FINAL TRANSCRIPT

Loblaw Companies Limited

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Loblaws, Inc. Third 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 star, zero for the Operator.

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

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

Thank you, Jenny, and good morning, everybody. Welcome to the Loblaw Companies Limited Third Quarter 2024 Results Conference Call.

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

Before we begin the call, I want to remind you that today's discussion will include forward-looking statements, which may include, or 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 regulators. Any forward-looking statements speak only as of the date they are made. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as the 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.

With that, I will now 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 delivered another quarter of steady operational and financial performance. We continue to provide value to consumers and carefully manage our expenses while delivering earnings performance in line with our financial framework. On a consolidated basis, revenue grew by 1.5 percent to $18.5 billion and Adjusted EBITDA increased by 7.4 percent. Both consolidated revenue and same-store sales were negatively affected by the shift in Thanksgiving, which occurred in Q4 this year versus Q3 last year. Compared to Q2, our sales performance improved in both Food and Drug.

Adjusted diluted net earnings per share grew by 10.6 percent to $2.50. On a GAAP basis, our net earnings increased by 25 percent, reflecting the recovery of $125 million related to a PC Bank commodity tax matter.

In Food Retail, we attracted higher customer traffic and drove tonnage growth. The timing of Thanksgiving had a negative impact on the reported same-store sales of approximately 80 basis points. Excluding this impact, same-store sales grew 1.3 percent in the quarter.

Canada's grocery CPI has returned to normal, coming in at 2.3 percent in the quarter. Our internal CPI-like food inflation measure was slightly higher this quarter. However, when you look at our average article price data, which reflects items actually bought by our customers, our internal inflation rate was much lower than CPI, and lower than our adjusted same-store sales figure.

We're still seeing higher than normal price increases coming in from our global vendors. The weaker Canadian dollar, which is dropping versus the U.S. dollar, is having an impact on inflation, mostly in Fresh categories.

Our hard discount banner same-store sales performance outperformed our conventional stores, illustrating that the consumer shift to discount continues. We're still pleased with the success of our conversions and the ongoing success of our Maxi banner in Quebec, which celebrated the opening of its one hundred and seventy-fifth store in the quarter.

Last week, we opened our one hundred and eighty-third Maxi, and we have four more to go before year-end. We opened six small-format No Frills stores in Q3, and while it's still early days, we are pleased with customer reactions and overall performance. In Q4, we will be adding another 20 new Maxi and No Frills stores, with the majority of these being newbuilds as we continue to bring more value to communities across the country. For the full year 2024, we expect to have opened 50 new stores, and converted an additional 42 stores.

Right-hand side had a negative impact on food same-store sales of 53 basis points in Q3. These categories are accretive to our gross margin, and we continue to carefully manage inventory levels. Discount continues to grow tonnage market share, and our conventional stores are performing well.

In Drug Retail, absolute sales increased 3 percent and same-store sales grew 2.9 percent. The timing of Thanksgiving had a nominal impact on Drug Retail same-store sales growth.

Pharmacy and Healthcare Services grew same-store sales by 6.3 percent, driven by broad strength in prescription and new healthcare services. Our Specialty, Acute, and Chronic prescription growth led our Pharmacy numbers. Patients continue to respond very positively to the convenient and expanded level of primary care we offer through our more than 1,800 pharmacies across the country, including our 120 new in-store clinics.

As expected, our front store same-store sales improved over Q2, but declined by 0.5 percent year-over-year. Beauty continues to deliver strong growth; in particular, the Prestige category.

Headwinds continued from our decision to exit certain low-margin electronics categories, and from lower consumer spending on food and household convenience. Our decision to exit these electronic categories, including laptops, computers, TVs, and cameras is having a 1 percent impact on front store sales in 2024. We recently decided to also exit game consoles and games altogether, which will affect Q4 this year and add 1 percent more pressure on front store sales next year. These sales come at extremely low margin and do not drive basket building. We remain pleased by the underlying strength, profitability, and sales momentum of our front store.

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

Online sales in the quarter reflected our highest growth rate in 2.5 years, increasing 18.5 percent. Within Grocery, delivery continues to outperform in the channel. We remain pleased with our online sales penetration in both Food and Pharmacy.

Across our Grocery and Pharmacy banners, we’re proud to see Canadians increasingly choosing our stores for value, quality, and service. Total Retail gross margin was 30.9 percent, growing 30 basis points. Trading margin in our Grocery business was flat. I’m pleased with the strong shrink improvement in both Food and Drug, which drove our Retail gross margin improvement this quarter. That said, improving shrink remains a major focus and opportunity for us.

Our teams continue to do a great job managing cost. Our SG&A spend rate as a percentage of sales decreased 30 basis points, driven by year-over-year benefit of certain real estate activities and some operating leverage. This was partially offset by incremental costs related to the ramp-up of these stores and conversions.

Third quarter retail EBITDA increased by $130 million, yielding a margin of 10.9 percent.

PC Financial's revenue increased 0.8 percent, driven by growth in the credit card portfolio, and partially offset by lower service growth in our mobile shop. The bank's adjusted earnings before tax increased by $14 million, with higher interchange and credit card fee 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 7.4 percent to $2.1 billion. Our Retail free cash flow was $562 million, and we repurchased $523 million worth of common shares. Our balance sheet remains strong, and we continue to improve our key return metrics. Our return on equity sits at 23.3 percent and our return on capital at 11.8 percent. Our tax rate is returning to normal versus last year.

As we approach the end of our fiscal year, we remain confident in our ability to deliver our financial framework, and we now expect EPS growth for the year to be slightly higher than our original outlook. Additionally, as a result of the accelerated pace in store openings, we now expect to invest approximately $2.3 billion in growth capital expenditures, or $1.9 billion net of proceeds from property disposal.

The fourth quarter is off to a good start. Food same-store sales growth is improving over the previous quarter, but we expect incremental top line pressure on front store in Shoppers, as we lap our biggest quarter of electronic sales. Also, gross margin is expected to continue to benefit from incremental shrink improvement.

Customers continue to respond well to our focus on delivering the value, quality, and service they are looking for. Our assets are well-positioned. We are executing well, and we are investing for the future, all while delivering steady operational and financial performance.

I will now turn the call over to Per.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Thank you, Richard, and good morning, everyone.

We continue to build momentum in our Food and Drug business in the quarter. Canadians remain focused on value, and we delivered the quality, prices, and service our customers count on. This quarter, more customers once again visited our stores, and our tonnage grew, demonstrating that we are meeting their needs. As expected, we saw improvements in our same-store sales performance in Food, and we see that continuing into the current quarter. The shift to discount and to value continued, and sales growth in our discount as well.

Our banners outperformed our conventional banners once again. In our hard discount division, our team opened 29 new Maxi and No Frills stores in the quarter, including six new small No Frills stores. I'm proud to add that we now have three new No Name pilot stores operating in Ontario, with the latest one opening in Brockville only two weeks ago. This is a great example of the innovative solutions that we bring to Canadians. The intent of these stores is to take out all unnecessary cost, and then pass those savings back to our customers. This means we are priced up to 20 percent below the cheapest of our competitors. I'm very pleased with how the team implemented this initiative, a small team, took this from concept approval to our first store opening in less than two months. It's still too early to draw meaningful conclusions; we're still learning and refining our offer. If it works, we'll build more. If not, we would pivot, take the learnings, and apply them to our discount program.

Across our supermarket banners, we continue to provide a very strong, differentiated, full-service grocery shop. We are continuing to improve our offering, and are providing more value, more quality, and more choice for these full-service customers. Every year, we bring great new products to our stores. Some of these innovative products come from our smaller, local vendors, and others from across the globe. This year, we have introduced more than 650 new products to Canadians and I'm excited to share a few of my favourites with you on our Holiday Insider's Report. My current favourite is the PC Ultimate Pork Rib Roast. Not only is it simple to prepare and delicious, but it's priced at only $15.

Our innovation is evident in our leadership in bringing multicultural food to Canadians. I'll share an interesting stat, first-generation immigrants represent almost a quarter of our population, and that number is growing faster than any other G7 country. This is why you will notice new merchandising and more multicultural products across our stores, including more T&T, private-label products. Speaking of T&T, we have recently opened new stores in London and Kanata in Ontario, and last week in Brossard, Quebec. All three opened with huge customer excitement. I'm sure you have seen the videos on social media from Tina, and our T&T stores continue to outperform our existing network, and it's generating consistent high single-digit same-store sales growth.

We should call out the impact of our right-hand side on our Food space. This is another area where we are creating excitement for customers and bringing more value through innovation. Last quarter, I mentioned that we planned to add new apparel brands, and that was just the beginning. We now have two of our Real Canadian Superstores piloting our new right-hand side concept, and a third in Milton, opening at the end of November. We're still in the early days, but we are very pleased with their performance.

Across our Retail banner, we have also introduced some fun into the shopping experience with our first-ever Marvel collectible card program. Our subsequent customer service shows that most customers felt the program was exciting and well-executed, and our customer data shows that we attracted new customers, drove higher baskets, and more trips.

Next up is our new cookware program launched in October. Customers collect stamps and then redeem them for 75 percent off high-quality pots and pans. We've seen great customer interest, and it is already exceeding our initial expectations. I'm pleased with these results, as these programs help to create excitement in our stores today, and build loyalty over the long-term, and we gain valuable insight that we will apply for future programs.

All in all, our customer traffic and tonnage were up in the quarter. This is a testament to the positive customer response to all the things we're doing to deliver great value and service for Canadians. Speaking of value, I was very pleased to see that Canadians again choose the PC Optimum as the most trusted loyalty program in BrandSpark's annual review.

Turning now to our Drug Retail business; we are seeing a return to normal. Growth in Pharmacy and Healthcare Services continue to be strong, reflecting the long-term trends that continue to position us very well for the future. Our same-store sales and front store growth improved compared to quarter two, but we expect sales pressures to continue in quarter four, as Richard highlighted. We saw continuing strength in our prestige beauty category, but saw pressure as we exited low-margin electronics categories, and the slowdown of consumer convenience spending. We've been working to address this. This week, we launched a new program across our Shoppers and pharmacies network to lower the prices of hundreds of items that are most important to our customers. With front store improving and Pharmacy, Healthcare Services growing, we are well-positioned to further strengthen our leadership position.

This quarter, I wanted to take a minute to highlight our commitment to have all our control brands and in-store plastic packaging aligned to the consumer goods Gold Design Rules by 2025. (Inaudible 16:27) that the issue of plastic is one that will require a collective effort and technological advances to tackle. The solution is well beyond the actions of any single company. As a retailer and a brand owner, we have the opportunity to play an innovating and leadership role. In collaboration with our suppliers, we have already achieved the compliance, almost 80 percent of our control brand, and in-store plastic packaged products, and we're working with our national brand vendors, encouraging them to join us and adopt the Golden Design Rules by 2025.

As we work hard throughout the year, 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 our growth areas, creating and raising efficiencies and (inaudible 17:22) our planet. This in turn allows us to offer Canadians the best value and service.

We will now open the call for questions. Thank you.

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

Thanks, Per.

Jenny, if you'd please introduce the Q&A process?

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star, followed by the one on your touchtone phone. Questions will be taken in the order received. If you wish to cancel your request, please press the star, followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. Once again, that is star, one should you wish to ask a question.

Your first question is from Tamy Chen from BMO Capital Markets. Your line is now open.

Tamy Chen — Analyst, BMO Capital Markets

Hi, good morning. Thanks for the questions. Maybe I'll start with Shoppers and the front of the store here. I know you laid out a number of factors and what's going on there, and that's very helpful. I just wanted to go back to, if I look on the two-year stats, that front of store comp, it's still decelerating. You talked about, going forward, there's some additional electronics headwinds, so I understand that, but want to talk about the segment without the electronics. Are you just seeing the consumer incrementally still pull back from this channel overall? How are you thinking about that, minus the electronics part, going forward?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

No, thank you, that's a great question. What we are seeing in the front store is that our Prestige beauty is continuing to perform really, really well, so we're pleased with that. The last quarter, we saw that cough and cold was slightly down, and that was on top of a very, very strong quarter last year.

Then, Food was down a little bit, and we are addressing that by what I mentioned in my speech about lowering prices on 400 items, because the shift to value and discount, of course, has a slight impact on the Food space in our Shoppers Drug Mart stores. But we're realizing it by lowering more than 500 products by 10 percent to 50 percent, so we'll encourage more customers to shop in our front store. We stay confident going forward in our front store sales.

Richard, do you have anything to add?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, I just want to put a little bit more emphasis on cough and cold, because you've heard us over the last few years report every quarter that we had record cough and cold sales, and that is now behind us. We still are selling more cough and cold than historically, prior to COVID, but those numbers are now starting to trend to normal, so that is also affecting our front store sales. I expect that to continue going forward.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

(Inaudible 20:09) was up as well, so.

Tamy Chen — Analyst, BMO Capital Markets

Okay, got it. Thank you. Another question I had is, it might be a little early but just want to gauge your initial sense; how are you thinking for next year, 2025, and your framework? You've had three very strong EPS growth years that are above your framework. You're even talking about these pre-opening costs, because you've got the new store pipeline. What, as you look to next year, keeps your framework and your growth still in that 8 percent to 10 percent range? What are the risks, and what are the levers in your control that you'll lean on? Thank you.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

No, thank you. Let me start and then I'm sure Richard, he will add to this.

Next year, we are opening a new DC. Of course, we are in control, and we assure that it'll be good. We are also opening more stores next year than this year, but at the same time, we will still be within our financial framework. This is about investing in the future, at the same time as delivering on our framework. That will create some good tonnage growth next year. There's a lot that's in our control like further improving on shrink, getting the top line up, and then maybe referring back to our strategy, which is, long-term, getting the growth, keeping costs in control, and thereby being able to continue to deliver the profit we need to stay to the framework.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, Tamy, I'm just going to double-click on this. Q4, good, okay? Our mind is all focused on 2025. As Per mentioned, we know that we're going to have a new DC that ramps up starting Q1 of next year, and we know that we're going to be building more stores than we have this year.

As such, we've been planning accordingly, this year, to be able to deliver the earnings growth that we've made the investment community accustomed to. The big picture point, and we're not giving guidance today, the big picture point is despite these two big factors, we are confident that we're going to be delivering earnings within our financial framework in 2025.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Yes, and I think it's important to say that we are planning for the long-term, not the short-term, because yes, it is going to put some pressure on the short-term, so the next few years, but still, we'll be delivering within the framework. But it's going to help us long-term, because as you rightly said, opening more stores will put a bit of pressure, short-term.

Tamy Chen — Analyst, BMO Capital Markets

Thank you.

Operator

Thank you.

Your next question is from Irene Nattel from RBC Capital Markets. Your line is now open.

Irene Nattel — Analyst, RBC Capital Markets

Thanks, and good morning, everyone. Could you please spend a couple of minutes just giving us a little bit more insight into what you're seeing in consumer behaviour within the grocery store, to understand the shift to discount. You mentioned that your average unit price is down. Can you talk about volumes, baskets, penetration on promotion and private label, and how all of that is playing into your gross margin run rate?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Okay, if I start again, then—it's going to be more of the same, so more upward we are seeing over the past half a year, or year. Customers, they still like our promotions, so they're buying a lot into our promotions. They like our No Name, and they're shifting to value. But what we've seen is, they're not only shifting to our hard discount or our Maxi and No Frills, but they are also going more into our Superstores. Because after having combined our Real Atlantic Superstores with the Real Canadian Superstores, we're seeing a good benefit of that.

It's more value, but again, it's not only value in our Superstores and hard discount stores, but it's also value within our Zehrs and our Fortinos and our Loblaws. It is actually across the piece, and we're doing a lot of work to build Canadian values across the piece, because value is not only price. What I refer to, it's the range we offer, it's the quality and the promotions, so it's a lot of things. We try to cater for all customers' needs in Canada.

Overall, the trend is going to be the same. I don't think we will see that trend going to be even stronger, but not—we believe, I think we'll continue to see the trend as we are seeing right now.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, Irene, specifically, the traffic continues to be up. Okay, basket is down slightly, but not more than any quarter so far this year, so we feel good. Obviously, we're adding square footage, and it's definitely starting to make a difference.

Irene Nattel — Analyst, RBC Capital Markets

That's very helpful.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

(Multiple speakers 25:09). Maybe we can add that, we will add tonnage growth this year, so this year we'll probably—as we see it right now, we will have the best year in a decade with regards to tonnage scores for the Company.

Irene Nattel — Analyst, RBC Capital Markets

That's outstanding. Just following up, tying that into a question of gross margin, I think you mentioned that you're going to be lowering prices on about 400 items in Shoppers. You're talking, "Hey, we've got the hit of the month," we have other value creation initiatives. How should we think about the gross margin impact, and I guess the real question is, do you have enough initiative in the business itself to be able to do all of that and deliver some gross margin growth?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Yes. I think, and I believe we have. It's always about the mix we've got. Prestige beauty is sitting over and above the rest. We will have a slightly higher margin there to compensate for some of the others. But then again, of course, we also need to do our job and negotiate well with our branded suppliers to make sure that we have the right cost base, which is important.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, and specifically with the numbers, Irene, you've seen significant performance in gross margin, beyond our expectations because we've done a better job at managing shrink. This has been the story for 2024; it's coming down, the benefit of shrink low quarter after quarter, but it's still there. Happy to say that, on the Food front, we're back to pre-pandemic level on shrink, so that's quite an achievement. That to me is one of the reasons why we've done so well this year.

On Shoppers, shrink is improving, but not at the same pace. We're doubling down on our efforts with Shoppers, and this will be some sort of a tailwind for that business for the next year.

Irene Nattel — Analyst, RBC Capital Markets

That's great. Thank you.

Operator

Thank you.

Your next question is from Michael Van Aelst from TD Cowen. Your line is now open.

Michael Van Aelst — Analyst, TD Cowen

Thank you. You went through some of those numbers really fast, Richard. Could you just quickly summarize the puts and takes you're seeing in Q4?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

The puts and takes I'm seeing in Q4. Okay, let's start with outlook. We moved our outlook to slightly low double-digits, because mathematically there was no way we could be able to hit our outlook, so expect for the year to be slightly low double-digit but not that much. I want just to specify that.

What you're going to see is front store in Shoppers is going to get worse because of consoles. Consoles is a Q4 thing, and so as you heard us talk all through the year, we've made the decision to get out of electronics early in the year, but the console impact, it's not only in Q4, but it's largely in Q4. As we were discussing consoles, I guess a few months ago, business came to us to say, "Hey, are we buying new consoles?" Per and I said, "No, no, we're not buying any more consoles." That's going to have a material impact on front store in Q4 for Shoppers.

Having said that, our decision to get out of electronics, we look at whether or not it's driving a basket, and it's not driving a basket. More than 80 percent of the transactions that are on electronics, customers come in and just buy that item and leave. It's not good for business, so that's why we're deciding to exit it. The fact that we're not going to be doing consoles anymore is going to put more front store pressure for all of next year, again, so that's why we said an additional 1 percent. Does that answer your question?

Michael Van Aelst — Analyst, TD Cowen

Yes, that's great on that front. Then, I think you had made some comments on margin implications for both Food and…

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Okay, yes, margin. Let's go back, okay? We all said to all of you early in this year that our plan was to deliver flat gross margin, flat SG&A for the year. We've done better on gross margin because of shrink, check. Okay? SG&A, we said we're going to be more or less flat, which is still our plan. You're going to see slightly improved gross margin in Q4, and flattish SG&A rate in Q4.

Michael Van Aelst — Analyst, TD Cowen

All right, thank you. Then, I wanted to ask you about the initial takeaways that you've seen so far from these pilot No Name stores that are heavily discounted in price, and whether you see much of a future for these stores based on some of the initial reaction?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Yes, thanks. First of all, we have received great customer feedback from those stores, but it's still very, very early days to make any meaningful conclusions about it. But I can say one thing, is that we have already learned a lot from doing it, how cheap we can build, how low we can go on prices, and how we can manage the operation. The team are doing a super good job on managing the operations there.

If not anything else, then we're taking a lot of learnings there, as I said before, that we can apply to the discount business and help us continue to build new stores. But again, it's too early to say whether we're going to build more, or whether we're going to pivot.

Michael Van Aelst — Analyst, TD Cowen

Excellent, thank you.

Operator

Thank you.

Your next question is from Mark Petrie from CIBC. Your line is now open.

Mark Petrie — Analyst, CIBC World Markets

Yes, thanks. Good morning. You touched on a bunch of my questions, but I just want to follow-up on a few of them. As you mentioned, the gap between full-service and discount has narrowed somewhat, but are you seeing other indicators of trade-down shifts move at all, promo penetration, package size, penetration of good versus best product? Are any of those shifting at all, or are those all relatively stable?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

First of all, I don't think we shared that, it's narrowed. I think we said it's more of the same, so the gap continues to be the same as it has been. The trend is still that customers are buying a lot into the promotions, so the promo penetration is staying very high. We're also seeing that customers more and more like our No Name brand, so of course, the low end of our control brands, and that's it. It's just more of the same. Still, customers, they really love our market position, our supermarket stores. It's not only discount, we're also seeing good traction on delivering value in those stores.

I think it is important, again, to mention that it is both the range, like Frank and his division, he is putting a lot of multicultural products. Overall, 600 new products, and a lot of those multicultural, and they are clearly outperforming the rest of the new products that we are putting in. That's also giving customer sentiment.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Mark, I want to add one point for you. We have data, our PC MasterCard that we look at, and when we look at our data, it tells us that Canadians are buying more groceries these days than they were the same period last year, at the expense of restaurant. We are seeing that trend.

Mark Petrie — Analyst, CIBC World Markets

Yes, okay. That's helpful. Thank you. On the private label penetration side, wondering if there's any way you could contextualize the listings and the penetration on-shelf of private label versus a year ago, or where that would've been pre-pandemic or something like that?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

I'm not sure we could give you those numbers, but I'll let Roy decide that. But what I can say is that, because we implemented Hero of the Month (phonetic 33:43) this year, then of course that's giving some traction to the big CPGs, because those products that we put in, they're primarily the big brands, and that's shifting a lot of tonnage. But it's almost equal to last year. We stayed at a high penetration on our control brands, and of course it's all helping us on our margin.

Mark Petrie — Analyst, CIBC World Markets

Yes, okay. Thanks. Then, just two quick follow-ups just to clarify. Obviously, lots of puts and takes, but I think it's fair to say, Richard, based on what you were saying, that gross margin is the biggest factor in outperforming the typical financial framework that you would have communicated to the street for that low double-digit EPS growth. Is that fair?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

I think that's fair. I think that's fair. I think we still continue to do a good job on managing our costs, also. It's mashed a bit with some real estate gains that we have, but those are not material and we've been selling real estate for the last three years. You also need to take note that our tax rate is 2 percent higher this quarter than last year, and our non-controlling interest is actually $50 million higher than it was last year, and this is just timing. When you look at all the puts and takes, though, it's actually a very solid quarter that we printed for Q3.

Mark Petrie — Analyst, CIBC World Markets

Yes, understood. Then, if I could just clarify, the Q4 Food same-store sales trend, you said those are better. I'm assuming that that still holds and you're giving this on a like-for-like basis, normalizing for the Thanksgiving headwind in Q3, and then, I would presume a tailwind in Q4. Is that right?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes.

Mark Petrie — Analyst, CIBC World Markets

Yes, okay. Thanks a lot. All the best.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Thank you.

Operator

Thank you.

Your next question is from John Zamparo from Scotia Capital. Your line is now open.

John Zamparo — Analyst, Scotia Capital, Inc.

Thanks very much, good morning. I wanted to start on the new store growth plans. I wonder if you could talk about the profitability metrics of new stores, and in particular hard discount. Just remind us how long it typically takes for these stores to reach mature profitability levels?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, the profitability on these stores is going to be the same as the rest of our stores, and it takes about three years for the store to reach peak profitability. But more importantly for us is to see the sale. We know in the first six months whether or not the store will make it, based on where the sales are going. That's why we're pleased right now, because we look at the few stores we've opened already and we look at their sales performance, and it's very, very promising. That's how we're looking at it.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Yes, and think about the number of new stores. We cannot talk about how many next year, but we opened 50 this year and there's going to be more next year. Because if we start, on a consistent basis over the next few years, or maybe many years to open more stores than we've done in the past, then that will eventually help the same-store sales, because year two for a new store is significantly over and above the average of the rest of the stores. Likely, 50 stores that we open next year will then turn same-store sales next year, that will help increasing our overall sales for the like-for-like.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, and I want to add to that, because that is true. What's also true is our absolute sales will also shoot up next year. With low inflation that we're in now, the fact that we have all these new stores that are opening right now and that we're planning more of that next year, you're going to see a higher absolute sales growth for Loblaw in '25 and beyond.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

I think, on the sales—again, it's early days on the right-hand side, and the pilots we are doing there, but if they work and the one that we opened in Milton in the first months, if it continues to do as well as we're seeing right now, that's of course something that we are going to deploy over the next three, four years to all our Superstores. That will also help our sales. It's not that we only focus on the hard discount and the small stores, we're looking across the piece in all our banners to improve sales and doing something that's better for customers.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We encourage you to go see those two stores.

John Zamparo — Analyst, Scotia Capital, Inc.

Understood. All right, that's good colour, thank you. Moving to the Pharmacy side of things and coming back to exiting out of electronics and consoles, I wonder what it is you're giving that square footage or that shelf space to, and are there other areas of the store that, next year, year after, that you're thinking of reconfiguring as well? Don't expect you to share what those are, but are there other opportunities to grow EBITDA dollars by reconfiguring your front of store?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

No, I think we are good where we are now, and I think we have the right mix. It's not that electronics takes up a lot of space and we can just take that space and convert that into a shopping buffer (phonetic 38:54) of something else. Remember, it's a few items with a high ticket price that we sell, so it's not that we have a specific electronics department in our shelves. Of course, what we'll be focusing more on, that's the beauty side, both the Prestige beauty and also the Mass beauty. That's where we're really, really strong, and we are the biggest beauty seller in Canada and want to continue to roll that part. Also, the market there is going over and above the Food.

John Zamparo — Analyst, Scotia Capital, Inc.

Right, okay. That's helpful. Then, just one clarification on your guidance. The increase in CapEx guidance, it's relatively small, but can you add any colour on what's driving that?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, it's very small, as you mentioned. It's just like new stores that we've added up as the year progressed, so that's it.

John Zamparo — Analyst, Scotia Capital, Inc.

Okay, understood. I'll leave it there. Thank you very much.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Thank you.

Operator

Thank you. Once again, that is star, one should you wish to ask a question.

Your next question is from Vishal Shreedhar from National Bank. Your line is now open.

Vishal Shreedhar — Analyst, National Bank Financial

Hi. Just with respect to the changing population growth outlook in Canada, wondering how we should expect that to unfold as it relates to Loblaw? Are you anticipating different sales trends and associated different labour, hiring challenges as you look at the population growth cadence?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Vishal, this is actually super interesting. We were actually looking at those numbers recently. If you remember, Canada reached 40 million people last June, June 2023. We reached 41 million in March of this year, and we're inching close to 42 million as we speak. Canada continues the country whose population growth is the fastest in the industrialized countries, and while it may slow a bit, we still believe that it's going to grow. That's a tailwind that is very positive for grocery players like us. We expect that that trend should continue; maybe not at the same pace, but it should be a positive for us going forward.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

That's also why we are adding a lot of new SKUs, and exactly on the multicultural assortment, which we are doing both in our discount stores, but actually across the piece. Just seeing what we are utilizing in the scale of the group and taking some of the T&T products and bringing them into our conventional business is also something that's really, really helping a lot.

Vishal Shreedhar — Analyst, National Bank Financial

Okay, thanks for that. Per, with respect to all the changes that have happened at Loblaw since you've come in, you and your teams put in a lot of exciting new programs, quite a few. But we're noticing the sales gap on the Food side, that delta versus peers is not at the same level that we've become accustomed to for Loblaw. I'm wondering if you know the multi-buy of different promo changes, the lowering prices, if that's caused that gap versus peers to not be what we've become accustomed to, if there's other reasons? How should we think about that?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

No, I think about it like what I said before, that we are having the best tonnage growth in a decade in our business. Of course, when we remove the multi-buys, we're doing the right thing for customers, and you want to remove multi-buys when you're doing well in your discount stores, because it's taking face (phonetic 42:33) time, of course it is, short-term. But long-term, it makes more customers to come into our stores. Lowering prices, as we have done, will get more tonnage, but of course it puts a little bit of pressure on the overall top line. You are right; but first, it is really important to be in tune with our customers and give them what they want, and that's value at the moment.

Vishal Shreedhar — Analyst, National Bank Financial

Okay, so you're content with sacrificing a little bit on the sales line, maybe digging into tonnage. As the rate of changes that you're implementing at Loblaw, and the org's ability to adjust them, you're talking about the pressure on shoppers and the right-hand side pressure and all those initiatives. Is that the right balanced approach for Loblaw at this point in time, as you look at your sales performance versus peers, or is that not a consideration that Loblaw has?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

I'm not sure I understood it right, but I think all the new things that we are implementing, right, like the right-hand side, is definitely the right thing to do because we have been declining in our non-food, apparel, and beauty, or at least not growing over the past years, and it is marketing and enhancing categories. That side of the big Superstores, it's about a little bit less than 40 percent of the space, and it's less than 20 percent of sales. By doing that, we would both increase the right-hand side, but we will also increase the left-hand side of the store, and that's what we're seeing in the pilot. Still early days, but we're seeing it.

One of the things we're doing, we are moving the pet food to the right-hand side, getting more customers over there, and when they see what great stuff they can buy, they buy more into our range. Yes, we have done a lot; of course, now we're going to perfect what we have done. The first year I've been here, so it's not that I will bring on 10 big new initiatives, because we have a lot on our plate and we're going to perfect it and do even better with what we have, and I'm sure we can do that.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, and Vishal, I think I caught one portion of your question. I think, yes, we made decisions to get out of electronics, because we think it's best for the customer, and it's sacrificing sales. Yes, we made the decision to get rid of multi-buys because we think it's the right thing to do for consumers and it's affecting sales, but you know what? This is sort of the right things to do, long-term for the business. Our focus is on adding square footage. If we have the right business model, and that works and resonates with customers, if we just replicate it with new stores, long-term, we win. That’s how we’re thinking about this.

Vishal Shreedhar — Analyst, National Bank Financial

Yes, thank you for that colour. Richard, maybe just to get your update on transportation-as-a-service and media and how you expect that to unfold in 2025?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

More of the same. We remain quite excited about the performance of our transportation business in 2024. We have, again, ambitious plans for 2025. As we talked about media for a number of years, this business continues to grow quite nicely, but it’s still quite small compared to the other one, but it’s heading in the right direction.

Vishal Shreedhar — Analyst, National Bank Financial

Thank you.

Operator

Thank you.

Your next question is from Chris Li from Desjardins. Your line is open.

Chris Li — Analyst, Desjardins

Hi, good morning, everyone. Maybe to start with a very quick clarification question, Richard. When you mentioned slight low double-digit EPS growth for this year, I take it we should read it as more like 10 percent? Is that a fair assumption?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

In that zone.

Chris Li — Analyst, Desjardins

Okay.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

In that zone.

Chris Li — Analyst, Desjardins

Perfect. Richard, also, I know you and your team have done a lot of great work just over the years in achieving that consistent EPS growth quarter after quarter. I wanted to ask you, for next year, you said you're going to deliver the same financial framework, but I want to maybe get a bit of more detail about, how would you think about from a quarter basis, just because you mentioned you would be opening a new DC in Q1.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes.

Chris Li — Analyst, Desjardins

When we think about the progression of EPS, should we model the same framework quarter after quarter, like what you have achieved the last two years, or should we be more back end weighted because of some of these one-time start-up costs in the first half of the year?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

I don't want to be too specific around next year, because we're not providing outlook yet. Having said that, we are planning for consistent quarter-over-quarter performance, and we're planning to be within our financial framework. That's as far as I can go today. When we come back to you after the holidays, we'll be able to be a little bit more clear as to exactly what that means, but that's how it's shaping up as we speak.

Chris Li — Analyst, Desjardins

Okay. That's helpful. Then, Per, maybe just to follow-up on, I think Tamy's question earlier, as you look out for next year, I wanted to ask you, you could take a step back, maybe not looking at Loblaw per se, but looking at just the grocery industry in general, what do you see as one or two of the biggest challenges facing the industry for next year?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

I don't see any new challenges that we haven't faced this year. Basically, it is a boring answer; it's more of the same. I also believe that a lot has to do with what we do, so some of the changes that we apply to our entire store portfolio, of course, will make a difference. But customers, they are continuing looking for value and that will be the theme, not only for the next year, but I think for the next many years. That's also why we are building many of the new small stores in our hard discount, because that resonates so well with our customers. The first indication on sales for those stores, they're performing good and that's how we provide real value to Canadians, because those stores are much cheaper than the average store.

Chris Li — Analyst, Desjardins

Okay, perfect. I just have maybe two questions left. Maybe just switching to the strength in the e-commerce sales that you're continuing to see; I'm thinking more in the grocery side. Is that coming more from you guys taking market share, or are you seeing a bit of a resurgence in the adoption for e-commerce, for the industry as a whole?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

I think it's growing slightly, so I think we're growing in line with the industry. But probably you can tell me what I'm going to let through (phonetic 49:10), but it is a good high growth that we're having, and we're also having a fair share that's over and above the average. But two, in addition to that point, our Optimum members, they continue to be very important for us. Then, they once again grew, and year-over-year we have been growing by half a million with our Optimum members, and we're also seeing a good increase in our weekly. These are some engaged customers who are normally buying more than average, and for us that also has an impact on our e-commerce. We are happy with the growth there.

Chris Li — Analyst, Desjardins

Okay, perfect.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

I guess, probably in line with the industry growth.

Chris Li — Analyst, Desjardins

Okay, great. My last question, and this might be a tough one to answer, but I'm just thinking ahead. With some of these big GLP-1 drugs like Ozempic going generic in Canada in 2026, do you expect a big pickup in demand? Then, maybe another question is, at a very high level, is the generic version of these specialty drugs generally more profitable for a community pharmacy than the branded version?

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

I think the GLP-1s, the drugs, they are growing more than the rest. On a margin percentage, they're losing, but on a quantum profit, they're helping us. Whether it's going to pick them up more or less, I don't know. But we're still seeing good growth right now in it.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Generics are more profitable, it's just math, because the price is lower and so you get more, right? That's how to think about it. It's just math.

Chris Li — Analyst, Desjardins

Okay. Thanks, guys. All the best.

Per Bank — President and Chief Executive Officer, Loblaw Companies Limited

Thank you.

Operator

Thank you.

There are no further questions at this time. Please proceed.

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

Thanks very much, Jenny. Thanks everybody for your time today. If you have any follow-up questions, drop myself or Felipe a note, we'll get back to you quickly. Open your calendars and mark Thursday, February 20 when we will be releasing our Q4 results.

Thanks, and have a great day, everybody.

Operator

Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.