FINAL TRANSCRIPT

Loblaw Companies Limited

First Quarter 2024 Results Conference Call

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CORPORATE PARTICIPANTS

Roy MacDonald
Loblaw Companies Limited — Vice President, Investor Relations

Richard Dufresne
Loblaw Companies Limited — Chief Financial Officer

Per Bank
Loblaw Companies Limited — President and CEO

CONFERENCE CALL PARTICIPANTS

Irene Nattel
RBC Capital Markets — Analyst

Mark Petrie
CIBC — Analyst

Michael Van Aelst
TD Securities — Analyst

Tamy Chen
BMO Capital Markets — Analyst

Vishal Shreedhar
National Bank — Analyst

George Doumet
Scotiabank — Analyst

Chris Li
Desjardins — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Loblaw Companies Limited First Quarter 2024 Results Conference Call. At this time, all lines are in a listen-only mode.

Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press *, 0 for the Operator.

This call is being recorded on Wednesday, May 1, 2024.

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

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

Thank you, Lara (phon), and good morning, everybody. Welcome to Loblaw Companies Limited first quarter 2024 results call.

I'm joined this morning by Per Bank, our President and Chief Executive Officer, and by Richard Dufresne, our Chief Financial Officer.

As always, before we begin the call, I'll 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 and, 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 filed materials with the Canadian securities regulators.

Any forward-looking statements speak only as of the date they're made, and the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, other than what's required by law.

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

And with that, I'll turn the call over to Richard.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you, Roy, and good morning, everyone.

Our first quarter results demonstrate continued delivery of steady operational and financial performance. Our top-line performance was strong, with earnings growth in line with our framework.

On a consolidated basis, revenue grew by 4.5 percent to $13.6 billion, and EBITDA increased by 6.6 percent.

Adjusted diluted net earnings per share grew by 11 percent to $1.72.

On a GAAP basis, our net earnings per share grew by 14 percent.

Drug Retail delivered another strong quarter. Our absolute sales increased 4.2 percent, and same-store sales grew 4 percent.

Front store same-store sales grew by 0.7 percent, lapping growth of 10.3 percent last year.

Cosmetics and health and beauty continued to deliver very strong results, supported by elevated cough and cold sales.

Overall, we are very pleased with the ongoing strength of our front store business.

We have made the decision to exit most of our electronics category. As such, it will negatively affect our front store sales for all of '24 as we cycle out of it.

Pharmacy and healthcare services grew same-store sales by 7.3 percent, driven by broad strength in prescription services.

Our specialty and acute prescription growth led our pharmacy numbers. Additionally, customers continued to respond very positively to the convenience and level of care we offer through our more than 2,100 pharmacies across the country.

In Food Retail, we recorded strong top-line growth, with absolute sales up 4.4 percent and same-store sales growth of 3.4 percent.

Our internal inflation rate was lower than food CPI again this quarter. This helped bring CPI grocery inflation below the headline total inflation rate in Canada for the first time in over two years.

Our strong same-store sales, combined with a lower internal inflation rate, clearly highlights the strength of our discount banners, private label brands, and PC Optimum offers.

Tonnage, traffic, and market share performance were all strong. We saw market share gains in both our market and hard discount banners, with solid tonnage growth in each.

As expected, the consumer shift to discount continues, with our hard discount banners outperforming our conventional stores.

Right-hand side had a negative impact on Food same-store sales of 66 basis points. These categories remain accretive to our gross margin, and we continue to carefully manage inventory levels.

Online sales in the quarter increased 16.1 percent, and delivery continues to outperform as a channel.

Across Food Retail, our strong sales, market share, and tonnage performance are a clear indication that our efforts resonate with customers. More and more Canadians choose our stores for value, quality, and service.

Total Retail gross margin was 31.6 percent, growing 30 basis points.

Higher Drug Retail margin, mainly due to sales mix and continued progress in reducing shrink, drove our improvement this quarter. We have executed on a number of initiatives to improve shrink in our stores and are pleased with the positive momentum.

We remain focused on delivering stable gross margin this year, in line with our financial framework.

Turning to SG&A, our spend rate as a percentage of sale increased 40 basis points, driven by year-over-year impact of certain real estate activities and labour costs, and costs related to network optimization, partially offset by operating leverage.

Adjusted Retail EBITDA increased by $62 million, yielding a margin of 10.9 percent, in line with last year.

The quarter saw strong performance at the bank. PC Financial's revenues increased 10.7 percent, driven by growth in the credit card portfolio and strong services growth at our Mobile Shop.

We were excited to launch No Name Mobile in the quarter, providing Canadians with a great opportunity to save on their mobile plans and even more PC Optimum points to put towards free groceries faster. One mobile expert called it the best deal in the country, and I agree with them.

The bank's adjusted earnings before tax increased by $32 million, with higher interest income and lower operating costs offsetting higher credit losses and loss provisions.

We remain very comfortable with the risk profile of the bank's portfolio. We have a strong and well-capitalized balance sheet, and we continue to take a conservative position in our provisioning.

On a consolidated basis, adjusted EBITDA increased by 6.6 percent to $1.54 billion.

Our retail free cash flow used in operating activities was $359 million, as we typically see a seasonal outflow in Q1.

In the quarter, we repurchased $470 million worth of common shares and announced a 15 percent dividend increase, our 13th consecutive annual increase.

Our balance sheet remains strong, and we continue to improve our key return metrics.

Our return on equity sits at 22.6 percent, and our return on capital at 11.6 percent.

Looking ahead, we continue to be pleased with our market share performance in Food.

That said, in the second quarter, we will be lapping 6.1 percent Food in comps in the comparative quarter versus 3 percent in Q1 of 2023. So we expect Q2 Food same-store sales to be lower than Q1.

In Drug, cough and cold sales are slowly returning to normal.

As discussed on the last call, we expect to continue to deliver on our financial framework.

I will now turn the call over to Per.

Per Bank — President and CEO, Loblaw Companies Limited

Thank you, Richard, and good morning, everyone. I'm pleased to be here to discuss our first quarter results with you.

We ended the quarter where we started the year, with confidence, strength, and momentum across our businesses.

Last quarter, I talked about the tremendous commitment, diversity, and experience of our team from coast to coast. Together, we continue to execute well across our businesses, keeping costs low and providing superior value, quality, and service to Canadians. That flow was a contributor to another quarter of consistent operational and financial performance.

This was especially evident in the strength of our Food business. Richard highlighted the financial results. The key metrics are around volume. And our numbers for both traffic and items sold in our food stores this quarter were very strong and positive in both our discount and conventional banners.

Canadians are recognizing that we are providing the combination of value, quality, and service that they want, and they're rewarding us with their business. They are voting with their feet.

I'm not sure you have all seen our new Hit of the Month promotion, which is really working well for us. Hit of the Month offers a great price on a few selected items, and it's available at the same price in all our food and drug stores across the country.

But it is not the only value driver. Across our banners, we're giving Canadians better value for money by giving them relevant promotions both through our strong flyer program and personal offers from our leading digital PC Optimum program.

Canadians remain very focused on value, and our Maxi and No Frills banners continue to outperform.

We're building on last year's momentum with a plan for more conversions plus net new stores to add more than 50 additional hard discount stores.

I talk a lot about the strength of our hard discount banners, but I'm also excited about our opportunities in our supermarket division.

To give you an example, we have brought together all our Superstores nationally under the leadership of Frank Gambioli. We will now operate 180 larger format stores across the entire country from coast to coast, leveraging the success of our western Real Canadian Superstores with better scale, better support, and more consistent custom offers, while also working on improvement to our right-hand side of merchandising.

This is just a beginning. We'll have a few test stores ready in the fall and, depending on the results, we'll evaluate how to bring these learnings to the rest of the stores. This will help us to offer even more value and selection to consumers to drive more traffic and sales to these great stores.

Across the board, we continue to build on the strength of our assets and opportunities to drive our business forward, and we will be bringing even more excitement to all our stores. I look forward to sharing more details of these new programs as the year progresses.

I'm pleased with the performance of our digital business in the quarter. As Richard mentioned, our online sales increased by 16 percent. That's the highest level in two years. We continue to enhance our customer experience and differentiate ourselves by offering more choice and flexibility.

Turning to pharmacy, we delivered another strong quarter in Shoppers and Pharmaprix stores, primarily led by strength in front store, where we were able to deliver same-store sales growth on top of double-digit growth last year.

That continual strength was again led by our beauty business and a strong cough and cold season. Our boutique beauty categories again delivered high single-digit growth. In pharmacy, our associate owners and their teams are playing an increasingly important role in serving the health needs of Canadians, and we continue to be a preferred destination for Canadians looking for help managing their complex needs.

I wanted to share a powerful example of how skill and scale come together to highlight our value to consumers and help to grow our business.

At Shoppers, our beauty customers are already well represented amongst our most loyal PC Optimum customers. So, two months ago, our beauty specialist launched a campaign to highlight the power of PC Optimum and our PC Mastercard to the rest of their clients.

This message resonated really well, generated thousands of applications for a new PC Optimum Mastercard and higher than average conversion rate.

Speaking of PC Financial, the bank also had a strong start to the year. Richard highlighted our double-digit sales growth. But our mobile services business actually grew faster than our credit card business in the quarter. The launch of No Name Mobile is just another example of us using our scale and scope to provide everyday value to Canadians.

Looking ahead, our focus remains on our strategic pillars of retail excellence, driving growth, and investing in the future while, at the same time, embedding ESG into everything we do. This year, you'll see our investment built—with our investment, you'll see us building even more new stores, including over 20 Shoppers Drug Marts.

Behind the scenes, we're also investing in focused initiatives to drive positive environmental and social change. I would like to share a couple of examples that I'm particularly proud of.

As of year-end 2023, we achieved an 11 percent reduction in Scope 1 and 2 carbon emissions towards our net zero target.

As part of our carbon plan, we have entered into a renewable energy plan to eliminate carbon emissions from electricity purchases in Alberta, and we rolled out our first 14 heavy duty fully electrical transport trucks. And I recently had the opportunity to drive in one of these vehicles, and they're very impressive, and I must admit I had a bit of fun there.

On food waste, we diverted more than 78,000 metric tons of food waste, up 20 percent from last year. Our distribution centres and each of our food and drug retail stores now have an individual partnership with a food recovery program to make sure good food goes to people in need, and we reduce the waste sent to landfill.

Today, we published our 17th annual ESG report. I hope that you'll take the time to review the details of these and the many other excitement and important initiatives that we have underway.

We'll now open it for questions. Thank you.

Roy MacDonald

Thanks very much, Per. And, Lara, could I ask you to introduce the Q&A process?

Sorry. We can't hear you, Lara.

Q&A

Operator

Apologies. I was on mute. All right, everyone. Ladies and gentlemen, you will now begin the question-and-answer session. If you have a question, please press *, followed by the number 1 on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. Should you wish to decline from the polling process, please press *, followed by the number 2. If you are using a speakerphone, please lift the handset before pressing any keys.

One moment, please, for your first question.

Our first question comes from the line of Irene Nattel from RBC Capital Markets. Go ahead, please.

Irene Nattel — RBC Capital Markets

Thanks, and good morning, everyone. I was wondering if you could please give us a little bit more detail on what you're seeing in terms of consumer spending patterns. Trade down? Promotional penetration? And also, sort of discretionary—more discretionary versus less discretionary items, what you're seeing there, please?

Per Bank

Yeah. Thank you, Irene.

I think we are seeing more of what we have seen over the past half year. So customers, they continue to look for value. And what we have offered them in the quarter of extra promotions, whether it's our greater (phon) No Name promotions at the beginning or some of the other initiatives that we are doing, customers, they are turning into buying more into our promotions.

So we're getting them more value, and that's actually across the piece. It's both in our Shoppers, in our Super, and in our market division, plus in our No Frills. So customers, they are acting kind of the same everywhere.

But when this is said, we are seeing that customers, they are voting with their feet, and they're going even more into our hard discount stores. So I think that's more of the same as we have seen before.

Irene Nattel

That's great. Thank you. And presumably, private label continues to grow more rapidly than national brands?

Per Bank

I think what we will see this year is that I expect that both the national brand and the controlled brand will grow with the same pace because we have started some new initiatives where the brands are getting a little bit more focus.

But when customers, they want to mitigate their own inflation, that's when we are seeing that they are buying into our controlled brands. They're buying more on promotions, and they're shifting to discount.

But overall, I think this year, we'll probably see that they're moving at the same pace because we are happy with the level that we're seeing.

Operator

Thank you—

Irene Nattel

Sorry. I was on mute. Just switching gears for a moment.

Code of conduct, a lot of discussion recently, still. Wondering if you could please just update us on where you stand at this point? And how we should expect it to proceed?

Per Bank

Yeah. I think we might have a bit of a new perspective here because our teams have been working closely with the committee over the past weeks. And I think the code is beginning to get into a place where I'm starting to become cautiously optimistic. Where it's going to land, I'm of course not sure, but I'm more optimistic now than before that we can land an agreement on the code.

Irene Nattel

That's great. Thank you.

Operator

Thank you. Our next question comes from the line of Mark Petrie from CIBC. Go ahead, please.

Mark Petrie — CIBC

Good morning.

First, on the gross margin performance. Could you just talk about the relative performance in Food?

And then, when it comes to the favourable mix at Shoppers, is that really beauty outperforming and food underperforming?

Richard Dufresne

No. I think what we're seeing is, essentially, what's happening is our trading margin is more or less flat, and shrink is getting better. That's the key thing. And that's what you should expect to continue to see in Q2 because Q2 last year was our quarter of peak shrink. So that's what's driving gross margin, mostly.

Mark Petrie

Yeah. Understood. And it was stable in Food? Is that fair?

Richard Dufresne

It was better in Food.

Mark Petrie

Okay. Okay.

Richard Dufresne

It was better. Gross margin was better in Food and shrink improved in Food. Like what we've said to the market is we expect the shrink to improve by about 20 basis points this year, on top of flat trading margin. And if you look at year over year, we're already at 16 basis points in Q1. So we're well on our way to deliver on our shrink improvement for 2024.

Mark Petrie

Okay. Helpful. Thank you.

And, Per, I know you have plans for the right-hand side of the store. But could you just give us a sense of the timing on when we should expect to see some of those changes take effect?

And what do you think is realistic timing for right-hand side to become a tailwind to the Food Retail same-store sales?

Per Bank

Yeah. I think it's a good question. And I have a—while I have high ambitions, I'm cautious to promise a lot and especially in this meeting. But we will see the first three stores no later than end of Q3. At least, that's our plans right now, so three test stores.

And before then, we'll probably do some quick wins and roll some initiatives out at the right-hand side of the stores. But it's still early days, and we have some of the quick wins in one or two stores now. So we are starting to see the results that I expected to see. But I think it's good to save a bit to later so we can continue to improve our numbers.

Mark Petrie

Yeah. Okay. And maybe for Richard. Can you quantify or help us sort of frame what you expect the impact to be of the exit of electronics in Shoppers on both same-store sales growth and margin?

Richard Dufresne

Let me just say it's a few-hundred-million-dollar business that right now is declining by double-digit because we're slowly exiting it, so.

Mark Petrie

Okay. Perfect. Helpful. And I'll pass the line. Thanks. All the best.

Operator

Thank you. We have our next question coming from the line of Michael Van Aelst from TD Securities. Go ahead, please.

Michael Van Aelst — TD Securities

Hi. Good morning.

Strong performance on the food same-store sales. But I want to focus, to start, just on the front store on drug because I'm just trying to combine everything that you said. But you talked about the cosmetics and the beauty in general being stronger.

Is it just staying strong and kind of moving sideways? Or is it actually still growing? Was that what you were saying was growing high single digits?

Richard Dufresne

Yeah. It's staying strong, Mike. That's the best way to characterize it. And I mentioned in my remarks that we now start to see cough and cold starting to revert back to normal. So we'll see over the next few months how that goes, but we started to see that over the last few weeks.

Michael Van Aelst

Okay. So Per made a comment, something was growing high single digits, I think. What was that?

Richard Dufresne

Sorry, Mike. I missed the question.

Per Bank

And that was the beauty.

Richard Dufresne

Yeah. That was the beauty. Yeah.

Per Bank

That was the beauty. So you are right. So generally, the beauty category is actually growing over and above the food, which it has done in the past. And that's also what we predict going forward. And with higher margin in that part of the store, we're very pleased with that.

Michael Van Aelst

Okay. So would the offsets to the strong performance in beauty, it was the two offsets, whereas cough, cold and flu, and electronics. And were there others?

Richard Dufresne

Food and also is a bit negative too, Mike.

Michael Van Aelst

Okay. Right.

On the e-commerce, the 16 percent growth was staying pretty strong. And one of your peers said that it was that they thought the food industry growth was flat in e-commerce. But the three of you are all delivering some decent growth. So what are you seeing on e-commerce in food?

And is it more in your discount banners versus your conventional banners?

Per Bank

So we're seeing that the overall on online is up 16 percent. The beauty is up a bit more, and Food is up a bit less. So Food is up, still double digit. And if I look at the contribution of our food online, it's almost 15 percent to 20 percent of our total growth in the food sector. So it's good. It's a good contribution that we have.

But no, it's not more hard discount. It's as much from the normal channels that we have. And as you know, that we are both offering food online from our hard discount and from our conventional and from our Superstores. And we're still seeing the same mix that most of the shops are being picked up in our stores. So it's still Click and Collect (phon) that matters the most which, of course, we are really happy with.

Michael Van Aelst

So—

Per Bank

So it’s a meaningful contribution. Yeah.

Michael Van Aelst

Yeah. So why do you think—

Per Bank

Yeah. Pickup is flat, Mike. Pickup is flat. PC Ex is up a lot. And what we call Marketplace as the cart and DoorDash are up double digits. But the big, big growth—like big—is PC Ex delivery. That’s where we’re getting like triple-digit growth.

Michael Van Aelst

Okay. So triple-digit growth in PC Ex. I think I cut you off at one point, but. And then you said some growth in the third parties as well, though—

Per Bank

Yes.

Michael Van Aelst

—but not as much.

Per Bank

Not to the same extent, but yes.

Michael Van Aelst

Okay. So why aren’t we seeing better growth in discount e-commerce versus conventional e-commerce, given the health of the consumer?

Per Bank

Because I think we are not focused as much on e-commerce and discount. Discount is a discount. There's No Frills, and it's primarily in the bigger stores where we can cope with picking in stores.

So for me, it's more a play in the market and in the Superstores, and you also see that around the world. There's not a lot of discounters doing it. But we are picking up, and we are doing better. But it's still relatively small in the discount part.

Michael Van Aelst

Right. Great. Thank you very much. I'll pass it on.

Operator

Thank you. Our next question comes from the line of Tamy Chen from BMO. Go ahead, please.

Tamy Chen — BMO Capital Markets

Hi. Good morning. Thanks for the question.

I wanted to ask, how are you driving this tonnage improvement? What would you call out as the biggest game changers because it doesn't appear to be at the expense of Food margin? As you said, your trading margin is flat. But you mentioned there's more uptake of your promotions. So I would still think that would translate to some impact on your trading margin. So I'm just trying to understand how—

Per Bank

Yeah.

Tamy Chen

—it seems you're striking a balance, a good balance between both good tonnage but it's not coming at the expense of your Food margin.

Per Bank

No. I think that's—we can congratulate our great buyers for achieving some good promotions with still some decent margins because you're absolutely right. Some of our promotions are driving a lot of growth.

But still remember, in the beginning of the year, we had a great No Name campaign. And customers, they loved our No Name campaign and buying more into those, even though that was not driven by promotion.

So again, I think I said it before, I would love to get more support for our CPGs, our suppliers, because they do have money to invest and many of them, they're also looking for volume. So we have some good strategic partnerships with them that does help both us and them.

Tamy Chen

Okay. Got it. And with respect to the trade-down by the consumer, would you say, at this point, the degree that they've shifted into discount has stabilized?

Or are you still seeing, right now, every period as we go through, just still more and more are going into discount?

Per Bank

Yeah. Let's see. It's difficult to predict the future but, actually, I would probably see that it's going to continue, but continue with a slower pace than before. But I think the shift to discount will continue over the next many years, like it has done in probably any other country where discount is a dominant factor.

Tamy Chen

Got it. Thank you.

Operator

Thank you. Our next question comes from the line of Vishal Shreedhar from National Bank. Go ahead, please.

Vishal Shreedhar — National Bank

Hi. Richard, in the past, you've segmented Shoppers' EBITDA for us on the calls from time to time. That's very useful. Wondering if you could help us understand the healthcare services piece within Drug Retail revenues. How large is that portion of Drug Retail sales?

Richard Dufresne

Hi. Good morning, Vishal. We don't want to share that, for obvious reasons, but like we're very happy with the growth in services, and so that continues to be a growth vector for us.

Vishal Shreedhar

Okay. A higher-margin growth vector. Correct?

Richard Dufresne

Yes. Yes.

Vishal Shreedhar

Okay. You delivered 0.3 percent square footage growth in the quarter. Wondering how you see the mix of square footage growth between Drug Retail and Food as that number accelerates, looking forward.

Richard Dufresne

Yeah. This year, though, think about like in terms of new stores, we're talking 40-plus new stores, 20-ish Shoppers, and the balance food. And on top of that, we've got conversion, which we refer to as network optimization. So that was what I was referring to in our SG&A, because 2024 is more or less the last year that we'll have a large network optimization program. So that's why you see some noise in our SG&A in the quarter.

Vishal Shreedhar

Okay. Okay. So we should think of square footage growth being more biased towards food in 2024. That's correct?

Richard Dufresne

Yes, because food stores are bigger than Shoppers, so yes.

Vishal Shreedhar

Okay. And going forward as well?

Richard Dufresne

Well, we'll talk about that next year when we're there.

Vishal Shreedhar

Okay. Can you isolate for us the impact on SG&A associated with these optimization initiatives?

Richard Dufresne

It's like—no. Okay? But it's like—it's not insignificant. Like it's more than $10 million.

Vishal Shreedhar

Okay. And did you highlight for us the impact of right-hand side on the comp?

Per Bank

Yes.

Richard Dufresne

Yeah. Yeah. Yeah, 66 basis points.

Vishal Shreedhar

Okay. All right. Thank you—

Richard Dufresne

Hopefully, over time, we can switch that around.

Per Bank

That's the plan. Absolutely.

Vishal Shreedhar

Okay. Thank you.

Operator

Thank you. We have our next question coming from the line of George Doumet from Scotiabank. Go ahead, please.

George Doumet — Scotiabank

Yeah. Good morning, Per and Richard.

Just a follow-up to the SG&A discussion. It was 6 percent inflation. I think you mentioned some one-timers there. Maybe if you can help us, Richard, unpack that, just to get a good sense of maybe what the run rate could be for the rest of the upcoming quarters?

Richard Dufresne

Thank you for asking that question because we said, at the beginning of the year, we expect our SG&A rate to be flat. And that is still the plan.

The reason I feel confident about that is we've got some tailwind in the second half of the year, which will allow us to offset what we're going to be facing in the first half. So that's how I would characterize SG&A for the year.

George Doumet

Okay. Understood. And, Richard, we put up 11 percent EPS growth for Q1. Your annual guidance calls for high single digits. So we're early in the year. I get it. But maybe any areas that you would point to that, perhaps, could see a deceleration as the year progresses?

Richard Dufresne

What we continue to say, George, is that we feel confident that we're going to be hitting EPS within our framework, 8 percent to 10 percent. And that continues to be the plan.

George Doumet

Okay. Just a final one for me. On the capital gains changes recently announced, should we think of any changes at all to maybe land sales or George Weston activity as a result of all that?

Richard Dufresne

Not really. Like, it's pretty minimal, the impact on this.

George Doumet

Okay. Thanks for your answers. I'll pass the line.

Richard Dufresne

Thank you.

Operator

Thank you. We have our next question coming from the line of Chris Li from Desjardins. Please, go ahead.

Chris Li — Desjardins

Hi. Good morning, everyone. My first question is, I think on the last earnings call, you had mentioned that your food gross margin is still well below the pre-pandemic level. Is that mostly because of the mix towards discount and investment in pricing and higher shrink?

And then, I guess a follow-up question to that would be, as conditions normalize over the longer term, do you think there's a potential for food margin to return to the pre-pandemic level? Or do you expect it to be structurally lower going forward? Thanks.

Per Bank

Maybe I can start to answer the last question, and then Richard can take it from there.

I think that for us, we are going for a stable, stable gross margin, and then we want to grow the business. Because we want to take whatever we can negotiate of better terms and reinvest back into prices to give our customers more value because that's what they need and thereby growing the business. I think that's kind of the strategy of it, not to start to have a lot more (phon) marketing just because we can.

Richard Dufresne

So, Chris, if we go back in history, yeah, we don't want to go back to pre-pandemic levels.

Now if you remember, we got back in Loblaws, I guess, in the spring of 2021, and the result of our action was a significant improvement in the gross margin trend of the business. And so stability in gross margin continues to be our objective.

Having said that, like even in Q1, we have not reached the peak level of gross margin that we've hit in—I think it was in Q2 of '21. So we're still below that, that high mark.

Chris Li

Okay. That's helpful. Thank you.

And then maybe switching gear to the pharmacy clinics, are you able to share with us how many pharmacy clinics did you open this quarter? And are you on track to open roughly about 140 this year?

Per Bank

Yeah. I think we've opened six so far year to date.

And yes, we are on track to do the 140 that we talked about it in the last time.

Richard Dufresne

Yeah. Chris, as you know, real estate in the winter, we don't open many things. So—

Chris Li

Yeah.

Richard Dufresne

—it starts to accelerate now. So you're going to see that pick up over the coming months.

Chris Li

This might be a bit too early to say. But I think in the past, you've mentioned that in Alberta, the clinics that you've opened last year, you did see some notable halo impact on front store sales from those pharmacy clinics. I'm just curious to see, are you continuing to see that impact as you open more pharmacy clinics?

And is that mature enough to actually help that we're seeing that in the front store sales number?

Per Bank

Yeah. I think we'll have to get back to you on that exact number, but I haven't heard anything that we're continuing to see these stores trading over and above the others. But we'll have to come back to you on that one.

Chris Li

Okay. That's great. And just my last question, more high-level question, Per, for you.

You guys obviously have a world-class loyalty program. A lot of investment had been made over the years to really enhance the personalization with target offerings.

Per Bank

Yeah.

Chris Li

I guess my question is, is that—my question is, as the stakes in the loyalty game continue to increase with new offerings by competitors, especially in Ontario and later this year, what does the roadmap for PC Optimum look like over the longer term? How are you—like what can members expect more than what they're getting—

Per Bank

No. I—

Chris Li

—from you now?

Per Bank

We have taken two new tools, so internal names, we call it CDP and P13M. So Lauren and the team, they are much, much better this year than last year to do some mass personalization to our customers.

So our individual customers, they will get targeted offers, which is good for them and good for our business. So we are seeing the numbers that we are having more digital engaged customers, which is driving some of the growth and also incremental growth.

So we stay bullish on having one of the best loyalty programs, digital programs in the world right now, so we're going to do more of that, definitely. Thanks.

Chris Li

Thanks very much.

Operator

Thank you. Ladies and gentlemen, just a reminder, should you have a question, please press *, followed by the number 1 on your touch-tone phone.

We have our next question coming from the line of Mark Petrie from CIBC. Go ahead, please.

Mark Petrie

Yeah. Thanks. I just wanted to follow up.

Obviously, hard discount is a key focus for you and an area of strength and growth. And I know SKU count is one of the key levers within that concept or that channel in terms of driving efficiency.

Could you just talk about what you're seeing there, the potential for shifts in efficiencies? I know you sort of had some tests and just curious if you're at the point that you think that's scalable through the rest of the network, or how you're sort of thinking about leveraging that.

Per Bank

Yeah. No. You're absolutely right. I think that some of our hard discounts, if I have to be a little bit critic to ourselves, we are running them a bit like supermarkets. So we can do it better. And I think we can take more efficiency gains in our hard discount stores. But for me, it's important to state that we will continue to put proportionally more labour into our produce and into our meat because Canadians, they love the greater produce and meat offers that we are offering in our hard discount.

So we will not be copying the German discounters there. We will do more of what we do already but trying to be more efficient. And yes, I have a list of things that we can do and that we will do, and we will improve our efficiency, but I'm not that willing to share those with the world right now.

Mark Petrie

So this is something that's still sort of in the test and refining—

Per Bank

Yeah. We haven't even started yet. So we're not even seeing it yet because some of the initiatives that we're going to plan, it takes time. And I also need to be careful because we have any—we have put in place a lot of new initiatives since I came on board. So we need to phase it in so the business and the organization can cope with it. And I also need to have some good initiatives next year.

Mark Petrie

Understood. Appreciate that. Thank you.

Operator

Thank you. There are no further questions at this time.

I would now like to turn the call back over to Mr. MacDonald for final closing comments.

Roy MacDonald

Thanks very much. Thanks, everybody, for your time this morning. If you have any follow-up questions, call or drop me an email.

And I'll ask you to mark your calendars for Thursday, July 25th, when we'll be releasing our Q2 results.

Have a great day.

Per Bank

Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines. Have a lovely day.