

Loblaw Companies Limited

NEWS RELEASE

Loblaw Reports 2020 Third Quarter Results⁽¹⁾

BRAMPTON, ONTARIO November 12, 2020 Loblaw Companies Limited (TSX: L) (“Loblaw” or the “Company”) announced today its unaudited financial results for the third quarter ended October 3, 2020. The Company’s 2020 Third Quarter Report to Shareholders will be available in the Investors section of the Company’s website at loblaw.ca and will be filed on SEDAR and available at sedar.com.

“Loblaw delivered strong operating performance in the quarter, while investing in providing exceptional value, safety and convenience,” said Galen Weston, Executive Chairman, Loblaw Companies Limited. “We continued to build for the future, expanding our digital network and leveraging our *PC Optimum*[™] loyalty program to create even more value for Canadian families.”

The COVID-19 pandemic continued to impact the Company’s operations in the quarter, positively impacting sales in the Food Retail business, supported by significant investments to ensure the safety and security of customers and colleagues. Loblaw continued to make investments to enhance the overall value proposition for consumers, maintaining its promotional intensity through the pandemic to retain its share gains in conventional banners and further improve its positioning in discount banners.

Food Retail same-store sales continued at elevated levels, growing by 6.9% in the quarter, with the Company’s Market division delivering strong growth of 9.7% and the Discount division delivering 4.7% growth. Drug Retail same-store sales also experienced growth in the quarter, growing by 6.1%, with pharmacy delivering strong growth of 10.3% and front store sales growing by 2.4%. The Company invested approximately \$85 million in COVID-19 related costs in the quarter primarily to ensure the safety and security of customers and colleagues.

The COVID-19 pandemic has accelerated certain longer-term trends, enabling the Company to advance its strategic growth areas of Everyday Digital, Connected Healthcare, and Payments and Rewards. The Company’s investments in its Everyday Digital platforms enable it to offer Canadians a choice of shopping in-store or online with either home delivery or convenient pickup locations. The Company’s e-commerce sales grew by 175% in the third quarter, across the Company’s grocery, pharmacy, and apparel e-commerce platforms. The platform was expanded in the quarter to include front-store items from Shoppers Drug Mart and Pharmaprix pharmacies.

In September, the Company made two important announcements in its strategic growth areas of Payments and Rewards and Connected Health. The Company launched the *PC Money*[™] Account, a simple no-fee way to do everyday banking, turning the act of paying bills and shopping into a way to receive *PC Optimum* rewards. As it continues to build out its Connected Health strategy, the Company also announced an investment in Maple Corporation and the launch of a *PC Health* app. Together, these two initiatives form part of the Company’s next generation digital health platform that will provide Canadians with a new, personalized healthcare experience by leveraging the power of Loblaw’s existing national healthcare network, extensive professional care services and world-class loyalty program to deliver a personalized healthcare solution for Canadians.

2020 THIRD QUARTER HIGHLIGHTS

Unless otherwise indicated, the following highlights include the impacts of the consolidation of franchises and COVID-19.

- Revenue was \$15,671 million. When compared to the third quarter of 2019, this represented an increase of \$1,016 million, or 6.9%.
- Retail segment sales were \$15,464 million. When compared to the third quarter of 2019, this represented an increase of \$1,044 million, or 7.2%.
 - Food retail (Loblaw) same-stores sales growth was 6.9%.
 - Drug retail (Shoppers Drug Mart) same-store sales growth was 6.1%, with pharmacy same-store sales growth of 10.3% and front store same-store sales growth of 2.4%.
- The Company's e-commerce initiative continued to contribute to Everyday Digital sales which have grown 175% on a quarter-to-date basis.
- The Company incurred approximately \$85 million in COVID-19 related costs to ensure the safety and security of customers and colleagues.
- Operating income was \$718 million. When compared to the third quarter of 2019, this represented an increase of \$28 million, or 4.1%.
- Adjusted EBITDA⁽²⁾ was \$1,524 million. When compared to the third quarter of 2019, this represented an increase of \$32 million, or 2.1%.
- Adjusted EBITDA⁽¹⁾ margin⁽²⁾ was 9.7%. When compared to the third quarter of 2019, this represented a decrease of 50 bps.
- Net earnings available to common shareholders of the Company were \$342 million. When compared to the third quarter of 2019, this represented an increase of \$11 million, or 3.3%. Diluted net earnings per common share were \$0.96. When compared to the third quarter of 2019, this represented an increase of \$0.06, or 6.7%.
- Adjusted net earnings available to common shareholders of the Company⁽²⁾ were \$464 million. When compared to the third quarter of 2019, this represented an increase of \$6 million, or 1.3%.
- Adjusted diluted net earnings per common share⁽²⁾ were \$1.30. When compared to the third quarter of 2019, this represented an increase of \$0.05, or 4.0%.
- In the third quarter of 2020, the Company repurchased 5.0 million common shares at a cost of \$350 million.
- In October 2020, the Company extended the maturity on its existing \$1 billion revolving credit facility to October 2023.
- The Company invested \$396 million in capital expenditures and generated \$121 million of free cash flow⁽²⁾.
- The Company recorded approximately \$12 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives.
- Quarterly common share dividend to be increased by 6.3% from \$0.315 per common share to \$0.335 per common share.

See "News Release Endnotes" at the end of this News Release.

CONSOLIDATED RESULTS OF OPERATIONS

Unless otherwise indicated, all financial information includes the impacts of the consolidation of franchises and COVID-19.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars except where otherwise indicated)	2020		2019		2020		2019	
	(16 weeks)	(16 weeks)	\$ Change	% Change	(40 weeks)	(40 weeks)	\$ Change	% Change
Revenue	\$ 15,671	\$ 14,655	\$ 1,016	6.9 %	\$ 39,428	\$ 36,447	\$ 2,981	8.2 %
Operating income	718	690	28	4.1 %	1,663	1,729	(66)	(3.8)%
Adjusted EBITDA ⁽²⁾	1,524	1,492	32	2.1 %	3,709	3,707	2	0.1 %
Adjusted EBITDA margin ⁽²⁾	9.7 %	10.2 %			9.4 %	10.2 %		
Net earnings attributable to shareholders of the Company	\$ 345	\$ 334	\$ 11	3.3 %	\$ 760	\$ 824	\$ (64)	(7.8)%
Net earnings available to common shareholders of the Company⁽ⁱ⁾	342	331	11	3.3 %	751	815	(64)	(7.9)%
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	464	458	6	1.3 %	1,082	1,121	(39)	(3.5)%
Diluted net earnings per common share (\$)	\$ 0.96	\$ 0.90	\$ 0.06	6.7 %	\$ 2.09	\$ 2.20	\$ (0.11)	(5.0)%
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.30	\$ 1.25	\$ 0.05	4.0 %	\$ 3.01	\$ 3.03	\$ (0.02)	(0.7)%
Diluted weighted average common shares outstanding (in millions)	358.0	366.2			359.5	369.7		

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

REPORTABLE OPERATING SEGMENTS

The Company has two reportable operating segments (with all material operations carried out in Canada):

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program; and
- The Financial Services segment provides credit card and everyday banking services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	2020 (16 weeks)				2019 (16 weeks)			
	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total
Revenue	\$15,464	\$ 278	\$ (71)	\$15,671	\$14,420	\$ 309	\$ (74)	\$14,655
Adjusted gross profit ⁽²⁾	\$ 4,534	\$ 226	\$ (71)	\$ 4,689	\$ 4,262	\$ 262	\$ (74)	\$ 4,450
Adjusted gross profit % ⁽²⁾	29.3 %	81.3 %	— %	29.9 %	29.6 %	84.8 %	— %	30.4 %
Operating income	\$ 674	\$ 44	\$ —	\$ 718	\$ 655	\$ 35	\$ —	\$ 690
Net interest expense and other financing charges	205	23	—	228	203	20	—	223
Earnings before income taxes	\$ 469	\$ 21	\$ —	\$ 490	\$ 452	\$ 15	\$ —	\$ 467
Depreciation and amortization	\$ 789	\$ 6	\$ —	\$ 795	\$ 771	\$ 4	\$ —	\$ 775
Adjusted EBITDA ⁽²⁾	1,474	50	—	1,524	1,452	40	—	1,492
Adjusted EBITDA margin ⁽²⁾	9.5 %	N/A	— %	9.7 %	10.1 %	N/A	— %	10.2 %

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard[®] loyalty awards in the Financial Services segment.

For the periods ended October 3, 2020 and October 5, 2019 (millions of Canadian dollars)	2020 (40 weeks)				2019 (40 weeks)			
	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total
Revenue	\$38,816	\$ 777	\$ (165)	\$39,428	\$35,778	\$ 859	\$ (190)	\$36,447
Adjusted gross profit ⁽²⁾	\$11,468	\$ 678	\$ (165)	\$11,981	\$10,622	\$ 742	\$ (190)	\$11,174
Adjusted gross profit % ⁽²⁾	29.5 %	87.3 %	— %	30.4 %	29.7 %	86.4 %	— %	30.7 %
Operating income	\$ 1,582	\$ 81	\$ —	\$ 1,663	\$ 1,602	\$ 127	\$ —	\$ 1,729
Net interest expense and other financing charges	509	67	—	576	511	60	—	571
Earnings before income taxes	\$ 1,073	\$ 14	\$ —	\$ 1,087	\$ 1,091	\$ 67	\$ —	\$ 1,158
Depreciation and amortization	\$ 1,971	\$ 16	\$ —	\$ 1,987	\$ 1,921	\$ 14	\$ —	\$ 1,935
Adjusted EBITDA ⁽²⁾	3,612	97	—	3,709	3,565	142	—	3,707
Adjusted EBITDA margin ⁽²⁾	9.3 %	N/A	— %	9.4 %	10.0 %	N/A	— %	10.2 %

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard[®] loyalty awards in the Financial Services segment.

RETAIL SEGMENT

Unless otherwise indicated, the following financial information includes the impacts of the consolidation of franchises and COVID-19.

- Retail segment sales were \$15,464 million. When compared to the third quarter of 2019, this represented an increase of \$1,044 million, or 7.2%. After excluding the consolidation of franchises, Retail segment sales increased by \$939 million or 6.7%.
 - Food retail (Loblaw) sales were \$11,215 million and Food retail same-store sales growth was 6.9% (2019 – 0.1%). Food same-store sales growth was positively impacted by COVID-19.
 - The Company's Food retail average article price was higher by 5.3% (2019 – 2.2%), which reflects the year over year growth in Food retail revenue over the average number of articles sold in the Company's stores in the quarter. The increase in average article price was due to sales mix.
 - Food retail basket size increased and traffic decreased in the quarter.
 - Drug retail (Shoppers Drug Mart) sales were \$4,249 million, and Drug retail same-store sales growth was 6.1% (2019 – 4.1%), with pharmacy same-store sales growth of 10.3% (2019 – 5.3%) and front store same-store sales growth of 2.4% (2019 – 3.1%). Drug same-store sales was positively impacted by COVID-19.
 - On a same-store basis, the number of prescriptions dispensed increased by 5.0% (2019 – 2.9%) and the average prescription value increased by 4.9% (2019 – 1.6%).
- Operating income in the third quarter of 2020 was \$674 million. When compared to the third quarter of 2019, this represented an increase of \$19 million, or 2.9%.
- Adjusted gross profit⁽²⁾ in the third quarter of 2020 was \$4,534 million. When compared to the third quarter of 2019, this represented an increase of \$272 million, or 6.4%. Excluding the consolidation of franchises, adjusted gross profit⁽²⁾ increased by \$153 million. Adjusted gross profit percentage⁽²⁾ of 29.3% decreased by 30 basis points compared to the third quarter of 2019. Adjusted gross profit percentage⁽²⁾, excluding the consolidation of franchises, was 26.7%. This represented a decrease of 60 basis points compared to the third quarter of 2019. Food margins were negatively impacted as a result of COVID-19 related changes in sales mix, and pricing investments. Drug retail margins were negatively impacted as a result of COVID-19 related changes in prescription refill limits from 30 days back to 90 days.
- Adjusted EBITDA⁽²⁾ in the third quarter of 2020 was \$1,474 million. When compared to the third quarter of 2019, this represented an increase of \$22 million, or 1.5%. The increase included the year-over-year favourable impact of the consolidation of franchises of \$8 million. Excluding the consolidation of franchises, the increase was driven by an increase in adjusted gross profit⁽²⁾ of \$153 million, partially offset by an increase in SG&A of \$139 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 17.2%, a decrease of 10 basis points compared to the third quarter of 2019. The favourable decrease of 10 basis points was primarily related to sales leverage and process and efficiency gains which was partially offset by COVID-19 related costs and incremental e-commerce labour costs as a result of increased on-line sales.
- Depreciation and amortization in the third quarter of 2020 was \$789 million, an increase of \$18 million compared to the third quarter of 2019, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart Corporation of \$155 million (2019 – \$157 million).
- The Company recorded approximately \$12 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the restructuring charges are \$6 million of charges related to the closure of the two distribution centres in Laval and Ottawa, that were previously announced in the first quarter of 2020. The Company is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. The distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall and the Company expects to incur additional restructuring costs through to 2022 related to these closures.
- As at the end of the first quarter of 2020, the Company consolidated all of its remaining franchisees. Consolidation of franchises in the third quarter of 2020 resulted in a year-over-year increase in revenue of \$105 million, an increase in adjusted EBITDA⁽²⁾ of \$8 million, an increase in depreciation and amortization of \$9 million and a decrease in net earnings attributable to non-controlling interests of \$4 million.

FINANCIAL SERVICES SEGMENT

- Revenue was \$278 million. When compared to the third quarter of 2019, this represented a decrease of \$31 million. The decrease was primarily driven by lower interest, interchange income and credit card related fees due to lower customer spending, partially offset by higher sales attributable to *The Mobile Shop*TM.
- Earnings before income taxes were \$21 million. When compared to the third quarter of 2019, this represented an increase in earnings of \$6 million. The increase was primarily driven by lower credit losses and expected credit losses, and lower customer acquisition costs, partially offset by lower revenue, as described above.
- In the third quarter, the Company launched the *PC Money Account*. New customers enrolled in the *PC Money Account* to date have exceeded the Company's expectations.

COVID-19 UPDATE

General

The COVID-19 pandemic had a significant impact on our colleagues, customers, suppliers and other stakeholders in the third quarter. As disclosed previously, starting in March, the Company reacted quickly to changing circumstances by ramping up investments in various areas.

In the four weeks following the end of the third quarter, the Company observed continued sales volatility and changes in sales mix as the pandemic impacted consumer behaviour. Food retail same-store sales trends and COVID-19 related costs were in line with third quarter results, however, Drug retail same-store sales have decelerated when compared to the third quarter.

In light of the uncertainty surrounding the duration and severity of the pandemic, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. As announced on April 9, 2020, the Company has withdrawn its 2020 Outlook that is contained in its Management's Discussion and Analysis ("MD&A") for the year ended December 28, 2019.

Liquidity

The Company's liquidity position is supported by a strong balance sheet and the ability to generate significant cash flow from its operations. In September 2020, DBRS Morningstar upgraded Loblaw's credit rating from BBB to BBB (high). Subsequent to the end of the third quarter of 2020, the Company extended the maturity of its existing \$1 billion credit facility to October 7, 2023. As at the end of the third quarter, the Company's consolidated cash and short-term investments balance was \$1.8 billion. The aggregate available liquidity is approximately \$3.8 billion including undrawn amounts under committed credit facilities. President's Choice Bank continues to maintain a level of liquidity well in excess of required regulatory minimums.

Risk Factor

For more information on the risks presented to the Company by the COVID-19 pandemic, please see Section 9, "Enterprise Risks and Risk Management" of the Company's MD&A for the quarter ended October 3, 2020.

DECLARATION OF DIVIDENDS

Subsequent to the end of the third quarter of 2020, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	\$0.335 per common share, payable on December 30, 2020 to shareholders of record on December 15, 2020
Second Preferred Shares, Series B	\$0.33125 per share, payable on December 31, 2020 to shareholders of record on December 15, 2020

NON-GAAP FINANCIAL MEASURES

The Company uses non-GAAP financial measures as it believes these measures provide useful information to both management and investors with regard to accurately assessing the Company's financial performance and financial condition.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying consolidated and segment operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

For reconciliation to, and description of, the Company's non-GAAP financial measures and financial metrics, please refer to Section 11 "Non-GAAP Financial Measures" of the Company's 2020 Third Quarter Report to Shareholders.

FORWARD-LOOKING STATEMENTS

This News Release contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this News Release include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of Information Technology systems implementations. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Consolidated Results of Operations" Other Business Matters section and "COVID-19 Update" section of this News Release. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2020 is based on certain assumptions including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 "Enterprise Risks and Risk Management" of the MD&A in the 2019 Annual Report and the Company's 2019 Annual Information Form (for the year ended December 28, 2019) as well as COVID-19 related risks that have been added to Section 9 "Enterprise Risks and Risk Management" of the Company's MD&A for the quarter ended October 3, 2020.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this News Release. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CORPORATE PROFILE

2019 Annual Report and 2020 Third Quarter Report to Shareholders

The Company's 2019 Annual Report and 2020 Third Quarter Report to Shareholders are available in the "Investors" section of the Company's website at loblaw.ca and on sedar.com.

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Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the "Investors" section of the Company's website at loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on November 12, 2020 at 10:00 a.m. (ET).

To access via tele-conference, please dial (647) 427-7450 or (888) 231-8191. The playback will be made available approximately two hours after the event at (416) 849-0833 or (855) 859-2056, access code: 9959726. To access via audio webcast, please go to the "Investors" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

News Release Endnotes

- (1) This News Release contains forward-looking information. See "Forward-Looking Statements" section of this News Release and the Company's 2020 Third Quarter Report to Shareholders for a discussion of material factors that could cause actual results to differ materially from the forecasts and projections herein and of the material factors and assumptions that were used when making these statements. This News Release should be read in conjunction with Loblaw Companies Limited's filings with securities regulators made from time to time, all of which can be found at sedar.com and at loblaw.ca.
 - (2) See Section 11 "Non-GAAP Financial Measures" of the Company's 2020 Third Quarter Report to Shareholders, which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
 - (3) To be read in conjunction with the "Forward-Looking Statements" section of this News Release and the Company's 2020 Third Quarter Report to Shareholders.
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