FINAL TRANSCRIPT

Loblaw Companies Limited

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Loblaw Companies Limited First Quarter 2023 Results Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Wednesday, May 3, 2023.

I would now like to turn the conference over to Roy MacDonald. Please go ahead.

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

Great. Thanks very much, Julie, and good morning, everybody. Welcome to the Loblaw Companies Limited first quarter 2023 results call. This morning, I'm joined, as usual, by Galen Weston, our Chairman and President, and Richard Dufresne, our Chief Financial Officer.

And before we begin this morning, I want to remind you that today's discussion will include forward-looking statements which may include, but are not limited to, statements with respect to Loblaw's anticipated future results. These statements are based on assumptions and reflect management's current expectations. As such, 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 regulator. Any forward-looking statements speak only as of the date they're made. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future results, or otherwise, other than what's required by law.

Also, certain non-GAAP financial measures may be discussed or referred to, so please refer to our annual report and other materials filed with the Canadian securities regulators for a reconciliation of each of these measures.

Now I will turn the call over to Richard.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you, Roy, and good morning, everyone.

I'm pleased to report that we started 2023 building on the strength of last year. We continued to deliver consistent operational and financial results with solid top-line performance and strong earnings growth. We remain focused on delivering value to consumers and carefully managing our expenses, all part of retail excellence.

On a consolidated basis, revenue grew by 6% and EBITDA increased by 7.8%. Adjusted earnings per share grew by 14% to $1.55 a share. As a reminder, we are lapping a very strong Q1 last year where food same-store sales growth outperformed, gross margin grew by 80 basis points, and EPS grew 20.4%. On a GAAP basis, our earnings per share reflected a 0.8% decline as we lapped one-time gains last year. In drug retail, absolute sales increased 10.7% and same-store sales grew 7.4%, lapping an increase of 5.2% last year.

Front store same-store sales grew by 10.3% as continued strong demand drove growth in margin-accretive categories like cosmetics and HABA. OTC performance remained strong, but off its peak. Pharmacy same-store sales grew 4.7%, driven by growth in acute and chronic scripts, partially offset by lower COVID vaccines and testing. Overall, we are encouraged by the steady and strong pace of growth in pharmacy services. These services represent an exciting new business for Loblaw and we continue to expect them to drive long-term growth. Looking ahead, after lapping pandemic headwinds in pharmacy in Q1, we should see a return to more normal front-store growth rates going forward.

In food retail, absolute sales increased 3.8% and same-store sales grew 3.1% and reflects a 110 basis point timing impact of Q1 this year starting on January 1st, when most of our food stores were closed, versus January 2nd start last year. In Q1, our internal food inflation number was generally in line with CPI. Right-hand side remains a drag on our same-store sales performance to the tune of 60 basis points in the quarter. Omicron last year was a key driver of our same-store sales number.

Our hard discount banners continue to outperform the overall discount channel, delivering strong profit and item count growth as customers continue to focus on value offerings. In Quebec, our discount position continues to grow. We converted one Provigo store to Maxi at the end of the quarter, two more have opened since, and we will convert eight additional stores in Q2. We continue to deliver outside sales performance in these Maxi conversions and we are particularly excited by the traction of our Maxi banner in the Quebec market.

Our market banners are also performing well and continue to outperform their peer group. Having the right customer offer in all of our stores remains a key focus. As I mentioned, our right-hand side had a negative impact on same-store sales of 60 basis points. This improved from Q4 as apparel sales growth was strong and H&E was only slightly negative this quarter. We remain comfortable with our inventory levels. Our private label brands continue to outperform national brands, growing sales more than twice the rate of national brands, and No Name continues to resonate well with Canadians, delivering strong double-digit sales growth in the quarter.

Online sales in the quarter decreased 1.1%, lapping elevated demand last year due to pandemic-related restrictions. We are pleased to see sequential improvement in our online sales penetration over the past three quarters, currently sitting at the highest level since Q1 of last year.

Retail gross margin was 31.3%, up 20 basis points compared to last year. Gross margin benefitted from growth in high-margin front store categories in drug retail and our retail excellence related initiatives offsetting higher shrink. We recorded a slight decrease in food retail margin as costs continue to rise faster than sales. We are continuing to see elevated cost increase from our food suppliers. This includes small and medium-sized Canadian vendors catching up on costs and we're doing our best to expedite those. More concerning, we're still seeing outsized cost increases rolling in from large global consumer goods companies exceeding what we would be expecting at this point. Year to date, suppliers have increased their product cost nearly $1 billion, which is down from last year at this time but more than double the annual historic norm. Another careful quarter of cost management resulted in an improvement of 10 basis points in our SG&A rate as a percentage of sales.

Adjusted retail EBITDA increased by $105 million or 8.2% in the quarter, yielding a margin of 10.9%, up 20 basis points compared to last year. PC Financial's earnings before tax declined by $20 million, largely a function of an increase in the credit loss provision this year compared to a release in the comparative quarter. The core business performance remains in line with our expectations with revenue up $52 million, driven by higher interest income and an increase in consumer spending. On a consolidated basis, adjusted EBITDA margin was 11.1% in the quarter, up 10 basis points compared to last year. Our retail cash flow was negative $81 million in Q1, reflecting higher CapEx spend and lapping a one-time tax recovery from last year. In the quarter, we repurchased $383 million worth of common shares.

Looking ahead, we remain confident in our plan and our ability to execute in our core businesses while advancing our growth initiatives. Our focus over the past two years remains on retail excellence and it's been evident as we've delivered steady and consistent performance each quarter. This focus will continue to benefit our business going forward.

I will now turn the call over to Galen.

Galen Weston — Chairman & President, Loblaw Companies Limited

Thank you, Richard, and good morning.

I was pleased with our performance in the quarter, particularly as we lapped pandemic tailwinds from Q1 2022. As we work hard to deliver value to our customers in the face of persistent cost inflation, we saw good underlying momentum and strong overall results. It was nice to see a recent poll showing Canadians viewed Loblaw as the grocer doing the most to help with inflation.

Shoppers Drug Mart had another standout quarter with high-margin beauty and cough and cold sales continuing to drive our retail gross margin results. COVID-related vaccinations and testing declined year over year, while other pharmacy services like medication reviews and minor ailment prescribing grew rapidly as pharmacists continue to step up and improve access to high-quality primary care across the country wherever provincial regulations allow.

In our food business, we stayed laser-focused on delivering value to customers and Canada is now one of the few OECD countries that have seen food inflation moderate in recent months. Once again, we did not pass the full amount of cost inflation to customers, leading to food gross margin declines yet again this quarter. Our approach continues to work. Market stores outperformed peers, our discount division grew share through more traffic and bigger baskets, engagement in PC Optimum loyalty rose substantially, and President's Choice and No Name grew at more than twice the pace of the big national brands.

With Q1 behind us, we're comfortable with our position. Looking forward, we will invest more than $2 billion into the economy, creating thousands of jobs, adding discount supermarkets in underserved regions, expanding our T&T supermarket chain, and continue to open pharmacist-led clinics with plans to add more than 70 new points of primary care for patients in Alberta, Ontario, Nova Scotia, New Brunswick, and PEI.

As our business advances, so too do our ESG commitments: fighting climate change and advancing social equity. Our latest ESG report outlining our progress is now available at loblaw.ca. It does an excellent job of demonstrating the many ways our purpose comes to life through a more inclusive workforce, a pledge to feed and care for families, and the belief that we can substantially reduce our environmental footprint by making the right choices. I hope you'll get a chance to take a look.

Looking forward, we will continue to execute well against our purpose of helping Canadians live life well, doing so while operating a successful business and delivering reasonable financial results.

I'll now open the call for questions.

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

Thank you, Galen. Go ahead, Julie and introduce the Q&A process.

Q & A

Operator

Thank you. Ladies and gentlemen, should you have a question, please press the star followed by the one on your touchtone phone. If you would like to withdraw your question, please press the star followed by the two. One moment please for your first question.

Your first question comes from George Doumet from Scotiabank. Please go ahead.

George Doumet — Analyst, Scotiabank

Yeah, hi. Good morning, Galen and Richard. Can you maybe talk a little bit about the performance of your market banners in Quebec and Ontario maybe from a market share standpoint and would you characterize the environment there as maybe more competitive than in the last few quarters?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, so let me give you a little bit of perspective. We try not to give too much detail on the sort of regional breakdown of performance. So, from a total business perspective, the market division continued to outperform their peer group. We're obviously reducing the number of Provigo stores that we have in Quebec. We're very pleased with the underlying performance of the conventional business there. I'd say, from a market competitiveness perspective, it is very competitive everywhere right now, continues to be very rational, but increasingly promotional, and people are putting their best value forward to support consumers and we're doing absolutely the same thing. I wouldn't call out Quebec as particularly more competitive than any others.

George Doumet — Analyst, Scotiabank

Thanks for that. And thanks for the earlier comments on, I guess, the pricing requests magnitude. I found the larger CPG ask pretty interesting. Can you maybe talk to what the justification may be from them is for the higher pricing? And just generally speaking, what areas of the store do you think could see the highest price increases maybe as we go into the spring and summer?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, look, I think those are important confidential conversations. We wanted to call it out, because it is one of the big drivers of cost inflation that we are seeing. You also heard Richard mention the small Canadian and midsize manufacturers. So we're kind of catching up to the inflationary cost but, yeah, we are definitely seeing more inflationary cost pressure from the large multinational CPGs then we would have expected at this time based on what's happening in the commodity cost environment.

George Doumet — Analyst, Scotiabank

And the area of the store that you think you might see the most, the highest inflation, Galen, if you can share that comment maybe.

Galen Weston — Chairman & President, Loblaw Companies Limited

Not really. I mean remember in the fresh departments, costs move up and down very quickly on a week-to-week basis and in the centre of the store there's just so many different categories it'd be tough to generalize.

George Doumet — Analyst, Scotiabank

Got it. And just one last one, if I may, maybe for Richard. I understand that there's an expectation to hold to slightly expand gross margins this year. Can you maybe help us understand the cadence maybe of those improvements? Will there be more, I guess it would be more difficult in the second half, but any comment you can share on kind of the evolution in gross margin. Thanks.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We commented, George, that we're expecting gross margin to be stable during the year and we continue to feel confident in our ability to do that for the next three quarters.

George Doumet — Analyst, Scotiabank

Okay, thanks.

Operator

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

Irene Nattel — Analyst, RBC Capital Markets

Thanks and good morning. If you could please update on what you're seeing in terms of consumer behaviour, sensitivity promotions, trade down, all of that kind of thing?

Galen Weston — Chairman & President, Loblaw Companies Limited

Irene, I feel like you ask that question every quarter and, in preparation for this call, I always try and find something new or different to add. I'm afraid I can't do that this time around. It's really the same stuff, same trends as previous quarters. We continue to observe that shift to discount. That will be no surprise to you. We've commented on the growth of private label. There are no signs of that slowing down. I touched on that increased promotional intensity. That is continuing to build, but it's worth noting that we're still not back at levels of promotional penetration that we saw in 2019, so there's still some distance to travel there. The one call out, I think I mentioned this a couple of quarters ago, we still see a really surprising, not surprising, but really robust strength in the fresh prepared meals category. And what we think we're seeing here is customers who are trading out of a restaurant meal into slightly higher cost but incredibly good value, high-quality fresh food option available, particularly in our market division stores.

Irene Nattel — Analyst, RBC Capital Markets

That's very helpful, thank you. And yeah, I do ask every quarter. So, just following on with the private label, you already have industry-leading private label penetration. As you see private label growing, is it sort of consumers buying more categories? Like where exactly are you seeing it and can you update us on the actual private label penetration?

Galen Weston — Chairman & President, Loblaw Companies Limited

I don't know if we disclose our actual private label penetration, but it won't be any surprise to know that the big source of growth in our private label program today, and has really been the case for the last six months, has been in the No Name brand, and that's people trading into value. And I think we're very fortunate, because we invested a lot in the quality of the No Name formulations over the last four or five years and so I think what's happening here is customers are buying the product, they're realizing that they're not making a quality trade down and they're saving a great deal of money, and so they're sustaining their purchasing behaviour. And so we're optimistic that, even as inflation moderates and perhaps consumers get a bit less price sensitive, a lot of that penetration will remain.

Irene Nattel — Analyst, RBC Capital Markets

Thank you. And then just a last one for me, shifting gears a little bit. I wanted to understand the commentary around—you said you're going to add 70 points of primary care across Canada. Are these the pharmacist-staffed sort of consultation offices? And can you tell us what you're seeing there and how those are working for you?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah. So, it's a combination of specific off-site independent locations. So think about them as medical clinics that are operated by pharmacists. And then another portion of that 70 is actually creating dedicated space inside pharmacies themselves for pharmacists to provide a similar level of dedicated care. We have 10 of these clinics operating across the country, primarily in Alberta, right now and we are very, very pleased with their performance.

Broadly speaking, the Canadian consumer is making a decision to get primary care service from a pharmacy for a minor ailment and diagnosis and prescription. It's taking them an hour, okay, to go from the appointment to walking out with a treatment. And that could be compared to having to book an appointment with your GP and having to wait maybe a week to get an appointment and then to get a prescription and then be treated. So the improvement in access as a result of this expanded scope for the everyday Canadian is quite remarkable and something that we think will continue to make a really positive impact on the country from an access-to-care perspective.

Irene Nattel — Analyst, RBC Capital Markets

That's really helpful. Thank you.

Operator

Your next question comes from the line of Michael Van Aelst from TD. Please go ahead.

Michael Van Aelst — Analyst, TD Securities

Thank you and good morning. I want to start with the price increases that you're talking about. And last year had multiple increases kind of steadily throughout the year. This year, do you expect it to be the same or do you expect to see more front-end weighted, like more weighted to the Q1 increases you've already seen?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We don't know, Michael. Like the way, we just tally the cost increase requests as they come in and, as I was saying in my remarks, so far this year the number is lower than what we got last year, but it's still more than double what we were getting prior to the pandemic. So, when we look at what's happening with the commodity price environment, like we're still surprised to see these big numbers, but they're still coming in. So inflation is definitely going down, but it's not going down as fast as we thought, and so that's… I can't predict the future, Michael.

Michael Van Aelst — Analyst, TD Securities

Okay. So the $1 billion in product cost increase, was that all in Q1 or is that up until today?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Year to date. We quoted a year-to-date number, because we track that number every week. And the number that we're typically getting prior to the pandemic was around $400 million, okay, on an annual basis, and last year in 2022 the number was north of $2 billion. So we're already at $1 billion year to date. It's lower than where we were last year, so we're definitely heading in the right direction, but it's still quite high.

Michael Van Aelst — Analyst, TD Securities

And the $2 billion number last year, or over $2 billion last year, that was for the full year? That wasn't year to date, right?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

That was for the full year, yes.

Michael Van Aelst — Analyst, TD Securities

That's helpful. And as far as the indication that you're seeing or like the ones that have been already approved and coming through in the next few months, are there still a number of those or…?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

You've got all our numbers. We just shared with you all our numbers. You've got everything year to date, Mike. That's it.

Michael Van Aelst — Analyst, TD Securities

Got it. Okay, thank you. And then the (inaudible) EPS growth was quite strong, but you did that despite the financial services pre-tax profit declining $20 million and you had flat financial services EBITDA. So can you just walk us through the changes below the EBITDA line?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. Essentially, in the bank, as we've written in the press release and in my remarks, is the core performance of the bank continues to be well. Like spending is increasing, so that's definitely helping. But it's the movement in what we call ECL, which is expected credit losses, which are reserves that are dictated by OSFI and it's essentially a mathematical formula, and last year we were releasing reserves and this year we are increasing reserves and that delta is what is essentially the driver of the drop in $20 million in earnings before tax. So, if it weren't for that, our earnings per share would have been up another 4%.

Michael Van Aelst — Analyst, TD Securities

So you called out, I think, a $5 million reversal last year and the $6 million provision this year, so that's an $11 million swing. Was that not included in EBITDA then?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We look at it only as the earnings before tax. That's how we look at it at the bank. The bank is a bit different than when we look at our food business. It's all in there because there's stuff in interest expense because of how they fund themselves, so it's a little bit more complicated. I could walk you through this off line, Mike, if you want.

Michael Van Aelst — Analyst, TD Securities

Yeah, that would be helpful. And so the changes that have been made so far on that, that's bringing the market, the reserves up to date with the current economic expectations for the remainder of the year and so should we assume that that year-over-year impact isn't as meaningful if the economic conditions do not change?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It's tough to predict, Mike, but it should converge back to normal as the year progresses.

Michael Van Aelst — Analyst, TD Securities

Okay, thank you. Just finally, the Rx services, the volume, sorry, the volume in pharmacy was down 1.9. Does this include the services component?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, yes. That's a prescription, yes. Accounts for the prescription, yes.

Michael Van Aelst — Analyst, TD Securities

And sorry, what was the change in the services?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

So, services are down year over year. That was our plan, by the way, because COVID testing and COVID vaccines were so strong last year, but we're quite pleased with the performance of other services such as flu, med reviews, and other, which expanded scope of care falls into, and that is offsetting somewhat what's happening with COVID. We won't be covering all of the COVID stuff, like our plan is for services to be a bit down this year towards last year, but the growth in other stuff is still quite significant.

Michael Van Aelst — Analyst, TD Securities

All right. Thank you, Richard.

Operator

And your next question comes from Mark Petrie from CIBC. Please go ahead.

Mark Petrie — Analyst, CIBC Capital Markets

Thanks. Good morning. The SG&A increase seemed to moderate a little bit from what we've seen the last couple of quarters. I know you've spoken about your work to look for cost efficiencies, but hoping you can just expand a little bit on those initiatives. I don't know if you can give an example. And then also could you just talk about the labour market, what you're experiencing today in terms of wage rate inflation or perhaps what type of increases you're agreeing to in your most recent union contracts?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

So, in SG&A, Mark, you and I have discussed this at length a few times already this year, like we did most of our work last year to get ready for this year and so we are executing on our plan so that we can limit the growth of SG&A expense to a number that will allow us to deliver on our financial framework and we're already working right now on the plan for next year on that. So that's more of the same.

Labour, there's still a lot of issues with labour, like turnover in our stores continues to run really high, but we're happy to see that, in certain areas of our business, it's improving. Like for example, drivers, we no longer have any issue sourcing drivers. We're having more success finding people to work in our DCs. So definitely we're seeing improvement, even in store support, which is head office, where we've been able to fill a lot of the vacancies we were looking for. So the environment is improving, but we're still not out of the woods yet.

Galen Weston — Chairman & President, Loblaw Companies Limited

And maybe just one thing that I would add is that, with the inflation-adjusted minimum wage, which exists across most of the country now, we are seeing store labour pressure on the wage line, but when it comes to the labour negotiations that we are having, we've successfully agreed and ratified a number of agreements over the last number of months, and I think we said this before, they are at the high end of what we would consider to be a normal range if you net the inflation-adjusted minimum wage.

Mark Petrie — Analyst, CIBC Capital Markets

Okay. Helpful, thank you. Galen, I also wanted to follow up on your comments with regards to prepared food and I think the dynamics you're describing make a lot of sense. I'm just hoping you can talk about your efforts specifically there. And I know, for instance, there was a meal kit business that was sort of changed or dropped a couple of years ago, but I'm just curious if you see any other opportunities to accelerate your role in prepared meals, either with renewed programs or perhaps some structural changes just in terms of how you bring those offers to market.

Galen Weston — Chairman & President, Loblaw Companies Limited

Yes. So the meal kit business in the form that you would be thinking of, we were not able to make it work effectively. We couldn't make it work on a delivery basis and we struggled to make it work from an in-store pickup basis. Where we've seen really extraordinary results is in the stores in what we call the meal-time marketplace, and that's a series of products. It's oven-ready fresh product. I think you've seen it. It's a side of salmon in a tinfoil tray with lemon, with parsley, with butter, you just throw it into the oven and it's a fresh, very, very simple meal. We have seven or eight different recipes for programs like that. We also have precooked programs as part of the meal-time marketplace. And what we've been doing is we've been actively expanding that combined program to an increasing number of stores outside what you would consider to be the regular urban markets. And we're seeing sustained success. So, after years of trying to figure out what's the formula that consumers will embrace here, we think we've got something that's really good.

The second place that we're investing in and seeing really great responses is in what we call sort of the Pane Fresco value proposition, which was borne out of Fortinos. Bathurst and Lakeshore has the full pod concept of Pane Fresco, but what we're beginning to do now is we're taking specific pods out of that Pane Fresco like, say, the pizza program or the soup program, and we're deploying it in an increasing number of stores with lower capital investment.

So those would be the two places that we have the highest level of enthusiasm and optimism. One is reasonably capital intensive, the other is really just about rolling out the product program.

Mark Petrie — Analyst, CIBC Capital Markets

Okay, thanks for that. And are any of those programs available through like third-party delivery providers?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, Pane Fresco, I believe, is available through third-party delivery. And we have a couple of programs in stores in downtown Toronto that are also available through the delivery marketplaces. But it's not a big driver of the overall business in those fresh prepared meals.

Mark Petrie — Analyst, CIBC Capital Markets

Yeah, sure. Understood. Okay. And then just last one, Richard, any comment with regards to sort of the right-hand side of the store and the trajectory of that in Q2 to date? I think Q1 was a little bit more of a modest drag and just curious how we should think about the performance for Q2. Thanks.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We, right now, expect more of the same there. Like we're all get warm weather like we had a weekend three weeks ago. I don't know what happen since. So we need a bit nicer temperatures to get a few of these things going, but other than that, nothing unusual.

Mark Petrie — Analyst, CIBC Capital Markets

Okay. Appreciate the comments. All the best.

Operator

Your next question comes from Peter Sklar from BMO Capital Markets. Please go ahead.

Peter Sklar — Analyst, BMO Capital Markets

Good morning. I just wanted to discuss the 3.1% same-store sales you experienced in food. So, when you were talking about that, like I understand the 110 basis points, because you had that day closure related to New Year's, and I understand the 60 basis points related to the right-hand side, but you still had 10% to 11% inflationary tailwind. And so I know, Galen, you're really skeptical of this discussion, I think you call it street math, but putting that aside, it implies that you lost some traffic, traffic was down or baskets were smaller. But on the other hand you're saying that, in your commentary today, you did gain share in your market divisions and in your discount banners. So I'm just wondering if you could kind of wrap all that up and reconcile those statements.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

So let's start with market share to be precise, okay? So market share is up in discount, okay? In market, the conventional channel is down and we're doing better than the channel. So our market share in market is down, but it's down less than our peers. So that's exactly what's going on.

So, to get to your question on same-store sales, obviously you need also to look at the stacked math, okay, because we actually did pretty well last year in Q1. So if you add that together versus what we've seen from peers, we actually have decent numbers. But what's really happened here, okay, I think what really happened and people need to appreciate is we were in lockdown last year because of Omicron, okay? And in lockdown, food retail does better because we're stuck home and drug retail does worse for the same reason. So, if you look at our same-store sales performance in each of the three months of Q1, we started same-store sale in P1 at around 0, okay? In P2 we were around 4 and we finished like around 6 in P3. And we said inflation, say, was around 10 for the whole quarter, okay? It was higher in P1 and lower in P3.

So if you look at Omicron, like which everybody was stuck home, for sure, like for sure there's less tonnage, because we were not locked out in and locked home this quarter. But if you look as we exit the quarter, okay, with inflation a bit lower than the whole quarter and same-store sales much higher than our number, like the street math starts to come into place a little bit better and it starts to be a little bit closer to how we were commenting on our business at the end of the year. Like we were commenting that discount was essentially flat and that's what we're seeing as we exit the quarter and market is down a bit. So yes, street math doesn't work when you look at absolute numbers, but when you look at the business on how it's been trading during the quarter, it's actually quite rational.

Peter Sklar — Analyst, BMO Capital Markets

Okay. That's a good explanation. Thank you.

Operator

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

Chris Li — Analyst, Desjardins

Good morning, everyone. Maybe just a couple of ones on Shoppers. You mentioned that front-store sales are returning more to normal levels. Does that mean that we should also expect gross margin to start to stabilize as well since it has grown very strongly in the past few quarters? And then maybe related to that, are you seeing any notable slowdown in beauty as the consumer starts to feel more pressure? Thank you.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Front of store continues to do quite well, better than planned, and margin continues to do well. We keep being surprised with cough and cold. Like you remember the story about cough and cold being strong throughout last year and it's off its peak, it's definitely half its peak, but it's still running high, and that's a high-margin business. And so we're always thinking that it's going to end anytime soon, but it's not, and so that’s something that we worry a bit about, maybe it’s going to revert back to normal, but it’s not. So that’s definitely helping.

So, having said that, I think what’s important to appreciate from Shoppers perspective, especially on front of store, is that Shoppers last year, because of Omicron, as I was mentioning earlier, was doing worse. So it’s doing really well in Q1, it has very strong comp performance, but as the year progresses we’re going to see comp go back to more normal growth levels, which is what we have in our plan, and that’s fine. And we feel we’re going to continue to have very good margin performance in the business and so we should be able to continue to deliver. So that’s how you should see it, Chris. So we feel good about where Shoppers is right now and how it’s positioned for the next few quarters.

Chris Li — Analyst, Desjardins

That’s helpful. And the beauty business in particular, is that still holding up?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, it’s holding up nicely.

Chris Li — Analyst, Desjardins

And maybe just another one on Shoppers. I mean there’s no question the pharmacy services revenues, there’s a lot of long-term upside. I’m just curious to ask when will you be in a position to perhaps put some numbers around the longer-term revenue opportunity on the (inaudible) practice for pharmacists?

Galen Weston — Chairman & President, Loblaw Companies Limited

Not for a while. I mean I think I have shared this before, it's going to be an attractive, very meaningful part of the business, but you shouldn't think about it as a transformational growth driver for the Shoppers Drug Mart business. You should see it as a as a productive complement to the core business performance that we've been delivering over the last few years.

Chris Li — Analyst, Desjardins

Okay. Thanks for that. And Galen, maybe just switching gears to food a second, even though inflationary pressures will likely ease in the second half, prices are obviously still meaningfully higher than they were a year ago and might be in a recession. So I guess my question is, just based on your experience, how sticky are the Shoppers once they have shifted to discount? Are they going to be there for longer before switching back to markets even though prices may be stabilizing?

Galen Weston — Chairman & President, Loblaw Companies Limited

It's a really good question and I'm not sure we know yet. I mean I was looking at some data this morning that showed a drop in the cross-shop rate, for example, in P1 this year and an increase in the performance of the discount business. That would suggest that customers are increasingly dedicated to a single-format shop, which would be worrying for our conventional channel. But in the subsequent periods we saw that normalize again and we saw that cross-shop rate continue to grow. And then we looked back the year before and we saw that that drop seems to be specific to that P1 sort of post-January level. And so the expectation I think we should have is that there will be a normalization. The broader context though, and I've said this also before, is that in the decade prior to COVID we have seen virtually all of the growth coming from the discount channel, largely because that's where all of the competitors, ourselves included, were adding new stores.

Chris Li — Analyst, Desjardins

Okay. That's helpful. And maybe just a quick, last quick one on e-commerce. You mentioned that e-commerce penetration was back to the level it was in Q1 a year ago. Just curious to see if you can share with us what is the e-commerce penetration number. And secondly, I know no one has a crystal ball, but curious to get your view on where you see online penetration going over the next two to three years.

Galen Weston — Chairman & President, Loblaw Companies Limited

I don't know if, yeah, so Richard's giving me the signal, so we're about 5% in terms of e-commerce penetration in food. And predicting what the sort of normalized growth rate for food e-commerce is ultimately going to be still an open question but, as Richard pointed out, we are beginning to see a growth rate. And certainly the high inflationary environment is putting some pressure on online delivery, because it's a more costly channel, and so it'll probably stay, I'm guessing it's going to stay moderated during the peak of this recession.

Chris Li — Analyst, Desjardins

Okay. Thanks very much.

Operator

Ladies and gentlemen, as a reminder, should you have a question, please press the star followed by the one.

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

Vishal Shreedhar — Analyst, National Bank Financial

Hi. Thanks for taking my questions. With respect to the Choice property sales, was there a gain in the quarter and, if so, did it benefit EBITDA in the retail segment and how much?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Not material, Vishal.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. So in the notes it's says $19 million gain related to the Choice. Was that reflected in...?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

I thought it was $9 million, but yeah, maybe that's the right number. I thought the gain was $9 million. But that would be in our numbers. But like we're selling a little bit more real estate now, but we've always had those build gains throughout the year, so it's not what's driving the business.

Vishal Shreedhar — Analyst, National Bank Financial

I see. And when you reflected on your outlook for the year, did you reflect on the gains associated with those real estate transactions to fall to the bottom line and that's reflected in your (inaudible) outlook?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. Thanks for that. Switching here to the Rx business, the actual price increase in prescription, that includes services? Because it was a larger than usual this quarter.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, it includes services.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. So is that the run rate that we should assume for the year or is there some peculiarity because of COVID on a year-over-year comp?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

I don't think there's any peculiarity, Vishal. I can check, but I don't see any.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. Okay. And just changing topics once again, I was hoping you could reconcile something for me. Just looking and observing restaurants, they seem to be noting, in general, good trends, seemingly positive tonnage, and the grocers, and I know there's peculiarity just associated with restrictions, but the grocers are seem to be reporting negative tonnage, at least on the street math that we have. I'm wondering if that's something that management is looking at or has observed and, if so, do you expect that trend to revert where there's increasing people going back to grocery stores?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, I mean, look, I think, first and foremost, it's very, very hard to glean much from the year-over-year tonnage performance numbers because of all of this COVID disruption. Remember, our tonnage went way up during COVID, the restaurants' tonnage went way down, and we still have that lapping effect inside of everybody's numbers, and it just creates confusion and lack of clarity.

But definitely the restaurant business is robust right now, despite the inflationary pressures and despite the economic uncertainty. My guess is that the primary reason for that is that we still, we do have a bifurcated consumer, consumers who still have robust disposable income and then those who are under severe economic constraints. And all I can tell you is that, in our case, we are seeing people make some kind of a value choice by spending more money buying value-added food than we've seen in the past and our explanation for that is that people are trading a restaurant meal during the week for those products.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. So maybe it's not a fair question to ask given what you've just said, but the reason why I was asking is, is it reasonable, like is the restaurant industry as a whole gaining market share from grocers and taking away eating occasions and, if so, do we expect that similarly to revert?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, you're asking if there's a share of stomach trade here that could benefit the grocery industry at some point. It certainly has historically. There has tended to be a benefit to grocers as restaurant business ebbed and some pressure as the restaurant business flowed. I don't know precisely what's going on at this moment in time, but it's a reasonable hypothesis.

Vishal Shreedhar — Analyst, National Bank Financial

Thanks for the colour.

Operator

Roy, there are no further questions at this time. Please proceed with your closing remarks.

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

Great. Thanks very much, everybody, for your time. If you have any follow-up questions, drop me an e-mail or give me a shout. And mark your calendar for Wednesday, July 26, 2023 when we will be releasing our Q2 results. Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for joining and you may now disconnect your lines. Thank you.