

Loblaw Companies Limited

Second Quarter 2024 Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. And welcome to Loblaw Companies Limited second 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 Thursday, July 25, 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

Great. Thank you very much, Lara, and good morning, everybody. Welcome to the Loblaw Companies Limited Second Quarter 2024 Results Conference Call.

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

So 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; 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, and the Company disclaims any intent 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 measure.

And with that, I'll turn over this morning's call to Per.

Per Bank — President and CEO, Loblaw Companies Limited

Thank you, Roy. Good morning, everybody.

Before we get to our quarterly performance, I would like to touch upon the settlement of class-action lawsuits that we jointly announced with George Weston Limited this morning. This matter concerned our involvement in an industry-wide price-fixing arrangement between 2001 and 2015 on certain packaged bread products.

As a reminder, upon discovering the arrangement in 2015, we self-reported immediately to the Competition Bureau and have been cooperating ever since. We have apologized for this price-fixing behaviour and reinforced the rigorous action taken at the time to address the issue, including overhauling how pricing is managed and significantly enhanced our compliant programs.

These measures, which remain in place today, are industry leading and include the establishment of an independent compliant office reporting to the Loblaw Board of Directors that has oversight of day-to-day compliance with laws and policies, including pricing practices.

The settlement is subject to the finalization of a binding settlement agreement with the plaintiff lawyers and court approval.

I'll now turn the call to Richard to discuss the quarter.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you, Per, and good morning, everyone.

I will just add that we are pleased to be able to put this issue behind us at both Loblaw and George Weston. It's over.

In 2024, we are seeing the normalization of our Retail business. The pandemic and the subsequent period of high global food inflation are now behind us.

As we compare our performance this year versus last, we see our same-store performance slowing.

At the start of 2023, food inflation was over 11 percent. It's now back to normal. Categories like cough and cold, which have been running at elevated levels for a while, are stabilizing.

We expected this last year and, as such, built our 2024 plan to reflect normalization while continuing to deliver our financial framework.

Our second quarter results demonstrate that. We continued to deliver steady operational and financial performance. Our performance continues to reflect our ongoing commitment to retail excellence and our continued focus to provide value to our customers.

On a consolidated basis, revenue grew by 1.5 percent to \$13.9 billion and adjusted EBITDA increased by 4.5 percent.

Adjusted diluted net earnings per share grew by 10.8 percent to \$2.15.

On a GAAP basis, our net earnings declined by 10 percent or \$51 million, reflecting the impact of the charge related to the class-action settlement.

In terms of the financial details of today's announced settlement, the incremental cash impact to the Company is \$156.5 million, plus related legal and professional costs, all of which Loblaw has taken as a charge this quarter. The remainder is comprised of \$96 million previously paid out by the Company under the Loblaw Card Program. The Company will fund the one-time cash costs with cash on hand.

First and most important, this payment will not impact prices for consumers. At both Loblaw and George Weston, these payments will not impact the Company's currently disclosed financial outlook, its capital expenditures, including dividends and buybacks.

Drug Retail absolute sales increased 2.4 percent and same-store sales grew 1.5 percent.

Pharmacy and healthcare services grew same-store sales by 5.4 percent, driven by broad strength in prescription and healthcare services.

Our specialty, acute, and chronic prescription growth led our pharmacy numbers.

Additionally, customers continued to respond very positively to the convenience and expanded level of primary care we offer through our more than 2,100 pharmacies across the country.

Front store same-store sales declined by 2.4 percent, lapping growth of 5 percent last year.

Beauty continued to deliver strong growth, in particular across the Prestige category.

We are seeing the normalization of the front store business after a few years of outsized growth. Remember that pre-COVID, our front store same-store sales growth averaged around 3 percent.

Headwinds from lower spending on certain foods and household items and our decision to exit certain electronics categories will impact front store comp expectations for the balance of the year.

That said, we remain pleased by the underlying strength and profitability of the front store, and we expect improvement in same-store sales in Q3 and Q4.

Overall, Drug Retail sales growth continued to outperform food and have a positive impact on our margin mix.

In Food Retail, we were lapping strong same-store sales growth of 6.1 percent last year. Q2 same-store sales grew an additional 0.2 percent, with absolute sales up 1 percent.

At Loblaw, we are committed to do our part to lower inflation. In Q2, our internal inflation on food was in line with CPI. Canada's food inflation was once again lower than overall inflation in this quarter. In fact, it's been lower every month since February. If we look at our average article price data, which reflects the actual items purchased by our customers, our actual inflation rate was much lower than CPI in the quarter, which aligns with our positive tonnage performance.

The consumer shift to discount continues with our hard discount banners outperforming our conventional stores, delivering strong results with solid tonnage growth and higher traffic. We remain very pleased with the success of our conversions and the ongoing success of our Maxi banner in Quebec.

I know that many of you have visited one of our new small format No Frills in the quarter. It's still very early days, but we are very pleased with customer reactions.

Looking ahead to Q3, we expect to add another 20 new Maxi and No Frills stores as we continue to bring more value to communities across the country.

With that said, across our banners, we delivered solid market share performance and our actual food tonnage increased in Food Retail.

Discount continues to grow market share and our conventional stores are outperforming compared to their peers.

Right-hand side had a negative impact on food same-store sales of 87 basis points.

These categories remain accretive to our gross margin, and we continue to carefully manage inventory levels.

Online sales in the quarter increased 14.2 percent and delivery continues to outperform as a channel. We are very pleased with our online sales penetration.

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

That said, as expected, our Food Retail same-store sales growth came in a little soft based on last year's performance. Looking ahead, our Q3 is off to a stronger start. We are seeing improved same-store sales performance and positive tonnage.

Total Retail gross margin was 32 percent, growing 90 basis points.

Continued progress in reducing shrink and higher Drug Retail margin due to sales mix drove our Retail gross margin improvement this quarter.

Food pricing was not a margin driver. We have continued our focus on reducing shrink and remain pleased with our momentum, with both food and drug demonstrating strong improvements. That said, improving shrink remains a major focus and opportunity for us.

Turning to SG&A, our spend rate as a percentage of sales increased 60 basis points, driven by lower operating leverage, year-over-year impact of certain real estate activities and labour costs, and costs related to network optimization. Our teams continue to do a great job managing costs.

Second quarter Retail EBITDA increased by \$62 million, yielding a margin of 12.1 percent.

We delivered strong performance at the Bank. PC Financial's revenue increased 5.5 percent, driven by growth in the credit card portfolio and strong services growth in our Mobile shop.

The Bank's adjusted earnings before tax increased by \$13 million with higher interest income and lower operating costs offsetting higher credit losses.

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

On a consolidated basis, adjusted EBITDA increased by 4.5 percent to \$1.71 billion.

Our Retail free cash flow was \$475 million, and we repurchased \$482 million worth of common shares.

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

In the quarter, Loblaw's credit rating was upgraded to BBB+, with S&P citing the diversity and resilience of our operating performance.

Our return on equity sits at 23.1 percent and our return on capital at 11.6 percent.

As we look ahead to the second half of the year and specifically Q3, we remain confident in our ability to deliver our financial framework and our EPS targets. Q3 is off to a good start on both sales and market share, and gross margin should continue to benefit from our shrink improvements.

Our focus on new stores is gaining traction. More are coming soon, and we are already hard at work on our plans for 2025.

I will now turn the call back over to Per.

Per Bank

Thank you, Richard.

We began this year with strong momentum in our Food and Drug business. In the first quarter, we delivered higher customer visits and growth in total units sold.

Customer visits continued to grow across our business in the second quarter as our commitment to provide value, quality, and service continued to be recognized by our customers.

Canadians remain focused on value. The shift to discount continued as sales growth in our hard discount banners again outperformed our conventional banners.

We are pleased to see our internal inflation decline for the sixth consecutive quarter. This is helping lower food inflation for Canadians.

While this is great news, we know that it is little consolation to families still struggling to meet their household needs. To address this, we are always working to deliver even greater value and affordability across our store network.

For example, in our Hard Discount division, our team opened 14 new Maxi and No Frills store in the quarter, introducing exciting new programs aligned with our commitment to providing everyday low prices. We introduced and expanded programs like throwback pricing, more aggressive flyers, and more everyday low prices.

Also, in the quarter, we eliminated multibuys in all our Maxi and No Frills stores. This change means that our customers can now get great value from purchasing only one item instead of having to purchase several items to get the same savings.

This was an issue for many discount customers. It is regular feedback that I received as I talked to customers in our stores.

We replaced this program with everyday low prices on individual items. This decision is absolutely the right decision for our hard discount customers, but it will be a slight headwind on our sales growth this year. Where it counts the most, customer tracking and tonnage were both up as we continued to gain market share in the quarter.

Across our super and market banners, we continued to provide a very strong full-service grocery offering. Retail excellence played an important role in our operational and financial success and differentiates our conventional grocery business.

The team has been busy improving our offering and providing more value for full-service customers. We have lowered prices and enhanced our assortment in key areas like multicultural, prepared meals, fresh, and natural foods.

I talked before about our plans to reenergize the merchandise of our right-hand side of our stores. We are starting to trial some of our new initiatives to create more excitement in this area.

In a few of our stores, we now offer new apparel brands like Puma, Hurley, and Fortnite. We're still very early in this journey but are pleased with the initial results.

I'm pleased to report that our traffic was up in the quarter in both our Hard Discount and Market divisions. This is a testament to the positive customer response to all the things we are doing to deliver great value to Canadians.

As expected, our sales in grocery were a little soft, mostly based on last year's strong performance of 6.1 percent growth. Aside from this, it's hard to isolate one specific factors for the softness.

As we begin quarter three with a stronger start, I want to highlight our new promotion.

Last quarter, I talked about the success of our Hit of the Month program. That success continues in Q2 with unbeatable offers on nine popular grocery items.

Today, I'm super excited to announce our new Marvel program coming to all stores in August. So if you are not a big Marvel fan, be prepared that someone behind you at the checkout will be tapping you on your shoulder asking if they can bring your trading cards home to their kids; of course, only if you don't want them. So who says you shouldn't have fun shopping?

Turning now to our Drug Retail business. As Richard highlighted, we were lapping a very strong quarter last year. The growth also reflects long-term trends that continue to position us very well for the

future. This is why our plan includes opening 20 new pharmacies this year and continuing to expand our pharmacist-led clinics across the country.

In front store, our Prestige Beauty is still delivering very good numbers. However, I expect to see our sales growth normalizing this year as we will be impacted by lower sales of electronic and household products.

Pharmacy and healthcare services continued its momentum from last quarter and with specialty drops and new primary care services leading our topline growth.

There seems to be a steady stream of announcements across the country showcasing the impact of pharmacies providing care for patients.

The Nova Scotia government reported that pharmacy clinics have contributed to a nearly 10 percent decline in emergency room visits for nonurgent or less urgent cases. Quebec tabled Bill 67 giving pharmacists more power to serve as one-stop shops for people with minor health problems or common illness, including prescribing certain drugs and extending prescriptions. And yesterday, Ontario announced that it's looking to expand the ability of pharmacies to provide patient care by treating additional common ailments, administering more vaccines, and performing more point-of-care testing.

This quarter, we are proud to announce that the Science Based Targets initiative, or SBTi, has approved Loblaw's emission targets around the reduction of Scope 1 and 2 emissions 50 percent by 2030, and our commitment that suppliers representing 70 percent of our total spend will have science-based targets by 2027. This is important as we recognize that our plans and ambitions have the highest growth of gold standards.

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.

Our success allows us to make important investments into growth areas, operational efficiencies, and in protecting our planet. This, in turn, allows us to offer Canadians the best value and service.

We do remain confident in the strength of our assets and are encouraged by the customer momentum we're seeing into the third quarter.

We'll now open the call for questions. Thank you.

Q&A

Operator

Thank you. Ladies and gentlemen, you will now begin the question-and-answer session. Should you have a question, please press *, followed by the number 1 on your touch-tone phone. You will hear a three-toned 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 your handset before pressing any keys. One moment please for your first question.

Our first question comes from the line of Michael Van Aelst from TD Cowen. Go ahead please.

Michael Van Aelst — TD Cowen

Hi. Thank you. I wanted to actually start on the drug side of the business. You commented on some of the front store weakness. Beauty still seems to be growing strong, and I'm wondering is the beauty category still holding in strong? Or is it Shoppers just gaining market share? Or both?

Per Bank

So yeah. The front store is down 2.4, and we are lapping strong sales from last year over 2024, and we will be normalizing over the year. And we have seen it mostly being impacted by electronics and household products, which of course, is low margin.

And to your question around Prestige Beauty, we are delivering over and above the market and are seeing some really, really strong numbers there; while at the same time, our pharmacy business continues to be very strong, and it's going to be normalizing during next quarter. We probably won't be positive, but it's going to be better than you saw in Q2.

But the high-margin categories as the Prestige Beauty is growing, and we are really happy with the numbers we are seeing now.

Richard Dufresne

Yeah, Mike. Beauty is very, very strong. Like if you were to isolate one category that always surprises us is men's fragrance is the one that's always growing really high. But, yeah. So that continues.

Michael Van Aelst

Okay. And then can you update us on your market share in some of the key beauty categories?

Per Bank

We don't have exactly market shares in the key beauty categories, but I think it's important to say that this Prestige Beauty is growing over and above the food sales growth. So the market in total is actually growing with low double-digit growth. That's at least what we are seeing. So it's a good place to be. And we don't have the specific market shares for that. And if we have, I'm sure we'll come back to you.

Michael Van Aelst

Okay. All right. Then on the pharmacy services, obviously it looks like the services are growing pretty rapidly. How is Loblaws progressing in the rollout of its clinics?

And based on some of the new announcements out of Ontario and other provinces, what's your outlook for the pharmacy services side over the next few years?

Per Bank

We will continue to be as bullish on the new clinics as we were last time we spoke. And actually, yesterday, we opened a new Superstore, and we opened it with clinics. And we saw some really, really good traction there even the first day without talking about it.

And which you are alluding to, like the development in Ontario, it's really, really great news for the people of Ontario. And we do believe that it will provide significant benefits in reducing the pressure in the healthcare system and being better for patients.

So we stay confident. And at the end of next year, we will probably be at around 250 clinics.

Michael Van Aelst

At the end of next year?

Per Bank

Yeah.

Michael Van Aelst

Okay. Perfect. Thank you.

Operator

Thank you. Our next 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. Now that Mike's covered off the pharmacy piece, can we please drill down on the Food same-store sales number? I think fair to say it was weaker than most of us expected. I think we understand consumer trade down, inflation, you mentioned multibuy, right-hand side of the store, but there was also the boycott. Can you talk about the puts and takes and where you saw the most pressure and, I guess, maybe where you're seeing some nice gains?

Richard Dufresne

Yeah, Irene. So yeah. Same-store sales look softer than they actually are because of the year-over-year comps.

And I think it's worth talking about Q1 and Q2. So Q1, we delivered 3 percent same-store sales, and the year before was 3 percent. So it's 6 percent. So in Q2 we delivered last year 6 percent, and we're 0.2. So we're essentially flat. So the trend, the sales trend, from Q1 to Q2 is pretty much the same.

Having said that, there were a couple of factors that impacted sales like, in particular, I would call it, I don't know, the wet spring or, if you remember, May. May of last year, which I do remember vividly, was extremely hot. And our garden centre sales were through the roof. Sun care, allergy were beating records. And so this year, we had May that was very rainy and cold. And so those categories suffered significantly. So, therefore, that was definitely a factor.

And regarding what you just mentioned at the last part of your question, we did notice a bit of an impact in certain stores and specific markets. But that said, at the end of the quarter, things had returned to normal.

Per Bank

Yeah. And I would add that while the overall financial impact was minor, for us, every single customer is important to us. And one customer lost is one too many. And I have spent a lot of time

speaking to customers and different stakeholders. And I do listen to them because their feedback is really, really helpful. And we work on it. It makes us better.

So multibuy is just one of the pieces of feedback that I have gotten since I came to Canada. And it's actually because customers told me that they didn't like the multibuy. That's why we had removed them. It was the biggest irritant to customers.

And also, therefore, we continue to work hard every day to win the trust and loyalty of our customers. And I will say that our stores, they are in a great shape. Our promotions are better than ever, and our prices are really, really competitive at the moment.

So I'm pleased that the customers are recognizing that more and more, week by week. And as we said before, both traffic (unintelligible) are soft quarter over quarter.

Richard Dufresne

Yeah, Irene, just to give a little bit of clarification, us removing multibuy is actually hurting us on sale at first. But we expect that, over time, we're going to recover that as customers buy more stuff other than what they were buying.

Per Bank

Yeah. And think about it. If you have to buy two ketchups, and then there'll be a time where you'll have used these two bottles of ketchup, and then when that's over then you'll go back and buy one again. So that will just be a time before that phase will come back.

But what is important here is that, when you are on a tight budget, we don't force you to buy two bottles of ketchup. Then you can actually afford to buy the mustard. Because we're seeing a trend that more and more customers, they only have \$30, \$40, \$50 to spend, and we want them to be able to spend it on the products that they want to buy.

So I think that's why it seems like a little thing, but it's actually a really, really good thing for our customers in our Discount division.

Operator

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

Mark Petrie — CIBC Capital Markets

Yeah. Thanks. Good morning. Just following up on that topic, appreciate the comment about the stronger trends in Q3 to date for both food and front store. I'm just curious what you would attribute that to. I guess more specifically on the food side, is it just a matter of maybe lapping some easier numbers?

Or do you think there's something different in how you're presenting to the customer shifts in competitive environments, that type of thing?

Richard Dufresne

I think to me it's our strategies are working. You look at Hit of the Month, which we started in February, like we're starting to get better at it. We're still learning the ropes, but that's definitely resonating with customers.

But, obviously, last year's performance will also be a factor. If I remember correctly, I think our same-store sales in Q3 was 4.5. So lower than 6. So that's definitely a factor that's going to drive same-store sales in Q3.

Per Bank

And I agree with you that it is a competitive market in Canada. It is really competitive. It has been for the last year, and it still is. I just believe that the initiatives that we are deploying, have deployed with Hit of the Month so far, but also our Marvel program, I'm sure that will excite customers.

So we are trying more and more to utilize the skill and scale of the entire group, also by doing some enterprise promotions. We haven't done that in the past. So Marvel, remember that's across all our stores, including Shoppers. And when we do something with our entire store portfolio, we can make something that's better for customers, because just promoting banner by banner instead of doing it altogether, we get more value for our money.

So I stay really confident in our strategy going forward and the initiatives that we have. So I believe we have a strong trade (phon) plan for the second half of 2024 and stay really, really confident in our strategy.

And as we have discussed before, it is about growing with our Hard Discount business. It's growing with Shoppers; 20 new stores. And it's keeping our absolute market share with our Market and Superstores. And we are deploying a lot of initiatives in each single part of our business.

So growing and keeping cost low and thereby also being confident in delivering our financial framework. So I'm quite excited about the things that we have in the pipeline.

Mark Petrie

Yeah. Understood. Okay. Thank you.

And then if I could just follow up, I wanted to ask about sort of the competitive dynamics specifically in Quebec. Obviously, it's a market where your asset mix in Food has been shifting to Discount very materially, and curious if you're seeing the market dynamics adjust at all, and if they're any different in Quebec versus other parts of the country.

Per Bank

I think specifically on Quebec, I think I'll be guessing too much if I try to answer that question. So let's come back to you on that one.

Mark Petrie

All right. Fair enough. Thanks and all the best.

Operator

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

Vishal Shreedhar — National Bank

Hi. Thanks for taking my questions. Per, I wanted to ask you just to get your perspective now that you've been at Loblaw for some time. Obviously, you've made a lot of changes at the grocery side of the business, some of them fairly significant. On the Shoppers side, not as much. Shoppers is a little bit of a unique Canadian business with the high/low proposition and the strong beauty.

Wondering if that's something that it just takes more time for you to familiarize yourself with the offer? Or is that more of an endorsement of the model, and you think that Shoppers as it is and the drivers that it has is—

Per Bank

Well, that's a very, very good question because when I came to Canada a year ago, I was really looking deeply into the Shoppers model, and I was like a little bit suspicious in the beginning because how good was the model. And the more and more I dig into the Shoppers model, the more excited I became and the less I wanted really to change.

So we have a strong plan. We have a strong strategy in Shoppers. And that's also really, really important for me: why change a winning model? So I don't want to change just for the change, the sake of the change. So that's why we stay true to the model that we have.

But Richard and I, we did do one change. So I think we discussed with Jeff from Shoppers that we want to do more clinics. So I think on the last call that we said, okay, go ahead, build as many clinics as we can cope with because we are seeing that that does help Canadians. So that's one of the changes that we have made. And then also Shoppers, they're now engaging in our enterprise different promotions.

So yeah. We have not changed a lot, but that's more a testament to the model that we have is working. And I would say the same that yes, we made a lot of changes to the business, but the business I took over was in very good shape, so there was lots of places where we are world class just, to talk about our control brands, our supply chain, the way we run our stores, the financial rigor we have around controlling our inventory. So lots of things that works better.

I've more been focused on what we can do even more to give customers value. And that's where I will focus going forward.

Vishal Shreedhar

Okay. Thank you for that perspective. And just another, Richard, once upon a time there was a perception that the Shoppers side of the business had an ability to hit its targets more consistently perhaps because, as you know, more consistency across the store formats and other reasons. As these businesses, Loblaw and Shoppers, get more integrated, have you noticed the performance gap, call it, if that's fair term to use, has that tightened up? Or are the business still performing—

Richard Dufresne

Yeah. That's a good question. Like I'd say our ability to forecast and manage has overall gotten better throughout the organization. So that's benefitting both Shoppers and Loblaws.

But each business has different dynamics. Those dynamics remain. So the dynamics that are sort of linked to Shoppers remain. Like when we talk about, I don't know, expanded scope of care or specialty

drugs and the growing population that's getting older, those are sort of tailwind that Shoppers has that's not the same in the Food side. So those things continue.

Vishal Shreedhar

Okay. And maybe if you can give us an update on the smaller No Frills stores and how those are performing versus expectation?

Per Bank

Yeah. They are. They're doing really, really well. It's early days, but the two stores that we have downtown Toronto, we visited those with our board this week, and they're doing so well. And I spoke to a few customers in the stores. So one customer I spoke to, she told me that she was really, really worried that this store will be congested. I said, why? Yeah. Because I'm speaking to everyone I know about how great this store is. We needed a small hard discount in this part of the town because we want access to lower prices.

And this is exactly why we're doing it. We are giving more Canadians access to lower prices. And we're doing it by getting into sites that we wouldn't have considered before because we're going down to even down to 8,000 square feet. And even going down to 8,000, 10,000, 12,000 square feet, we managed to get 5,000, 6,000, 7,000 of product into those stores. So customers can do a full shopping trip.

And if we compare this—because what is 5,000, 6,000, 7,000 products—if you compare that to the general retailers, they would have about 3,000 products in their store. So it's a great offer to customers. And this is exactly what we want to hone down on, and double down on, and do more of over the next years. And in the next quarter, as Richard is talking about, this quarter, we're opening almost 20 new No Frills and, in the fourth quarter, another 17.

Vishal Shreedhar

Thank you.

Operator

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

Tamy Chen — BMO Capital Markets

Hi. Good morning. Thanks for the questions. Going back to Food same-store sales for one second here, I guess I'm just surprised that weather was material enough for you to call out. I don't recall last Q2 the very hot May was talked about. So the tonnage performance here, the bit of softness, I mean there was, I guess, you would call out no other factor? It was really just the weather dynamic.

And if I think about your true tonnage in this quarter, Q2, versus Q1 of this year, sorry, Per, I think I heard you say it was up sequentially, but it seemed, at least on our end, it might have been a bit down sequentially. So can you just confirm that?

Per Bank

No, yeah. That was quarter on quarter like last year. So quarter two last year I was talking about, we were up. I didn't compare to quarter one this year.

And it is really hard to think about one factor. So yes. Richard mentioned that the season started later than it did last year. That's one impact. But it is a lot of different reasons why our sales are a little bit softer. But on a two-year comp basis, we are still running strong, about 6, like we were in the first quarter. And we also lacking a bit of easier comps in the first quarter on market share.

So overall, we are pleased. Would we have liked a little bit of more sales? Yes. But still we are happy with what we have and even more pleased with a strong start into quarter three.

Richard Dufresne

Yeah. The point that Per mentioned is actually relevant. Our tonnage performance in Q1 was particularly strong. But it benefitted from our activities but also benefitted from the fact that Q1 of last year was weak. So we had an easier comp from a tonnage perspective, which we sort of fixed in Q2 of last year. So it made this quarter a little bit tougher to cycle from a tonnage perspective, but we still were able to grow it so we're pleased with that.

So for us, sales trend is heading in the right direction year to date, and that's what we're focused on. And that's what we're saying that when we enter Q3, we feel good about hitting our framework.

Tamy Chen

Okay. Thank you for the clarification there. I'd like to try on Quebec as well. The Maxi, can you talk about—clearly you've benefitted from share gains there from doing that. Can you talk about the locations you're converting now? What the uplift is like versus the previous ones?

And the first Maxi's that were converted, have they been still trending like they were when you had first done the conversions? And are you seeing any material competitor responses to all of this?

Richard Dufresne

So, yes. The new stores continue to perform really well, still way ahead of sort of prototype expectation for a normal conversion. But, yes. Also we're getting to the tail end of the conversion. So the lift we're getting is not as strong as the first one, but the first ones we're getting was like a crazy number, north of 100 percent plus per store, so.

But the numbers that we're getting are really good. We're gaining significant market share in the province. We're not talking basis points here. We're talking percentage points. And so we're going to be coming to the end of the conversion program or close to by the end of this year, and now we're starting

to supplement it with new stores. So we have also new Maxi's that are going to be opening this year that's going to further solidify our presence in the province.

Tamy Chen

Okay. And the last question I've got is on gross margin. It's so strong this quarter. I mean haven't you recovered basically the headwinds from shrink, just by that magnitude? I'm trying to remember last year the—

Richard Dufresne

Yeah. No. That's a great question. So, our shrink in Q2 of last year was the worst. Okay? So therefore it was an easier comp from a shrink perspective. But our teams have been working hard, and they've made significant progress on shrink. So that's why we got such a big lift in gross margin in the quarter.

Having said that, those shrink numbers now are running at lower rate than last year. So you're going to still see that in Q3 but, albeit, not to the same extent. So gross margin is going to be up in Q3 quite nicely, but not to the same extent as we saw in Q2.

That, together with our improved same-store sales that we talked about, and I've also said in the past that our second half, from an SG&A perspective, is going to be better. So stronger SG&A performance, stronger gross margin, and stronger same-store sales, that will allow us to hit our framework.

Tamy Chen

Thank you.

Operator

Thank you. Our next question comes from the line of Chris Li from Desjardins. Please go ahead.

Chris Li — Desjardins

Good morning, everyone. Sorry, Richard, I think you answered a lot of the questions I was going to ask you. Just maybe follow-up on the SG&A rates. I think previously you have said that you expect the rate to be more or less flat for the full year. So based on the first half we saw so far, I mean this would imply your SG&A rate will likely be down a little bit? Maybe 10 to 20 basis points just based on my math. Is that kind of what directionally you were referring to?

Richard Dufresne

Yes. But like I don't have visibility in Q4 yet to that level of specificity. But I think I can confidently say that at least for Q3 it should be flat.

Chris Li

Okay. And I think you mentioned last time that you do have some levers you can pull in the second half too—

Richard Dufresne

Yeah.

Chris Li

—to achieve that. So it sounds like you have—okay. Okay. No. That's helpful.

And then maybe just, yeah, going back to gross margin again. So it sounds like Q3 is going to be up but not as strong as Q2. Is that what you're saying?

Richard Dufresne

Yep. That's exactly what I said.

Chris Li

Okay. Okay. Perfect. And then just ... So okay. And then maybe just going back for the Food same-store sales one last time, so yeah. You made a good point, like on a two-year stacked basis, Q2 was 6

percentish, which was same as Q1. So that's good. You mentioned Q3 to date, it's better than Q2. But if you look on a two-year stacked basis, are you seeing kind of running about the same rate, like 6 percentish in Q3 as you've seen in Q2 and Q1?

Richard Dufresne

Sure hope so.

Chris Li

Okay. Okay. That's helpful.

And then maybe, Per, just again a couple of follow-ups on the pharmacy clinics. I mean overall, how are they performing relative to your expectation? I'm thinking in terms of both the frequency of patient visits per day, and also sales lift that you might be seeing from just incremental traffic to the stores. How are those metrics trending versus your expectations so far?

Per Bank

No. They're continuing to deliver exactly as expected. So, of course, we set out some certain criteria when we approve these new clinics, and when we go into our capital meeting and approve them. So they are living up to it and some better than others.

But in average, they're actually doing better than our expectation. Also helped by that the prescribing is up by 40 percent to last year.

So they're good. We are pleased. We are going to continue to build new clinics. And, of course, what is on the way in Ontario is also going to support this.

Chris Li

Okay. And yeah. That was my other question is, as you continue to get expanded scope of practice from the provinces, just from a capacity perspective, like on the ground level for the pharmacist,

overall, like do they have sufficient capacity to take on additional responsibilities? I know you guys have been make some investments in centralization, et cetera. So just yeah. I want to see like, from a capacity perspective, are you guys in a good position to take on more responsibility?

Per Bank

Yeah. We're in an okay position. But, of course, if things changes then we're also going to build up capacity. But at the moment, we don't have a capacity problem, and we don't expect to have one going forward.

Chris Li

Okay. And then just a couple of last ones. If I were to switch back to Food, just wondering, as inflation continues to moderate a little bit, have you been able to get more promotional support from some of your vendors? I'm sure they're also motivated to drive volume growth.

Per Bank

Yeah. That's a really good question because what we're seeing that the big CPGs, they're really looking for sales. And that's also why that we are expecting that the target (phon) and the growth of our national brands will grow in line with our control brand this year. So even if we are seeing that our No Name is growing a lot, then the national brands will grow a lot because it's going to be supported by some promotional support.

And that's also why we can do the Hit of the Month as we can because we're selling so, so cheap, and they just want the volume. And I think you know that if you're looking at some of the big players out there.

Chris Li

Okay. That's helpful. And Richard, maybe this last one for you. If I'm reading your financial statements correctly, it looks like you guys have shown about \$59 million of properties with another \$33 million held for sale at the end of Q2. I think in your statement, you mentioned you're still on track to dispose about \$400 million of property this year. So you do expect a step up in the second half in terms of property sales? Is that correct?

Richard Dufresne

That's correct.

Chris Li

Okay. Great. Thanks very much.

Per Bank

Thank you.

Operator

Thank you. And just a reminder, everyone, should you have a question, please press *, followed by the number 1 on your touch-tone phone. Should you wish to decline from the polling process, please press *, followed by the number 2.

We have a follow-up question coming from the line of Michael Van Aelst from TD Cowen. Go ahead, please.

Michael Van Aelst

Yeah. Thank you. So just a question on the financial services side. Can you explain that swing in the financial services revenue growth in margins when you look at Q1 versus Q2? Q1 seemed quite a bit stronger.

Richard Dufresne

Yeah. Yeah. Yeah. So we signed a Mastercard contract, Mike. And so we got a significant benefit in Q1. Now what we're seeing going forward is the ongoing benefits. So the run rate you see now should be the one that continues.

Having said that, Michael, like the key driver of profitability of the bank is the ECL, which is a black box thing. And so we never know how ECL is going to move quarter over quarter, but in a more, I guess, softer economic environment, it should trend slowly. So if that continues, you should see the same trajectory going forward. I hope that's helpful.

Michael Van Aelst

Yeah. And were the ECLs higher in Q2 than in Q1?

Richard Dufresne

No. It's in line. It's in line.

Michael Van Aelst

Okay.

Richard Dufresne

It's growing on plan. We have a plan for ECL, and so far, it's growing on plan.

Michael Van Aelst

Okay. And how about on the top line?

Richard Dufresne

On top line, there's a bit of noise, but the big-picture point I'd like to share with you is our growth in spend in the credit card is not growing as fast as we'd like. And it's a testament to the economy. People are spending less outside grocery stores. So that's affecting the top line. But other than that, it's just noise between Q1 and Q2.

Michael Van Aelst

All right. Thank you, Richard.

Operator

Thank you. There are no further questions at this time. I'd now like to turn the call back over to Mr. MacDonald for final closing comments.

Roy MacDonald

Great. Thank you very much. So thanks to everybody for your time this morning. Any follow-up questions, drop me an email or give me a call. And if you have your calendar out, mark Wednesday, November 13th when we'll be releasing our Q3 results.

Thanks, everybody, and have a fantastic day.

Operator

Thank you, sir. 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.