of the labour to pick in the stores and that would come with the same penetration levels in 2021.

**Irene Nattel** – Analyst, RBC Capital Markets

Okay, that's great. Thank you. Then just following up on the discussion around gross margin, trying to sort of interpret what you're saying. So, what I heard was, you're investing in gross margin by keeping prices within a certain range in order to provide the best value for consumers. Wondering whether you think that's paying off in terms of your market share and market positioning? In other words, are consumers recognizing the degree to which you're investing in gross margin and is that driving better performance?

**Sarah Davis** – President, Loblaw Companies Limited

Yes, I think maybe I'll start and Darren can add. So, I would say what happened for us is that because of our mix of businesses between discount and conventional, we did lose share in our discount business as we were in the height of the pandemic. So, we did invest to win some of that back. We hate losing market share and so we did invest some of that share back. We're seeing an improved trajectory in that area, and as we highlighted already, in Q4, we're starting to see the gap narrow between the two.

In terms of our conventional business, we did do some—I think we have highlighted that we did a few investments in price there as well, just making sure that we had a very good competitive price position in our conventional business. We've seen market share gains in every quarter and every period in our conventional business against the market as well as against other conventional players. So, we feel like it was absolutely worth it in that business. In discount, it was just a disadvantage, as a result of the structure of our business that caused us to invest. But in both cases, we actually feel entering 2021, we're in a very good position in terms of our price position.

**Irene Nattel** – Analyst, RBC Capital Markets

Thank you, very helpful. Then just one finally, if I may, on the whole question of the vaccine. I'm thrilled and delighted to hear that you can deliver vaccines at that level. Has the government given an indication that it will turn to you to be delivering those vaccines? If so, any idea of what the timeline is?

**Sarah Davis** – President, Loblaw Companies Limited

Well, that is a fantastic question. We would say that we have been given some ability. So definitely in Alberta, we start next week offering the vaccine in some stores. In Ontario, we have been told that we will be part of the vaccine process, but we don't know the exact timing. Manitoba, Saskatchewan, similar case.

So, I think each province is going to do it its own way. We've been in conversations with every government, every part of the government saying that we'd be happy to help. We feel like we're well positioned to do it. We've been doing flu vaccines for years but we have not been given the rollout strategy across all the provinces or the timing yet.

**Irene Nattel** – Analyst, RBC Capital Markets

Thank you.

**Operator**

Your next question is from Kendrick Jardim of ATB Capital Markets. Please go ahead. Your line is open.

**Kendrick Jardim** – Analyst, ATB Capital Markets

Thank you, and good morning. Sarah, you called out your e-commerce growth in 2020 at 178 percent increase. I think you also called out a total of $2.8 billion of which food was roughly $2 billion in year. Could you speak to in 2020, how much more concentrated in food growth was versus 2019, or perhaps even in clearer terms, what your share of food was of e-commerce in 2019? Then also just how it evolved through the year exit at 2020? Then, finally, if possible, just any colour on the year-to-date attribution and trajectory of your e-commerce sales.

**Sarah Davis** – President, Loblaw Companies Limited

Okay. Let me see if I got all that, you might have to repeat parts of it. Okay, so in terms of the data that you have, so on food, specifically, we tripled to $2 billion in 2020 from 2019. I think we mentioned that we had about 160 percent growth in Q4, that's the total number but the food would be slightly higher than that, but it’s in and around that. So, the highest growth, I think we saw into Q2 at the height of the pandemic. What other parts were there? Sorry to ask you to repeat.

**Kendrick Jardim** – Analyst, ATB Capital Markets

Shares.

**Sarah Davis** – President, Loblaw Companies Limited

Oh, shares. Share is a tricky one for us. So, there's no external source to get a very accurate share percentage on grocery retail, but we feel we have a leading position in share based on putting a few numbers together in terms of it, but we don't have a definite number but we feel we have a leading share. We're pleased with where we are nationally and seeing the growth right across the whole country.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Sorry, the trajectory question you asked. As Sarah said, trajectory was still strong in the fourth quarter. I suspect first quarter as well because the pandemic buying or the real lockdown started towards the end of the quarter. So, we're still going to have a period of time where we're seeing that growth and then we're going to start lapping much higher in e-commerce sales from 2020.

**Kendrick Jardim** – Analyst, ATB Capital Markets

Great, thank you both for that. Then just a quick follow up on COVID and COVID related costs. You've got it to $40 million to $50 million in quarter on a $42 million in the fourth quarter. I just want to make sure we're correctly thinking about the evolution of those costs to a year. I mean, is this your mind within that range something of a run rate, given your sales base you're building off all things being equal with respect to vaccine availability or immunization across Canada? Should we think of this range as sort of as good as it gets with respect to COVID costs? Or, is there other ways that you expect that will tail off fairly markedly through the course of the year?

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

No, it should come down. I mean, I would tie it to what state of lockdown the country is in, and as the economy has opened up, as people can move around and more people have the vaccine, we won't need the same level of COVID cost. So, think about security at stores checking how many people are coming in and out. Hopefully, we're in a world where those restrictions are easing as the year goes on. So certainly, our COVID costs should ease with that. I wouldn't begin to try to predict how and when that happens, though, but it should come down.

**Sarah Davis** – President, Loblaw Companies Limited

The cost of PPE, I think will come down. The cost of sanitation. Some of those may stay but I would say that I think we do expect the cost to come down as Darren mentioned.

**Kendrick Jardim** – Analyst, ATB Capital Markets

Great, thank you. Then just a quick follow up just on beauty and the promotional activity in that channel. Could you speak to, obviously, some real headwinds from the pandemic, but could you speak to just how effective your promotional activity was and what sort of buffer it provided within beauty? Then perhaps sources how you share on the back of that activity trended through the end of the year and year-to-date?

**Sarah Davis** – President, Loblaw Companies Limited

Yes, so beauty was definitely impacted by the lockdown in 2020 but we're pleased with our performance because we won share in every quarter in beauty—I mean, partially because of some of our competitors would have been closed during that period but we're pleased with our performance there. We think our promotional activity is at the right level for what we need in order to bring beauty customers into our stores. We also saw quite a nice uptick online in beauty as well. So, we speak a lot about the food business online, but we had some nice growth across various parts of our business, including beauty.

**Kendrick Jardim** – Analyst, ATB Capital Markets

That's great. Thanks very much. I'll leave it there.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Thanks, Kendrick.

**Operator**

Your next question is from Michael Van Aelst of TD Securities. Please go ahead. Your line is open.

**Michael Van Aelst** – Analyst, TD Securities

Thank you. So, you've covered a lot of it but I just want some clarifications to help me understand certain things.

So, on your price investments in discount versus conventional, it sounds like they're a little more aggressive in discount. I'm wondering if you think that your price is, one, decrease more than your competitors, if you are trying to gain back share? Then two, do you think that gap between conventional and discounts expanded during 2020 just because the traffic was so strong in conventional stores?

**Sarah Davis** – President, Loblaw Companies Limited

Okay, so yes, we were more aggressive in our price investments in our discount division. We do think that the gap increased between the conventional players and the discount players during 2020 as a result of the demand going to conventional. Then there was another one in the middle, what was your other piece in the middle?

**Michael Van Aelst** – Analyst, TD Securities

Do you think you lowered your prices in discount more than competitors if you were trying to gain share?

**Sarah Davis** – President, Loblaw Companies Limited

Yes, we would have. We did. We believe we did to gain back that share.

**Michael Van Aelst** – Analyst, TD Securities

Okay. So, you think you're comfortable with where your pricing is for the year, and I guess assuming traffic were to go back to normal levels or normal patterns between conventional and discount, would you expect to see pricing go up in discount or down in conventional to close that gap, at least in your network?

**Sarah Davis** – President, Loblaw Companies Limited

Oh, that’s a tricky one. I mean, pricing is so dynamic. I think that what we can say is we feel very comfortable with where we're entering 2021 from a price position. So, we don't feel that we have to at this point in time, but it all depends on how our competitors behave as well. So, I think I would say comfortable with our position coming into 2021, difficult to know. I wouldn't necessarily expect increases or decreases across the board.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Mike, we've been very conscious and focused on that conventional gap within our Company to discount. So, we think we're in a good position there.

**Michael Van Aelst** – Analyst, TD Securities

Okay. On the flu vaccines, thanks for that colour. We've seen in some markets, like I think BC and Quebec, there doesn't seem to be any real announcements about getting pharmacists involved, at least within the pharmacies themselves. It sounds like they're asking pharmacists to coach at the mass vaccination sites to help out. Am I correct in what I'm understanding?

**Sarah Davis** – President, Loblaw Companies Limited

Yes, that’s correct in both BC and Quebec, that would be the way that it looks, and it's in the other provinces, where we think we will have a bigger role in the pharmacy. But, we also think that this vaccine will be around for a long time. So, it may at some point, even in Quebec and BC come to pharmacy over the long term as well.

**Michael Van Aelst** – Analyst, TD Securities

Does Loblaws and Shoppers as a company see some benefits from pharmacists doing injections offsite, or is that strictly a pharmacist benefit?

**Sarah Davis** – President, Loblaw Companies Limited

I don’t know, there’s no talk about exactly how the financial model would work. So, it's difficult to say, but I see it as being an advantage to the pharmacist.

**Michael Van Aelst** – Analyst, TD Securities

Okay. Then was there any flu vaccine period? I mean, I think I read 2.1 million vaccinations by Shoppers in the fourth quarter somewhere. Is that the right number? Is that down from prior years?

**Sarah Davis** – President, Loblaw Companies Limited

No, we had a very big flu vaccine season this year and so it would definitely be up. I think we'll have to get you the exact number but I think 2.1 sounds about right, but we’ll ask Roy to follow up and get you the exact number on flu vaccines, but it was up, it was a good flu vaccine season for us.

**Michael Van Aelst** – Analyst, TD Securities

All right. Thanks very much. Oh actually, one last question. I don't know if I heard you right, but I think you said your pharmacy services same-store sales are actually higher than what you're showing in terms of pharmacy same-store sales. Is that accurate?

**Sarah Davis** – President, Loblaw Companies Limited

That's right. Our pharmacy services is a much smaller base, but it was up like 30 percent and starting to become quite meaningful. So, pharmacy services would be anything from med checks to vaccines to COVID tests. Those would be the types of things that were included in tha0t and that was up and that would explain why it's higher, our same-store sales are higher than what we're seeing in terms of the scripts.

**Michael Van Aelst** – Analyst, TD Securities

Okay. All right, thank you.

**Operator**

Your next question is from Peter Sklar of BMO Capital Markets. Please go ahead. Your line is open.

**Peter Sklar** – Analyst, BMO Capital Markets

Thanks. Sorry to ask another question on this price investment and discount, but looking back kind of holistically, what do you think happened or what unfolded that kind of got you off track in terms of your market share and positioning in discount among the competitive subset? As you know, there's a lot more than price. Sarah, as you look back in retrospection, can you just kind of summarize what do you think happened there that went against you that required you to invest in price to get back where you needed to be?

**Sarah Davis** – President, Loblaw Companies Limited

Yes, I would absolutely say that the loss of sales in discount had nothing to do with price. It was absolutely related to structural challenges related to the pandemic, and it really was as simple as people going and doing one stop shop, and so going to a conventional store where the assortment is bigger and not shopping around. So, many of our customers, No Frills, Shoppers, it would be a fill in. So, they would shop at conventional and at a No Frills and some of that went away, I would say, it was the capacity. So, everything that makes our No Frills banner successful in non-pandemic time, which would be high volume, small assortment, quick transactions, small footprint was not advantageous during the pandemic. It was hard to get the volumes through.

So, we would have seen a reduction in the number of transactions in a store, if an average small store such as No Frills had 4,000 transactions in a day. During the height of the pandemic, it had to be cut to 1,200, 1,500 and just (inaudible) able to have the right number of people in the store in order to meet with the counts. So, that's structurally what happened to us in some of our discount businesses, and then we fought to get it back. That's really how it went.

**Peter Sklar** – Analyst, BMO Capital Markets

But those trends that would have impacted your competitive discount banners as well, and I think you said earlier and during the course of the discussion that you were losing share and discounts. So, why were these trends more impacting your discount banners versus your competitors?

**Sarah Davis** – President, Loblaw Companies Limited

That's a good question. So, I would say that from an enterprise, our business is just more discount than conventional and that's different for our competitors who are highly are more conventional than they are discount. So, I would say that so as a structural of our businesses just being more discount, we were impacted more and so we felt it more. So, where others would have seen the benefit of the conventional increases in share, we were more swayed by that decreases on the discount side.

In terms of discount to discount, there was some pieces where we did lose, it depended on the time period. Some parts we did lose and others we won back. So, the dynamics went back and forth through the year. But overall, I would say that it was related to just the way that our business is structured between discount and conventional.

**Peter Sklar** – Analyst, BMO Capital Markets

Okay, thanks. I wanted to ask about the 2021 outlook, which is quite strong looking for 10 percent to 15 percent EPS growth, and I'm just wanting to talk a little bit about some of your underlying thinking and why you're confident you can have that kind of growth rate. Like I see some of the positives, you're on your share buybacks, you have less share count, you've talked at length today about you hope for gross margin improvement and as well as COVID costs.

On the other hand, you're up against some very difficult comps and hopefully, as we're vaccinated people will be going back to restaurants, so consumer behaviour may be working against you. So, I'm just wondering if you could talk a little bit more about the puts and takes and like 10 percent to 15 percent is quite an aggressive growth rate and why you're confident about that.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Yes, Peter, I think you kind of highlighted the areas. I mean, we're confident because we've got momentum, because we see the ability to improve our margins, part of it's on the back of this year. We've had margin pressures this year. We think as Sarah just went through some of that being structural. So, as we get the full shop back in certain areas and we get the mix back, we think the margin is going to continue to increase. We do expect to have the COVID cost to be significantly lower.

The hard part to predict is how does the pandemic unfold and how to shopping behaviour unfold. Another area, again, as an example of strength, you'd expect beauty to come back, OTC (phon) to come back, you'll see margin enhancement there. So, now we've looked at a number of ways, we feel confident on the guidance, but clearly, it's all prefaced with it's going to depend how the pandemic unfolds this year, but it's the best knowledge that we have at this time.

**Sarah Davis** – President, Loblaw Companies Limited

I think the other thing that I would add is that some of the investments we've made are not as high in 2021 as well. So, when you think of digital that was talked about, the pressure that we saw in 2020, we're not expecting to have the same pressure in 2021. So, I think in that case, it's a few of those as well.

**Peter Sklar** – Analyst, BMO Capital Markets

Okay. Then just one other last question. On the PC Financial, I noticed you reduced your allowance by $10 million, I believe that’s quarter-over-quarter. Was that because your credit card balances are lower? You anticipate better credit performance? What are your expectations for 2021? Do you think you'd be able to take that allowance down even further?

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Yes, Peter. It is a function of payments. I mean, what we've seen is really high payment rates. People are still spending on the card, but spending is down, but what's been a bit of a surprise is how high the payment rate is relative to history.

So, as a result of that, there's more confidence against the critical loss provision that we previously took. We're going to have to continue to watch that closely, and if the consumer continues to be in good shape, I would expect there will be some releases in that going into next year or into this year, but time will tell. But, it's really a function of the forward-looking and just a little bit brighter outlook. I think you've seen other banks with similar actions within their results.

**Peter Sklar** – Analyst, BMO Capital Markets

Right. Okay, thank you. That’s all I have.

**Operator**

Your next question is from Patricia Baker of Scotiabank. Please go ahead. Your line is open.

**Patricia Baker** - Analyst, Scotiabank

Thank you very much, and good morning, everyone. I want to start by echoing Mark Petrie’s sentiment about thanking you for giving us the incremental disclosure because it was very helpful. One of the things that you did include was the impact of the efficiency and productivity programs. I think you noted that you've achieved $1 billion in cost savings over the last three years and that you expect to see over $200 million further improvement in 2021.

I'm just curious, when we look at those three years, was that achievement skewed towards the latter year? In other words, was there a meaningful impact on the (inaudible)? Because typically, when you start with those programs, it takes time to ramp up. Then related to that, can you talk a little bit about what are the things that we're going to see or where we're going to see the improvements in 2021?

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Maybe I'll start with first part of that. Yes, I would say it's pretty even, Patricia, over the years. I mean, it's been a nice run rate, it skewed from year-to-year a bit, but 2020 wasn't materially higher than the other years.

**Sarah Davis** – President, Loblaw Companies Limited

Then in terms of where we're focusing, so we're focused on continuing the rollout of things that are working, such as electronic shelf labels in our stores has been a nice P&E initiative for us. Self-checkouts, which we've talked a lot about, but I think COVID helped with the penetration levels of self-checkouts in 2020. So, we'll continue with those but we've got some new ones too.

So, we're adding some automation. So, we have a new automated RX distribution center in Milton that was opened in February of 2020, now at 75 percent capacity. So, we're expecting savings from that. We've got a new automated, partially automated DC in Cornwall. We already have a DC in Cornwall, so it's an increase to that, to the size of that and expansion with some automation in that, too. It'll open later in 2021. So not a huge impact in 2021 but we'll start to see some savings there in 2022. We'll be closing our Laval and Ottawa, DCs, which we previously announced as a result of that.

We've got some neat technology in terms of theft in our stores such as gatekeeper. So basically, in that case, if a cart doesn't go through one of our checkouts, the wheels get locked at the door, so that's been rolled out. So, lots of apprehension of thieves in that area, and also a deterrent if people know that our stores have that. So, lots of technology driven. Certainly, in the beginning, I would have said that it was more through cost saving initiatives and now we've had the time to implement more technology and that's what we're starting to see come through in 2021 and then 2022. So, a lot of work still to go, it never ends in terms of finding savings.

**Patricia Baker** - Analyst, Scotiabank

Okay, that's an excellent overview. I really appreciate it, Sarah. I want to come back to the nice closure of the gap between discounting and conventional and just ask about traffic, and with that 7.4 percent same-store sales increase. I'm just curious whether or not you saw the sequential improvement in traffic from Q3 to Q4 and discount, and whether or not the traffic trend in discount was better than the traffic trend in conventional in Q4? Just trying to better understand what's going on there and the fact that you're probably getting discount shoppers back.

**Sarah Davis** – President, Loblaw Companies Limited

Yes, so we did see an increase and sequentially from Q3 into Q4 in discount in terms of traffic. I don't know the specifics between or maybe we don't want to disclose the specifics between the traffic of the two divisions that we have, in terms of which ones having more traffic, but we did see the increase in traffic from Q3 to Q4 in discount.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

It was a nice healthy growth in units in discount quarter-over-quarter as well.

**Patricia Baker** - Analyst, Scotiabank

Okay, thank you for that. Just a final small question on Pharma Prix and what you're seeing in the stores. The non-essential parts of the stores were shut down for a period here in Quebec and reopened I think in the beginning of February. So, did you see an automatic sort of pickup in return to those items once they reopened?

**Sarah Davis** – President, Loblaw Companies Limited

Yes. So, we would have had that in our food stores in Quebec as well, where we weren't allowed to sell merchandise as well, and we had that in Manitoba for a little bit as well. The different rules in different parts of the country that added different dynamics. So absolutely, we would see an increase as soon as those services were allowed to. So, you would see an uptick in those parts of the businesses as soon as it was opened again. Then I would say it would take a little bit of a ramp up the first time it's open, allowed to shop there and then it's sort of flattens out.

**Patricia Baker** - Analyst, Scotiabank

Yes, stabilizes.

**Sarah Davis** – President, Loblaw Companies Limited

Yes.

**Patricia Baker** - Analyst, Scotiabank

Okay, thank you very much.

**Operator**

Your next question is from Vishal Shreedhar of National Bank. Please go ahead. Your line is open.

**Vishal Shreedhar** – Analyst, National Bank Financial

Hi, thanks for taking my questions. Most of my questions have been asked, but I'm just wondering within the Shoppers business, is the pharmacy services segment, is that higher or lower margin than the traditional, I guess, a blended RX margin?

**Sarah Davis** – President, Loblaw Companies Limited

It would be higher because it's all based on the service, it's all based on the labour of the pharmacist that's in the store. So, it would be doing a med check, but really doesn't have any cost that comes with it, other than the cost of the pharmacist, or a flu shot, or a COVID test. So, obviously, in the case of a COVID test, you have the cost of the test, but it would still be for the med checks, which is the bulk of it, it would be higher margin.

**Vishal Shreedhar** – Analyst, National Bank Financial

Okay, thank you for that. With respect to price investment, I know, Sarah, Loblaws been talking a lot about promotional effectiveness over the last several years and using loyalty data to better understand consumer needs. I was wondering the price investments implemented in discount, were those done on base prices or were they done through the loyalty program with the offers predominantly? Is there a way it’s skewed?

**Sarah Davis** – President, Loblaw Companies Limited

That’s a good question. I would say that we would use all, we would have done it in the flyer. We would have done it in store and it would have been through loyalty as well and on shelf pricing. It would have been in all areas as well in that.

**Vishal Shreedhar** – Analyst, National Bank Financial

Okay. And over time we anticipate more of this commercial activity will move towards the loyalty type offering as you personalize it for each customer?

**Sarah Davis** – President, Loblaw Companies Limited

We have moved but I would say that we have been moving away from mass offers to personal offers. So yes, I would expect it to continue.

**Vishal Shreedhar** – Analyst, National Bank Financial

Okay. At Shoppers, obviously, in the key beauty segment, traffic may be not where one might have liked to have 2020. Should we anticipate higher promotional activity if that segment is reinvigorated? Or, are you comfortable where you are standing?

**Sarah Davis** – President, Loblaw Companies Limited

I think we have to wait for demand to come back. So, I think as things open up, the demand will be there and then as vendors come out with new offers, because the other thing that happened in beauty is that many of our large vendors didn't come out with programs because there just wasn't a market for it. So, we are expecting new launches as the pandemic sort of dissipates. So, we think that will be added excitement to beauty as well. So, we're not necessarily expecting that we'll need to do a lot of promotional activity to get Shoppers back but it's hard to know. We're expecting beauty launches and just as an increase in demand as people start to go out again.

**Vishal Shreedhar** – Analyst, National Bank Financial

Okay. Maybe a last one here, in the materials and I may have misread this, but in the materials, I understood it to say that processing efficiency initiatives are expected to offset inflationary headwinds. It also says that in 2021, process and efficiency initiatives will help reduce costs in addition to lower COVID-19 costs on a year-over-year basis.

So, wondering if 2021 will the processing efficiency initiatives is one of the reasons why you'll be able to—actually, it's an additive reason why you'll be able to deliver the earnings growth, and then in future years, it will offset inflationary headwinds, like more of a one-time kind of thing in 2021.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

No, I mean the way to think about 2021, process efficiency is going to be an ongoing journey with data and we're targeting to offset, call it $200 million of normal inflation every year, 2021 being no different. The guidance—that's reflective of our ability to keep operating the Company with inflation and to deliver our financial framework, and that's reflected in the guidance for 2021.

**Vishal Shreedhar** – Analyst, National Bank Financial

Thanks for the colour.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Okay. Thank you.

**Operator**

Your next question is from Chris Li of Desjardins. Please go ahead. Your line is open.

**Chris Li** – Analyst, Desjardins Securities Research

Hi, good morning, everyone. Thanks for squeezing me in. Sarah, I was wondering if you can give us an update on your e-commerce grocery fulfillment initiatives. I think your last update was you have one automated MFC and four manual doc stores in the GTA. Just wondering, what are your plans for this year?

**Sarah Davis** – President, Loblaw Companies Limited

Yes, that's a great question. So yes, I would say in terms of what our plans in digital for 2021, they're very much focused on execution. So, we really are looking at improving our customer service at the higher demand that we've got. Then we're not expecting a huge increase in the penetration, but that may come, it's hard to know for sure. So very focused on sort of two areas of customer execution, which is very much about substitutions and then wait times.

But then also focused on cost to serve, as I mentioned. We do believe that our future will involve automation, in terms of picking in them, and so we do have three, four manual picks right now and only one that's automated. We are working with our tech partner to make sure that we have the best method going forward. So, it will involve technology going forward, but you shouldn't expect a large expansion of automated MFCs in 2021.

**Chris Li** – Analyst, Desjardins Securities Research

Great. Okay, that's helpful. Then just another one on online. For the $2 billion of digital grocery revenues, can you share with us just roughly the split between click and collect and home delivery?

**Sarah Davis** – President, Loblaw Companies Limited

The majority of it is click and collect for us, so more than 50 percent.

**Chris Li** – Analyst, Desjardins Securities Research

Are there plans to perhaps accelerate your home delivery service beyond relying on third party providers? Or, are you currently satisfied with your arrangement with them?

**Sarah Davis** – President, Loblaw Companies Limited

Well, we've been piloting a few things in a few areas. Right now we're quite pleased with our partnership that we have but we're looking at different opportunities as well. Some of it, we're doing it ourselves and some in some parts of the country.

**Chris Li** – Analyst, Desjardins Securities Research

Great. My last question is Loblaw, you guys are in a unique position of having built platforms for alternative revenue streams like in media and healthcare, etc. I guess my first question is, can you give us an update on where you're at at Loblaw media? Then secondly, just collectively speaking, when do you expect these alternative revenues to start having a more meaningful contribution to profitability?

**Sarah Davis** – President, Loblaw Companies Limited

Yes, that’s a very good question. So, I would say in terms of Loblaw Media, 2020 wasn't a great year for media in terms of business in general, for advertising, but for us, it was about EBIT neutral, slightly positive in terms of—so not a drag on us. We’re not building, we've now got the platform in place, we're now ready to leverage that platform. So, we do expect 2021 to have positive earnings, positive revenue in Loblaw Media.

But, I wouldn't say it big enough yet, for us to be talking about it a lot, but that is definitely a platform that has been built and is ready to be executed and we plan to do that in 2021. We have some nice partnerships with some of our vendors in order to be able to do that.

In terms of some of our other platforms, so when you think about PCMA or our money accounts, our PC money account, it's a nice platform designed mostly to offset some of the funding of our credit card. So, I think that was sort of the key piece behind it. But what it also brings is a nice loyalty loop to our business. So, when you think about our credit card portfolio and then having a debit like product as well, and what we're seeing, so it’s still very early. We're happy with the number of accounts that we have so far, five months in, but what we're really pleased with is the amount of out of our store spend. So, in the 80 percent range is out of our stores, which is similar to our credit card, and then, of course, earning points to be spent in our stores. So, we like what that brings, that stickiness that it brings and bringing more customers into that with a new payment product as well.

In terms of PC Health, it was a good year for 2020 and moving a bunch of things forward in that one and lots going on in that one. But when you think of 2021, the key areas that you should ask us about that we're focused on are definitely on pharmacy services. So, I mentioned that having a big increase in 2020, we expect to have another big increase in 2021.

Then the second piece would be on, we launched PC Health, another platform that we launched in pilot in September, and we plan to roll out throughout 2021 nationally. I think the things to look for there is to, once again, focus on downloads, the usage of the app, as well as engagement. So, it's another way to think of it as customers coming to us first for their health needs through the app and then being directed to be provided with different health services, whether it's in our pharmacy business or being brought into telemedicine and being partnered up with doctors, as well.

So, I would say we're very much engaged, focused on having lots of traction in those two platforms, PCMA as well as PC Health, and we talked about digital as well, and then media would be the other one. Good year to see some growth on that one as well.

**Chris Li** – Analyst, Desjardins Securities Research

Great. That’s all very helpful and good luck.

**Sarah Davis** – President, Loblaw Companies Limited

Thanks.

**Operator**

Your next question is from Mark Petrie of CIBC. Please go ahead. Your line is open.

**Mark Petrie** – Analyst, CIBC World Markets

Yes, I actually just wanted to follow up and had questions exactly on what Chris just asked about. But I guess, specifically with regards to the comment that you expect to invest about $20 million in incremental Opex with regards to the connected health initiatives, can you just sort of put that in context of what was in there for 2020? Then I don't know if you can expand at all, in terms of what the revenue model looks like, but that might be helpful as we think about how this might play out over the next couple of years.

**Darren Myers** – Chief Financial Officer, Loblaw Companies Limited

Sure, Mark. We're not disclosing this year, but it would be in a similar range in 2020. The reason we frankly put this in there is based on feedback from the analysts investor community worried that we're spending too much or how much are we spending. So, it was just to frame it. It's not an overly material amount we're spending. It's still early days, it's still in long term opportunity, but having said that, there's a lot of confidence by what we're seeing so far and the flywheel that we can create an ecosystem that we can create in here represents a massive opportunity.

So, we were trying to do it just to frame it for you. There is not perfect clarity yet on the revenue model and the economic model. We have a number of different ideas that we're pursuing and thinking about, but generally, it's around getting the engagement up and getting the usage up and getting more people into the ecosystem. So, we feel pretty optimistic and just wanted to frame it for you so you can understand through your financial models.

**Mark Petrie** – Analyst, CIBC World Markets

Okay. Understood, helpful. Thank you.

**Operator**

There are no further questions at this time. I will now turn the call back over to Roy MacDonald for closing remarks.

**Roy MacDonald** — Vice President, Investor Relations, Loblaw Companies Limited

Great. Thanks, everybody for your questions and for your extra time this morning. We appreciate it. If you have any follow-up questions just give me a call or drop me an email and you can put a circle on your calendars for May 5 when we'll be back to talk about our Q1 results.

Thanks a lot, and have a great day, everybody.

**Operator**

This concludes today's conference call. Thank you for your participation. You may now disconnect.