Loblaw Companies Limited

NEWS RELEASE

Loblaw Reports 2023 Second Quarter Results, earnings growth elevated by PC Bank prior year charge

BRAMPTON, ONTARIO July 26, 2023 Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") announced today its unaudited financial results for the second quarter ended June 17, 2023[1].

Loblaw delivered another quarter of strong operational and financial results as it continued to execute on retail excellence. The quarter was characterized by increased sales, a focus on value, and lower gross margins. Net earnings were up 31.3%, unusually elevated by lapping a prior year charge at President's Choice Bank ("PC Bank"), while adjusted net earnings were up 10.6%. Loblaw's ability to deliver everyday value and savings to Canadians was reflected in strong sales growth across its Food and Drug businesses. Food Retail sales growth was led by a continued consumer shift to discount stores, as customers continued to find value in Loblaw's private label brands and personalized PC Optimum™ offers. Drug front-store and pharmacy sales remained strong, led by continued strength in beauty products. Retail gross margin declined slightly in both Food and Drug as the Company faced double digit supplier cost increases that were not fully passed on to consumers, and higher shrink. Higher sales and cost control initiatives drove adjusted net earnings growth in the quarter.

"Our businesses remain focused on providing Canadians with the selection, freshness, care and value they need today," said Galen G. Weston, Chairman and President, Loblaw Companies Limited. "We will build on this strength and continue to take meaningful steps to fight back against inflation. Our discount offering, best-in-class control brand products and PC Optimum™ Program are resonating with customers who are looking for value without sacrificing quality."

2023 SECOND QUARTER HIGHLIGHTS

- Revenue was $13,738 million, an increase of $891 million, or 6.9%.
- Retail segment sales were $13,471 million, an increase of $848 million, or 6.7%.
  - Food Retail (Loblaw) same-stores sales increased by 6.1%.
  - Drug Retail (Shoppers Drug Mart) same-store sales increased by 5.7%, with front store same-store sales growth of 5.0% and pharmacy same-store sales growth of 6.3%.
- E-commerce sales increased by 13.9%.
- Operating income was $927 million, an increase of $185 million, or 24.9%.
- Adjusted EBITDA[2] was $1,640 million, an increase of $141 million, or 9.4%.
- Retail segment adjusted gross profit percentage[2] was 31.1%, a decrease of 30 basis points.
- Net earnings available to common shareholders of the Company were $508 million, an increase of $121 million or 31.3%. Diluted net earnings per common share were $1.58, an increase of $0.42, or 36.2%. The increase included the lapping of a prior year charge of $111 million related to a PC Bank commodity tax matter.
- Adjusted net earnings available to common shareholders of the Company[2] were $626 million, an increase of $60 million, or 10.6%.
- Adjusted diluted net earnings per common share[2] were $1.94, an increase of $0.25 or 14.8%.
- Repurchased for cancellation 4.2 million common shares at a cost of $511 million and invested $410 million in capital expenditures, net of proceeds from property disposals. Free cash flow[2] used in the Retail segment was $600 million.

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

CONSOLIDATED AND SEGMENT RESULTS OF OPERATIONS

The following table provides key performance metrics for the Company by segment.

				2023 (12 weeks)				2022 (12 weeks)
For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars except where otherwise indicated)	**Retail**	**Financial Services**	**Elimi-nations**	**Total**	Retail	Financial Services	Elimi-nations	Total
Revenue	**$13,471**	**$ 348**	**$ (81)**	**$13,738**	$12,623	$ 297	$ (73)	$12,847
Adjusted gross profit[2]	$ 4,192	$ 315	$ (81)	$ 4,426	$ 3,962	$ 266	$ (73)	$ 4,155
Adjusted gross profit %[2]	31.1 %	N/A	— %	32.2 %	31.4 %	N/A	— %	32.3 %
Operating income (loss)	**$ 925**	**$ 2**	**$ —**	**$ 927**	$ 811	$ (69)	$ —	$ 742
Adjusted operating income[2]	1,046	39	—	1,085	938	42	—	980
Adjusted EBITDA[2]	$ 1,587	$ 53	$ —	$ 1,640	$ 1,445	$ 54	$ —	$ 1,499
Adjusted EBITDA margin[2]	11.8 %	N/A	— %	11.9 %	11.4 %	N/A	— %	11.7 %
Net interest expense and other financing charges	**$ 157**	**$ 36**	**$ —**	**$ 193**	$ 135	$ 17	$ —	$ 152
Adjusted net interest expense and other financing charges[2]	157	36	—	193	135	17	—	152
Earnings (Losses) before income taxes	**$ 768**	**$ (34)**	**$ —**	**$ 734**	$ 676	$ (86)	$ —	$ 590
Income taxes				$ 193				$ 162
Adjusted income taxes[2]				233				221
Net earnings attributable to non-controlling interests				$ 30				$ 38
Prescribed dividends on preferred shares in share capital				3				3
Net earnings available to common shareholders of the Company				**$ 508**				$ 387
Adjusted net earnings available to common shareholders of the Company[2]				626				566
Diluted net earnings per common share ($)				**$ 1.58**				$ 1.16
Adjusted diluted net earnings per common share[2] ($)				$ 1.94				$ 1.69
Diluted weighted average common shares outstanding (in millions)				**322.5**				334.4

The following table provides a breakdown of the Company's total and same-store sales for the Retail segment.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars except where otherwise indicated)	**2023 (12 weeks)**		2022 (12 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 9,560**	**6.1 %**	$ 8,981	0.9 %
Drug retail	**3,911**	**5.7 %**	3,642	5.6 %
Pharmacy and healthcare services	**1,984**	**6.3 %**	1,813	6.1 %
Front store	**1,927**	**5.0 %**	1,829	5.2 %

RETAIL SEGMENT

- Retail segment sales were $13,471 million, an increase of $848 million, or 6.7%.
  - Food Retail (Loblaw) sales were $9,560 million and Food Retail same-store sales grew by 6.1% (2022 – 0.9%).
    - The Consumer Price Index ("CPI") as measured by The Consumer Price Index for Food Purchased From Stores was 9.1% (2022 – 9.6%) which was generally in line with the Company's internal food inflation; and
    - Food Retail traffic increased and basket size decreased.
  - Drug Retail (Shoppers Drug Mart) sales were $3,911 million, and Drug Retail same-store sales grew by 5.7% (2022 – 5.6%), with pharmacy and healthcare services same-store sales growth of 6.3% (2022 – 6.1%) and front store same-store sales growth of 5.0% (2022 – 5.2%). Pharmacy and healthcare services sales include Lifemark Health Group ("Lifemark") revenues of $112 million (2022 – $49 million). Lifemark was acquired on May 10, 2022.
    - On a same-store basis, the number of prescriptions dispensed increased by 0.9% (2022 – 2.3%) and the average prescription value increased by 4.7% (2022 – 3.6%).
- Operating income was $925 million, an increase of $114 million, or 14.1%.
- Adjusted gross profit(2) was $4,192 million, an increase of $230 million, or 5.8%. The adjusted gross profit percentage(2) of 31.1% decreased by 30 basis points (2022 – increased by 50 basis points). Retail margins declined slightly, primarily driven by higher shrink and higher supplier costs that were not passed on to consumers.
- Adjusted EBITDA(2) was $1,587 million, an increase of $142 million, or 9.8%. The increase was driven by an increase in adjusted gross profit(2), partially offset by an increase in selling, general and administrative expenses ("SG&A"). SG&A as a percentage of sales was 19.3%, a favourable decrease of 60 basis points. The favourable decrease of 60 basis points was primarily due to operating leverage from higher sales.
- Depreciation and amortization was $657 million, an increase of $36 million or 5.8%, primarily driven by an increase in depreciation of information technology ("IT") assets and leased assets, and accelerated depreciation of $8 million (2022 – nil) as a result of network optimization. Included in depreciation and amortization was the amortization of intangible assets related to the acquisitions of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") and Lifemark of $116 million (2022 – $114 million).
- The Company recorded charges of $17 million associated with network optimization, which include accelerated depreciation of $8 million as described above, and other charges.

FINANCIAL SERVICES SEGMENT

- Revenue was $348 million, an increase of $51 million or 17.2%. The increase was primarily driven by higher interest income from growth in credit card receivables, and higher interchange income and other credit card related revenue from an increase in customer spending.
- Losses before income taxes were $34 million in the second quarter of 2023, as compared to losses of $86 million in the prior period. The improvement was mainly driven by the year-over-year impact from the prior period charge of $111 million versus the current period charge of $37 million related to commodity tax matters, and higher revenue as described above. This was partially offset by the year-over-year impact of the expected credit loss provision from the prior period release of $3 million versus the current period increase of $8 million, higher contractual charge-off costs, and higher funding costs from an increase in interest rates and growth in the credit card portfolio.
- In the second quarter of 2023, the Federal government enacted certain commodity tax legislation that may apply to PC Bank on a retroactive basis. A charge of $37 million, inclusive of interest, has been recorded for this matter.
- In July 2022, the Tax Court released a decision relating to PC Bank. Although the Company believes in the merits of its position, the Company recorded a charge of $111 million, inclusive of interest, in the second quarter of 2022. In September 2022, PC Bank filed a Notice of Appeal with the Federal Court of Appeal. The Company believes that this provision is sufficient to cover its liability, if the appeal is ultimately unsuccessful.

OUTLOOK[3]

Loblaw will continue to execute on retail excellence while advancing its growth initiatives in 2023. The Company's businesses remain well placed to service the everyday needs of Canadians. However, the Company cannot predict the precise impacts of global economic uncertainties, including the inflationary environment, on its 2023 financial results.

For the full-year 2023, the Company continues to expect:

- its Retail business to grow earnings faster than sales;
- adjusted net earnings per common share[2] growth in the low double digits;
- to increase investments in our store network and distribution centres by investing a net amount of $1.6 billion in capital expenditures, which reflects gross capital investments of approximately $2.1 billion offset by approximately $500 million of proceeds from real estate dispositions; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

In the second quarter, the Company progressed its ESG pillars:

- *Fighting Climate Change*: Loblaw unveiled an unprecedented carbon-free energy deal, that will see the electricity it purchases for its supermarkets, drug stores, offices and distribution centres in Alberta generated entirely by wind, sun and water. The arrangement is the first of its kind in Canada and will allow the Company to eliminate the carbon emissions associated with electricity purchases in Alberta. This will lead to a 17% reduction in nationwide enterprise operating emissions and saving an estimated 180,000 metric tons of carbon emissions. The Company also announced plans to purchase five hydrogen fuel cell electric vehicles (FCEVs), expanding its zero-emissions fleet and enabling short-haul zero-emission deliveries;
- *Advancing Social Equity*: As part of annual community investment efforts generating nearly $110 million, the Company raised over $12 million to support President's Choice Children's Charity's mission to feed one million children every year by 2025 and raised more than $2.8 million for local women's mental health programs through the annual Shoppers Drug Mart Run for Women. As part of the Feed More Families™ commitment, the Company provided more than 18 million pounds of food to food charities in the first half of 2023. The Company also extended its support to those affected by wildfires across Canada through funds raised and donated to the Canadian Red Cross; and
- *Ensuring Reliability of Our ESG Disclosures*: Loblaw has built a robust control environment to test and validate the accuracy of ESG information which supports its commitment to transparency and accountability. Loblaw continues to evolve and strengthen the control environment as necessary to ensure that the integrity and reliability of ESG disclosures meet the expectations of stakeholders in an evolving landscape. For the first time, the Company obtained limited assurance over its Scope 1 and 2 Greenhouse gas emissions for 2022 and its baseline year, 2020.

The Company's efforts in the second quarter demonstrate its commitment to fighting climate change and advancing social equity, with a focus on reducing carbon emissions, addressing food insecurity and supporting communities in need while continuing to place importance on governance over ESG disclosures.

NORMAL COURSE ISSUER BID PROGRAM ("NCIB")

On a year-to-date basis, the Company repurchased 7.5 million common shares for cancellation at a cost of $894 million.

From time to time, the Company participates in an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its NCIB. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market.

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 ("IT") systems implementations. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Consolidated and Segment Results of Operations" and "Outlook" 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 estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events 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 the Company's MD&A in the Company's 2022 Annual Report - Financial Review and Section 4 "Risks" of the Company's 2022 Annual Information Form for the year ended December 31, 2022.

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.

DECLARATION OF DIVIDENDS

Subsequent to the end of the second quarter of 2023, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	$0.446 per common share, payable on October 1, 2023 to shareholders of record on September 15, 2023.
Second Preferred Shares, Series B	$0.33125 per share, payable on September 30, 2023 to shareholders of record on September 15, 2023.

EXCERPT OF NON-GAAP AND OTHER FINANCIAL MEASURES

The Company uses non-GAAP and other financial measures, as reconciled and fully described in Appendix 1 "Non-GAAP and Other Financial Measures" of this News Release.

These measures do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"), 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.

The following table provides a summary of the differences between the Company's consolidated GAAP and Non-GAAP and other financial measures, which are reconciled and fully described in Appendix 1.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars except where otherwise indicated)			**2023 (12 weeks)**			2022 (12 weeks)
	GAAP	**Adjusting Items**	**Non-GAAP(2)**	GAAP	Adjusting Items	Non-GAAP(2)
EBITDA	**$ 1,598**	**$ 42**	**$ 1,640**	$ 1,375	$ 124	$ 1,499
Operating income	**$ 927**	**$ 158**	**$ 1,085**	$ 742	$ 238	$ 980
Net interest expense and other financing charges	**193**	**—**	**193**	152	—	152
Earnings before income taxes	**$ 734**	**$ 158**	**$ 892**	$ 590	$ 238	$ 828
Deduct the following:						
Income taxes	**193**	**40**	**233**	162	59	221
Non-controlling interests	**30**	**—**	**30**	38	—	38
Prescribed dividends on preferred shares	**3**	**—**	**3**	3	—	3
Net earnings available to common shareholders of the Company(i)	**$ 508**	**$ 118**	**$ 626**	$ 387	$ 179	$ 566
Diluted net earnings per common share ($)	**$ 1.58**	**$ 0.36**	**$ 1.94**	$ 1.16	$ 0.53	$ 1.69
Diluted weighted average common shares (millions)	**322.5**	**—**	**322.5**	334.4	—	334.4

(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.

The following table provides a summary of the Company's adjusting items which are reconciled and fully described in Appendix 1.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars)		**2023 (12 weeks)**		2022 (12 weeks)
Operating income	**$**	**927**	$	742
Add (deduct) impact of the following:				
Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**$**	**116**	$	114
Charges related to PC Bank commodity tax matters		**37**		111
Fair value adjustment on fuel and foreign currency contracts		**5**		4
Gain on sale of non-operating properties		**—**		(4)
Lifemark transaction costs		**—**		13
Adjusting items	**$**	**158**	$	238
Adjusted operating income(2)	**$**	**1,085**	$	980
Net interest expense and other financing charges	**$**	**193**	$	152
Adjusted net interest expense and other financing charge(2)	**$**	**193**	$	152
Income taxes	**$**	**193**	$	162
Add the impact of the following:				
Tax impact of items included in adjusted earnings before taxes	**$**	**40**	$	59
Adjusting items	**$**	**40**	$	59
Adjusted income taxes(2)	**$**	**233**	$	221

CORPORATE PROFILE

2022 Annual Report and 2023 Second Quarter Report to Shareholders

The Company's 2022 Annual Report and 2023 Second Quarter Report to Shareholders are available in the "Investors" section of the Company's website at loblaw.ca and on sedar.com.

Investor Relations

Investor inquiries, contact:	Media inquiries, contact:
Roy MacDonald	Kevin Groh
Vice President, Investor Relations	Senior Vice President, Corporate Affairs and Communication
(905) 861-2243	(905) 861-2437
investor@loblaw.ca	pr@loblaw.ca

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 July 26, 2023 at 10:00 a.m. (ET).

To access via tele-conference, please dial (416) 764-8688 or (888) 390-0546. The playback will be made available approximately two hours after the event at (416) 764-8677 or (888) 390-0541, access code: 664086#. To access via audio webcast, please go to the "Investor" 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 2023 Second 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 "Non-GAAP and Other Financial Measures" section in Appendix 1 of this News Release, 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 2023 Second Quarter Report to Shareholders.

APPENDIX 1: NON-GAAP AND OTHER FINANCIAL MEASURES

The Company uses the following non-GAAP and other financial measures and ratios: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted effective tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share, free cash flow, and same-store sales. The Company believes these non-GAAP and other financial measures and ratios provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

Management uses these and other non-GAAP and other 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 adjusts for these 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.

Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to revenue and cost of sales measures as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as Retail segment adjusted gross profit divided by Retail segment revenue.

				2023 (12 weeks)				2022 (12 weeks)
For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Elimi-nations**	**Total**	Retail	Financial Services	Elimi-nations	Total
Revenue	**$ 13,471**	**$ 348**	**$ (81)**	**$13,738**	$12,623	$ 297	$ (73)	$12,847
Cost of sales	**9,279**	**33**	**—**	**9,312**	8,661	31	—	8,692
Gross profit	**$ 4,192**	**$ 315**	**$ (81)**	**$ 4,426**	$ 3,962	$ 266	$ (73)	$ 4,155
Adjusted gross profit	**$ 4,192**	**$ 315**	**$ (81)**	**$ 4,426**	$ 3,962	$ 266	$ (73)	$ 4,155

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile adjusted operating income and adjusted EBITDA to operating income, which is reconciled to net earnings attributable to shareholders of the Company as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenue.

			2023 (12 weeks)			2022 (12 weeks)
For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total
Net earnings attributable to shareholders of the Company			**$ 511**			$ 390
Add impact of the following:						
Non-controlling interests			**30**			38
Net interest expense and other financing charges			**193**			152
Income taxes			**193**			162
Operating income (loss)	**$ 925**	**$ 2**	**$ 927**	$ 811	$ (69)	$ 742
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**$ 116**	**$ —**	**$ 116**	$ 114	$ —	$ 114
Charges related to PC Bank commodity tax matters	**—**	**37**	**37**	—	111	111
Fair value adjustment on fuel and foreign currency contracts	**5**	**—**	**5**	4	—	4
Gain on sale of non-operating properties	**—**	**—**	**—**	(4)	—	(4)
Lifemark transaction costs	**—**	**—**	**—**	13	—	13
Adjusting items	**$ 121**	**$ 37**	**$ 158**	$ 127	$ 111	$ 238
Adjusted operating income	**$ 1,046**	**$ 39**	**$ 1,085**	$ 938	$ 42	$ 980
Depreciation and amortization	**657**	**14**	**671**	621	12	633
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(116)**	**—**	**(116)**	(114)	—	(114)
Adjusted EBITDA	**$ 1,587**	**$ 53**	**$ 1,640**	$ 1,445	$ 54	$ 1,499

In addition to the items described in the Retail segment adjusted gross profit section above, when applicable, adjusted EBITDA was impacted by the following:

Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately $500 million until 2024 and will decrease thereafter.

The acquisition of Lifemark in 2022 included approximately $299 million of definite life intangible assets, which are being amortized over their estimated useful lives.

Charges related to PC Bank commodity tax matters In the second quarter of 2023, the Federal government enacted certain commodity tax legislation that may apply to PC Bank on a retroactive basis. A charge of $37 million, inclusive of interest, has been recorded for this matter.

In the second quarter of 2022, the Company recorded a charge of $111 million, inclusive of interest. In July 2022, the Tax Court released its decision and ruled that PC Bank is not entitled to claim notional input tax credits for certain payments it made to Loblaws Inc. in respect of redemptions of loyalty points. In September 2022, PC Bank filed a Notice of Appeal with the Federal Court of the Appeal.

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

Gain on sale of non-operating properties In the second quarter of 2023, the Company did not record any gain or loss related to the sale of non-operating properties (2022 – gain of $4 million).

Lifemark transaction costs In connection with the acquisition of Lifemark during 2022, the Company recorded acquisition costs of $13 million in operating income in the second quarter of 2022.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars)	**2023 (12 weeks)**	2022 (12 weeks)
Net interest expense and other financing charges	**$ 193**	$ 152
Adjusted net interest expense and other financing charges	**$ 193**	$ 152

Adjusted Income Taxes and Adjusted Effective Tax Rate The following table reconciles adjusted income taxes to income taxes as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

Adjusted effective tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest expense and other financing charges.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars except where otherwise indicated)	**2023 (12 weeks)**	2022 (12 weeks)
Adjusted operating income(i)	**$ 1,085**	$ 980
Adjusted net interest expense and other financing charges(i)	**193**	152
Adjusted earnings before taxes	**$ 892**	$ 828
Income taxes	**$ 193**	$ 162
Add: Tax impact of items included in adjusted earnings before taxes(ii)	**40**	59
Adjusted income taxes	**$ 233**	$ 221
Effective tax rate	**26.3 %**	27.4 %
Adjusted effective tax rate	**26.1 %**	26.7 %

(i) See reconciliations of adjusted operating income and adjusted net interest expense and other financing charges in the tables above.

(ii) See the adjusted operating income, adjusted EBITDA and adjusted EBITDA margin table and the adjusted net interest expense and other financing charges table above for a complete list of items included in adjusted earnings before taxes.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company for the periods ended as indicated. The Company believes that adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars except where otherwise indicated)	**2023 (12 weeks)**	2022 (12 weeks)
Net earnings attributable to shareholders of the Company	**$ 511**	$ 390
Prescribed dividends on preferred shares in share capital	**(3)**	(3)
Net earnings available to common shareholders of the Company	**$ 508**	$ 387
Net earnings attributable to shareholders of the Company	**$ 511**	$ 390
Adjusting items (refer to the following table)	**118**	179
Adjusted net earnings attributable to shareholders of the Company	**$ 629**	$ 569
Prescribed dividends on preferred shares in share capital	**(3)**	(3)
Adjusted net earnings available to common shareholders of the Company	**$ 626**	$ 566
Diluted weighted average common shares outstanding (millions)	**322.5**	334.4

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to net earnings available to common shareholders of the Company and diluted net earnings per common share for the periods ended as indicated.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars/Canadian dollars)	**2023 (12 weeks)** Net Earnings Available to Common Shareholders of the Company	**2023 (12 weeks)** Diluted Net Earnings Per Common Share	2022 (12 weeks) Net Earnings Available to Common Shareholders of the Company	2022 (12 weeks) Diluted Net Earnings Per Common Share
As reported	**$ 508**	**$ 1.58**	$ 387	$ 1.16
Add (deduct) impact of the following:				
Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**$ 85**	**$ 0.26**	$ 83	$ 0.25
Charges related to PC Bank commodity tax matters	**29**	**0.09**	86	0.25
Fair value adjustment on fuel and foreign currency contracts	**4**	**0.01**	3	0.01
Gain on sale of non-operating properties	**—**	**—**	(3)	(0.01)
Lifemark transaction costs	**—**	**—**	10	0.03
Adjusting items	**$ 118**	**$ 0.36**	$ 179	$ 0.53
Adjusted	**$ 626**	**$ 1.94**	$ 566	$ 1.69

Free Cash Flow The following table reconciles, by reportable operating segments, free cash flow to cash flows from operating activities. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

For the periods ended June 17, 2023 and June 18, 2022 (millions of Canadian dollars)	**2023 (12 weeks)** Retail	**2023** Financial Services	**2023** Eliminations(i)	**2023** Total	2022 (12 weeks) Retail	2022 Financial Services	2022 Eliminations(i)	2022 Total
Cash flows from (used in) operating activities	**$ 1,435**	**$ (167)**	**$ 21**	**$ 1,289**	$ 1,542	$ (314)	$ 17	$ 1,245
Less:								
Capital investments(ii)	**416**	**7**	**—**	**423**	293	9	—	302
Interest paid	**71**	**—**	**21**	**92**	66	—	17	83
Lease payments, net	**348**	**—**	**—**	**348**	343	—	—	343
Free cash flow(2)	**$ 600**	**$ (174)**	**$ —**	**$ 426**	$ 840	$ (323)	$ —	$ 517

(i) Interest paid is included in cash flows from operating activities under the Financial Services segment.

(ii) Capital investments are the sum of fixed asset additions and intangible asset additions as presented in the Company's condensed consolidated statements of cash flows.

Same-Store Sales Same-store sales are retail segment sales for stores in operation in both comparable periods, including relocated, converted, expanded, contracted or renovated stores. The Company believes this metric is useful in assessing sales trends excluding the effect of the opening and closure of stores.