FINAL TRANSCRIPT

Loblaw Companies Limited

Third Quarter 2023 Results

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CORPORATE PARTICIPANTS

Roy MacDonald
Loblaw Companies Limited — Vice President, Investor Relations

Galen Weston
Loblaw Companies Limited — Chairman and President

Richard Dufresne
Loblaw Companies Limited — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Irene Nattel
RBC Capital Markets — Analyst

Michael Van Aelst
TD Cowen — Analyst

Tamy Chen
BMO Capital Markets — Analyst

George Doumet
Scotiabank — Analyst

Mark Petrie
CIBC — Analyst

Vishal Shreedhar
National Bank Financial — Analyst

Chris Li
Desjardins — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Loblaw Companies Limited Third Quarter 2023 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.

(Operator Instructions)

This call is being recorded on Wednesday, November 15, 2023.

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

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

Great. Thanks very much, and good morning, everybody. I apologize for the late start but we had quite a few people texting saying they're waiting to get on the line. But looks like we're all here now.

Welcome to Loblaws Company Limited's Third Quarter 2023 Results conference call. I'm joined in the room this morning by Galen Weston, our Chairman; and 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, but are not limited to statements made 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 are made. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than what's required by law.

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

With that, I will turn the call over to Richard.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you, Roy, and good morning, everyone.

I'm very pleased to report that we continue to deliver consistent operational and financial results with both strong top-line performance and earnings growth. Our business performance continues to be very healthy and our financials in line with our financial framework. This is notable given that we are lapping an extremely strong second half last year, where EBITDA grew by double-digits in both Q3 and Q4. That period was also characterized by high-double-digit margin and earnings growth and record sales level in both our Food and Drug Retail businesses. We accomplished this by remaining focused on delivering value to consumers, carefully managing our expenses and investing for the future.

On a consolidated basis, revenue grew by 5 percent and EBITDA increased by 4.3 percent. Adjusted earnings per share grew by 12.4 percent to $2.26 a share. In Drug Retail, absolute sales increased 4.7 percent and same-store sales grew 4.6 percent. Front store same-store sales grew by 1.8 percent on continued strength in cosmetics and health and beauty. OTC sales remained strong, but were off from peak levels. Overall, growth in our front store moderated as we lapped the strength experienced last year. Pharmacy same-store sales grew 7.4 percent, driven by growth in acute and chronic prescriptions, including strong growth in specialty drugs. At the same time, we're pleased with the growth of services related to expanded scope of practice. These services doubled in the quarter compared to last year, helping to offset lower COVID vaccines and testing.

In Food Retail, absolute sales increased 5.1 percent and same-store sales grew 4.5 percent. Customers are finding value in our stores, demonstrated by higher traffic, unit growth and positive market share momentum. We delivered positive tonnage growth in the quarter.

Our internal food inflation number was lower than food CPI. In fact, our actual inflation on food items as measured at our checkouts was significantly lower than food CPI, clearly demonstrating the role we are playing to help stabilize food prices for our customers. Since January, food inflation in Canada has been falling rapidly and consistently. While Canada continues to see lower food inflation than most of the world, we know that rising food prices have a real impact on Canadians and their families. Loblaw continues to invest to keep prices lower in our stores. The decrease in our food margin is evidence that our costs continue to grow faster than our prices.

As we continue to do our part to fight inflation, we remain concerned about the level of commitment to this cause from some of our suppliers. Without the support of suppliers, it will be difficult for the industry to sustain the current momentum of falling food inflation. With lower supplier costs, we can lower prices on the shelf for customers. Unfortunately, several large global suppliers are still coming with higher than expected cost increases for next year.

Returning to our performance, our ability to deliver value was reflected across our food business. Our hard discount banners continue to outperform, delivering higher traffic, increased tonnage and market share growth. The strength of our discount offering across the country is evident as consumers continue to migrate their shop to hard discount stores. In Quebec, our discount position continues to grow. We converted 7 Provigo stores to Maxi in the quarter, bringing our total to 18 so far this year and will add 6 more in Q4. We continue to be very pleased with the higher than expected sales growth being generated from these converted stores.

We believe the outperformance of our discount stores will continue as Canadians continue to seek value to help manage through the challenges of this extended period of high inflation and economic uncertainty.

Our market banners remain healthy despite the ongoing shift to discount stores. Within the conventional market, our market banners gained share against their peers. Having the right customer offer in all our stores remains a key focus. A great example is our home meal replacement offering, where sales grew in the double digits as customers continue to look for more affordable alternatives to eating out.

Right-hand side was a drag on our same-store sales performance to the tune of 80 basis points this quarter. These categories remain accretive to our gross margin and we continue to carefully manage inventory levels. Online sales in the quarter increased 13.6 percent, reflecting the strength of our digital businesses. Growth was led by PCX delivery and online pharmacy.

We continue to enhance our customer experience and differentiate ourselves by offering more choice and flexibility. Total retail gross margin was 30.6 percent, down 20 basis points compared to last year. Gross margin was down in both food and drug, but the driving factor was higher shrink in drugs. We are taking steps to address shrink across our businesses, and it's working. As expected, we saw sequential improvement in shrink from the second quarter.

That said, we continue to invest in stores and in labour and work with law enforcement to help reduce the impact of organized crime on our colleagues and customers. This surge in organized retail crime remains a significant problem for the retail industry. These are sophisticated organizations that are increasingly using violent tactics and complex networks to steal and sell stolen goods for profit.

Turning to SG&A, our spend rate as a percentage of sales was flat compared to last year, driven by investment decisions we are making for the future. Positive operating leverage in our retail business offset our in-quarter investments, in-store conversions and efficiency initiatives that will benefit us next year. These costs totaled approximately $50 million in the quarter.

Adjusted retail EBITDA increased by $61 million, yielding a margin of 10.3 percent, down 20 basis point compared to last year.

The quarter saw solid performance at the bank. PC Financial's revenue increased 8.3 percent driven by growth in the credit card portfolio. Earnings before tax increased 15.8 percent on higher interest income, which was partially offset by higher credit losses and loss provisions. Our effective tax rate was positively impacted by the expiry of prior tax reassessment period that allowed us to reverse certain tax provisions.

On a consolidated basis, Adjusted EBITDA margin was 10.5 percent in the quarter, down 10 basis points compared to last year. Our retail free cash flow was $663 million and we repurchased $341 million worth of shares in the markets.

The bottom-line is that last year in Q3, we delivered 8 percent of top-line growth, 10 percent of EBITDA growth and 26 percent of EPS growth. This year, we invested $50 million to drive future performance, gained share and still grew EPS 12 percent. All of our businesses are healthy, and we remain confident in our ability to deliver our full year outlook.

I will now turn the call over to Galen.

Galen Weston — Chairman and President, Loblaw Companies Limited

Thank you, Richard, and good morning.

Overall, I am very pleased with our results. Loblaw delivered another quarter of consistent performance, notable for its top-line strength. Our drug business grew nicely on top of our very strong performance last year. Beauty continued to outperform and cough and cold sales remained extremely strong, albeit a bit lower than last year.

In pharmacy, we made more progress on our journey to provide Canadians with more convenient access to healthcare services. We're now operating over 70 pharmacist-led clinics offering expanded scope of care. This includes 4 locations where we have designed a truly differentiated patient experience that combines the convenience of a pharmacy with the sophistication of a medical clinic. The results are extremely promising. In fact, year-to-date, our pharmacists have written almost 2 million prescriptions.

In food, momentum around the shift to discount continued. Our Maxi and No Frills stores led the way, generating double-digit growth again this quarter. In November, we celebrated opening our 150th Maxi store in Quebec. As we expand that banner, each new one outperforms our expectations. Through new locations and conversions, we have opened 23 discount stores this year, bringing the option of shopping discount to additional communities across the country at substantially lower everyday prices to over 2 million Canadians.

Our market stores continue to perform well against their peers, delivering full service value and great products that customers expect from us, especially at this time of year when we gather for holiday celebrations. Two weeks ago, we launched our 40th Holiday Insiders Report, with products already flying off the shelves. Sales in our private brands continue to outpace national brands with No Name providing an average savings of 25 percent. Our innovation pipeline is as strong as it's ever been with our newest PC Black Label pizza quickly turning into a category leading blockbuster. At $7.99, it perfectly delivers on the President's Choice mantra of truly differentiated quality at an incredible price.

Canadians continue to take advantage of PC Optimum points to get even better value. We're issuing more points and redemption rates are climbing. Our loyalty program, PC Mastercard and PC Money Account, were recognized yet again receiving several Canada's Choice Awards including top shopping loyalty program and top credit card rewards program.

Overall affordability remains a pressing issue on Canadians' minds and lower food prices remain a top priority for us throughout the business, from our stores, to our supply chain, to our suppliers. It's important to reiterate that grocers are not the reason for high food prices and so we are unable to resolve inflationary pressures on our own.

Over the last two months, we have participated actively in discussions with government, shared ideas and have provided them with the details of the specific actions we have taken. As part of these efforts, we are focused on delivering additional value across a basket of 35 items that matter most to customers on a weekly basis. We are doing so in four specific areas. More savings in our weekly flyers, over and above value campaigns, increased depth and breadth of PC Optimum offers, and the sustained delivery of our unrivaled Ad Match program.

We measure the success of these efforts in our stores, where customers tell us how we're doing every day. In the quarter our grocery stores attracted higher customer traffic. Those customers bought more items and our market share grew. In every corner of the business, our colleagues are working hard to reduce costs and do things more efficiently. These efforts have allowed us to reinvest savings to offset price inflation in our stores.

Alongside this retail excellence discipline, we continue to invest for the future with capital investments in new stores, conversions and supply chain modernization. As an example of this, next year we're planning 30 more store conversions to discount and will open 40 net new stores in underserved communities.

Our efforts to reduce our environmental footprint has also reached an important milestone in the quarter. In 2020, we set an ambitious target to convert all of our control brand and in-store plastic packaging to recyclable or reusable materials by 2025. I'm delighted to announce that we are now more than halfway towards achieving that goal.

The next time you make your morning smoothie, be sure to notice that your President's Choice or No Name frozen fruit standup pouch is now recyclable. I am extremely proud of the work our teams continue to do to execute against our strategy and to ground ourselves against our purpose of helping Canadians live life well.

In 2021, I returned to a day-to-day management role at Loblaw with Richard and Robert. We refined our strategy, established a shorter list of priorities and put a particular focus on urgency and accountability. Over the last two years, we've made tremendous progress with strong momentum in all our strategic pillars: retail excellence, driving growth, investing in the future and embedding ESG into everything that we do.

The results speak for themselves. Loblaw is in excellent shape. But there is still a great deal to achieve. Today, I take a step back to focus on my role as Chairman, and I'm thrilled to have Per Bank joining the organization as President and CEO. Per has spent the past few months getting to know our stores, our store support functions, and our colleagues across the country. This month he steps fully into the role, bringing a wealth of experience and energy. I know he is excited to get to work and that he is singularly focused on moving our strategy forward.

After 17 years of quarterly analyst calls, today is my last one. I'd like to express my thanks to all of you for your thoughtful questions, your support and your occasional enthusiastic buy recommendations.

I look forward to seeing you with Richard at our George Weston lunch in the spring. I'll now open the call for questions.

Q & A

Operator

(Operator Instructions)

Your first question comes from the line of Irene Nattel from RBC Capital Markets. Please proceed with your question.

Irene Nattel — Analyst, RBC Capital Markets

Before I ask my question, Galen, as someone who's been around for all of those conference calls for the 17 years, thank you for your availability and your always insightful comments.

Galen Weston — Chairman and President, Loblaw Companies Limited

Thanks, Irene.

Irene Nattel — Analyst, RBC Capital Markets

Moving on to question. You did a very good job of outlining some of the behaviour we're seeing in the marketplace. Can you talk about, specifically, what you're seeing in market versus discount, promotional intensity in the marketplace, promotional penetration in the basket, in the various and sundry trade down behaviours that you're seeing?

Galen Weston — Chairman and President, Loblaw Companies Limited

Yes, it's going to be very boring, Irene, because it's essentially the same as the last quarter. That shift to discount continues. There's no sign of it slowing down in any meaningful way. Our perspective is that this will continue for the foreseeable future. Promotional intensity continues to build. I think we mentioned last quarter that it's now back to those pre-COVID levels. But it's rational and there's a lot of people making an effort to put real value into the market. Of course, we are too.

But there's some bright spots in the conventional stores as well as Richard mentioned. It is remarkable as people trade down from the inflationary pressures that come from eating out. They're looking for better quality, higher value added food products in our supermarkets. They're seeing those in our market stores and that mealtime marketplace and other forms of whole meal replacement continue to be very, very strong. Those are the themes and they are about the same as what they were in Q2.

Irene Nattel — Analyst, RBC Capital Markets

Thanks for that. Just similar type of question in pharmacy. Historically, cosmetics have been fairly resilient across the cycle, but we're starting to hear some commentary that suggests not so much. Can you talk about what's going on in Shoppers and what tools you have to continue to drive strength there? Thank you.

Galen Weston — Chairman and President, Loblaw Companies Limited

It continues to be strong in beauty across the board. There might be a little bit of a shift towards mass relative to prestige, but it would be around the edges as opposed to a major shift. It continues to be resilient and we would expect that to remain the case for the foreseeable future. It may be slowing down at the super premium end a little bit, but certainly not at Shoppers today.

Irene Nattel — Analyst, RBC Capital Markets

That's great. Thank you.

Operator

Your next question comes from the line of Michael Van Aelst from TD Cowen. Your line is open.

Michael Van Aelst — Analyst, TD Cowen

Thank you. I echo those comments, Galen. Good luck. Your comment on the discount growth still growing double-digits. Is that a comment on same-store sales or just total dollar sales?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. I think we don't split the same-store performance or discounted market, but I can tell you, Michael, that there's a significant difference between same-store sale performance and discounted market. That delta is continuing.

Galen Weston — Chairman and President, Loblaw Companies Limited

It's comp that he's referring to, not just absolute.

Michael Van Aelst — Analyst, TD Cowen

All right. Then you mentioned that you're going to convert another 30 stores in 2024. How does that split between Quebec with the Maxi conversions that you were talking about (audio interference) and the rest of Canada?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It's majority—and the biggest proportion is in Quebec. We have a few stores outside Quebec, but most of them are in Quebec.

Michael Van Aelst — Analyst, TD Cowen

In the end, where do you see Provigo ending up within the Quebec borders? How many stores would you think is the right number?

Galen Weston — Chairman and President, Loblaw Companies Limited

It'll be substantially smaller, no surprise, but still an important network in the markets where it's trading. we're not going to give you the exact number right now.

Michael Van Aelst — Analyst, TD Cowen

I think you said e-commerce was up 14 percent. Last quarter, it was mostly driven by online prescription refills. Was there any growth in e-commerce for food this year, this quarter?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. As we said in our remarks, it's the delivery side that is growing the fastest. Yes.

Michael Van Aelst — Analyst, TD Cowen

How would have it split between food and prescription? Was it roughly equal, both growing double digits?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Both were growing. I would say delivery growing faster than click and collect. That's what I would say.

Galen Weston — Chairman and President, Loblaw Companies Limited

Then in terms of growth, there's more growth in pharmacy than there is in food, but growth in both.

Michael Van Aelst — Analyst, TD Cowen

Okay, great. Then just my final question was on your OPEX growth. Even if we back out that $50 million one-time cost, it does seem like it accelerated a little bit. I'm wondering if we're seeing added pressures on labour now that we haven't seen in the past, in recent quarters or past quarters?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

The reason we took the charge is because we made the decision months ago that we needed to position the business to continue to deliver on our framework for '24 and so we took action to have initiatives where we can reduce costs. Yes, we see costs growing across the board, but we're taking action early so that we can continue to deliver on our plan.

Michael Van Aelst — Analyst, TD Cowen

All right. Thank you very much.

Operator

Thank you. Your next question comes from the line of Tamy Chen from BMO Capital Markets. Please go ahead.

Tamy Chen — Analyst, BMO Capital Markets

Hi, good morning. Thanks for the question. Last quarter, you gave some figures around the supplier asks. I think you said it's down from the peak periods, but it's still elevated versus historical. I'm wondering if you could give an update on that. You did say qualitatively that there's still certain large suppliers coming in. I just wonder if you have an update versus what you said last quarter. Is the magnitude and number of that at least improving sequentially, or it's still holding in at these current levels?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It is slowing, but it could be slowing way more. especially from the large suppliers, they are still coming with large nominal cost increases that are going to hit us next year. It's too early to predict what will be the total figure for next year. But '23 is essentially done now and that was a marked decrease to last year. But '24, anyway, is not starting on the best foot lift from that perspective.

Tamy Chen — Analyst, BMO Capital Markets

Are you seeing any of the national brands thinking more about wanting to regain some of the volumes that they've lost? Or by and large, that it's not that conversation yet?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

I think everybody is looking to gain volume, but it's not stopping them to come with significant cost increases.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Thank you.

Operator

Your next question comes from the line of George Doumet from Scotiabank. Your line is open.

George Doumet — Analyst, Scotiabank

Yes. Hi, good morning. Galen, I also wanted to echo the comments there. Wish you all the best. First question I want to talk about was the Shoppers margins. They're down, I think. Can you talk a little bit about shrink? The outlook for when those you expect those margins to come back to flat? Maybe on promo in general—or I think what you've alluded to earlier, Galen, about mass versus prestige, if that continues. Can you talk a little bit about maybe the outlook in general for gross margins for that segment or that business over the next couple of quarters?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. We're very happy to see that we saw significant shrink improvement between Q2 and Q3. We had hints of it when we released Q2, but now we have evidence that it's getting better. A lot of our actions are going to be fully in place by the end of the year. As we recount the inventory in these stores, we expect this trend will continue. Therefore, we feel positive about the direction, which means that ultimately the Shoppers margin should improve to reflect that improved shrink performance.

George Doumet — Analyst, Scotiabank

Can you talk a little bit about the front store performance of comp throughout the quarter? Was it pretty steady for the quarter? Is it month to month? Any commentary you can provide there?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, very steady. As we said to the market, when we were planning the second half of this year, we were forecasting our comp to be negative, because of the strength last year was so strong. But as Galen mentioned, we continue to see a lot of resilience in front of store in general, and we're lapping the strong growth with still positive comps. But it's been pretty even since the beginning of—since Q3 and even as Q4 started, we're seeing the same trend.

George Doumet — Analyst, Scotiabank

Okay, that's helpful. Just one last one, Richard. I know you haven't really issued any formal EPS guidance for next year. But understanding that it's a tougher operating environment out there, is there anything really getting the way of us delivering that typical 8 percent to 10 percent EPS target next year?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No.

George Doumet — Analyst, Scotiabank

All right. I'll leave it there. Thanks.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No. I'll just add to it, George. The reason we took action earlier this year and the reason we're looking at charge this quarter is because we were anticipating that 2024 would be more difficult. We took action early to give us the room to be able to deliver on our framework. That's how we planned it.

George Doumet — Analyst, Scotiabank

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Mark Petrie from CIBC. Your line is open.

Mark Petrie — Analyst, CIBC

Thanks, and good morning. I'll start by also sharing my well wishes, Galen. On the topic of suppliers, you mentioned a view on them trying to rebuild volume momentum. I'm curious if that's something that's already playing out or something that you expect to accelerate, and if you view that as something that presents an opportunity for your business, given your size and scale or if it's potentially a headwind as maybe a pullback in private label is at risk to margins?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No. I think our private label sales continue to be quite strong, okay? That is a fact. We expect that vendors will want to drive more volume soon; such conversations are happening. But as I mentioned, I think it's not stopping them from coming with significant cost increase. I think they're trying to do both, but it's going to be difficult unless they slow down.

Mark Petrie — Analyst, CIBC

Is an increased promotional intensity from suppliers something that would affect your margin profile? Or is it simply a matter of passing all that through?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No, nothing particular on that, no.

Mark Petrie — Analyst, CIBC

Okay. Just to clarify, the 30 conversions expected in 2024 are mostly in Quebec? What about the 40 new stores? Were those also weighted to Quebec?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

The 40 stores, there's going to be about 60 percent Shoppers Drug Mart and 40 percent food stores. Most of these food stores will be discount stores. But they're all over Canada.

Mark Petrie — Analyst, CIBC

Yes. Okay. Perfect. Just the last one. It sounds like the industry is getting closer to a proposed code of conduct. I'm just wondering if you can talk about your views on the impact of that and when it might be implemented?

Galen Weston — Chairman and President, Loblaw Companies Limited

Yes. We've been active in conversations about this code of conduct for a couple of years now and continue to be active in conversations about the code. I think we've been quite public in expressing some specific reservations about the way that the code is currently constructed, primarily because we think it leads to potential increases in inflationary pressure.

We continue in those conversations, and we'll be working hard to make sure that the code doesn't have any of those unanticipated or unexpected consequences. Then we're continuing to work in our own fashion to make sure that we're doing what we can to support vendors in the right way as evidenced by our announcement yesterday with a small supplier program, which we think is an illustration of a really tangible action to improve the stability, the transparency of doing business with us, and we expect more innovation on our shelves from those small suppliers as a result.

Mark Petrie — Analyst, CIBC

Appreciate all the comments and all the best.

Operator

Thank you. Your next question comes from the line of Vishal Shreedhar from National Bank Financial. Your line is open.

Vishal Shreedhar — Analyst, National Bank Financial

Hi. Thanks for taking my questions. I just want to get your thoughts on some of these higher growth initiatives that Loblaws is working on, like media and freight as a service. Maybe you can give us your perspective on those businesses and how we should think about it in '24?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Good morning Yes, Vishal. Yes, so the strategic initiatives are part of our plan for '24, and they will help us deliver on our framework. That's how we're thinking about it, and they're all now contributing. We're excited by the role they're playing.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. Media was nascently profitable. Are you seeing that profit accelerating?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Media is slowly accelerating, yes, and freight as a service is also accelerating a lot in '24.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. Just moving on here to growth in e-commerce continues to show growth. Should we expect any meaningful investment in terms of infrastructure to continue to develop that business? Maybe you can give us your thoughts on how that business has evolved in terms of consumer demand since the height of COVID?

Galen Weston — Chairman and President, Loblaw Companies Limited

Yes. In answer to the first question, no. no meaningful incremental investments in infrastructure to support e-commerce today. As I think you know, in answer to your second question, we peaked in terms of volume in online grocery during COVID. It's now settled down at a level that's substantially higher than where it was pre-COVID, but substantially lower than where it was at peak. Now it seems to be growing at a slightly faster rate than the overall core business, but not dramatically so. Ultimately, I think time will still tell ultimately, what the right penetration of e-commerce is going to be.

We have the infrastructure; we continue to drive customers into the channel in a meaningful way. And we'll just have to see ultimately how it unfolds.

I might add simply that the cost pressure on consumers is probably a bit of a headwind for e-commerce, particularly on the delivery side. There may be a headwind for a little while before it returns to maybe a more natural level of growth.

Vishal Shreedhar — Analyst, National Bank Financial

Thank you. Congrats, Galen, on your successful tenure in the role.

Galen Weston — Chairman and President, Loblaw Companies Limited

Thanks.

Operator

Your next question comes from the line of Chris Li from Desjardin. Your line is open.

Chris Li — Analyst, Desjardins

Hi, good morning, and my best wishes to you as well. I wanted to start with asking when you look at your PC credit card data, and your third-party spending, are you seeing any notable decline in people eating out as you called out earlier about being high cost and going to more market formats?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, slightly. Just slightly. Over the last one and a half months, we started to notice that it's not material, but it's definitely slowing.

Chris Li — Analyst, Desjardins

Okay. Good, that's helpful. I'm sorry if you answered this already. I want to maybe touch a bit on pharmacy and the expanded scope of practice. Obviously, there's a lot of exciting things that are happening. You guys are investing a lot in capitalizing that opportunity. I'm just wondering from a labour availability perspective. Is that improving? Also from an automation field perspective, where are you in that journey so that you can fully capitalize on all the growth that's coming? Thank you.

Galen Weston — Chairman and President, Loblaw Companies Limited

Yes. No, so you're absolutely right. It continues to be a very exciting and fast-growing area of opportunity for us. In terms of the pharmacist availability, that is a challenge, and we are actively managing it on a day in and day out, week in and week out basis. Actually just did a review of this in the last couple of days. The team has done an excellent job over the course of the year, filling that gap so that it didn't become a constraint on growth. We have a similarly robust plan for 2024 and the team remains optimistic that it won't be a meaningful constraint. But it is hard work. There's no doubt about it.

Then in terms of the deployment of the central fill, I think, Richard, we're about probably two thirds of the way finished across the country now, would you say?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. We're opening one in the next few weeks. But yes, it's progressing really well.

Chris Li — Analyst, Desjardins

Great. That's helpful. Maybe, Richard, just my last question for you is from your answers, you do seem quite confident that you can achieve that 8 percent to 10 percent EPS growth next year. Just wondering what are the risk that would prevent you from achieving that target.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

All sorts of risks, like inflation, shrink are probably the bigger ones. But we feel we have a good control on shrink. We think we have visibility on our costs. That's why we took the initiatives we talked about. If we continue to deliver on our strategies, we should deliver our framework. But we'll give you more specificity to that when we release Q4 in February. That's when we will be presenting our outlook, and I'll probably be able to give you a little bit more colour there.

Chris Li — Analyst, Desjardins

Great. Thanks very much.

Operator

We have a follow-up question coming from Irene Nattel from RBC Capital Markets. Your line is open.

Irene Nattel — Analyst, RBC Capital Markets

Thanks. Just a question. In the prepared remarks, you talked about gaining market share. Out of curiosity, because everyone seems to define it differently, can you remind us how you define market share and which market or markets you're referring to?

Galen Weston — Chairman and President, Loblaw Companies Limited

We can define market share. We look at Nielsen, and that's the measure that we use. It's a third-party data source, and we look at our performance relative to the rest of the combined market. We look at our absolute market share performance in terms of dollars and also in terms of tonnage. Then we look at our different divisions and their market share performance against their competitors.

That's what we use to gauge our performance. As Richard said, our market share performance is positive.

Irene Nattel — Analyst, RBC Capital Markets

That's very helpful. Thank you.

Operator

Our next question comes from the line of Mark Petrie from CIBC. Your line is open.

Mark Petrie — Analyst, CIBC

Yes, thanks. I wanted to ask just about the right-hand side of the store, lesser impact on same-store sales in Q3 versus Q2, but still a pretty meaningful drag. I just wanted to ask if there was any change in your approach or execution if that drag is just simply—the lesser drag is simply a matter of lapping easier numbers. Then also, just given how consumer behaviours are shifting, any views on Q4 on what that drag may be?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. Discretionary spending continues to slow, and we're seeing it. That's why impact was, again—it's always between 80 basis points and 100 basis points. It's been like that for a while. That trend is continuing.

From our perspective, what we need to be laser-focused on is our inventory levels. As we've mentioned earlier this year, we've been slowing down our buys. We're buying less stuff so that we were not left with excess inventory, and we feel that so far, we're doing a good job. We don't expect a worse trend in Q4 than we saw in Q3. We're already a third of the quarter behind us and it's more of the same that we're seeing.

Mark Petrie — Analyst, CIBC

Okay. I appreciate that. Then if I could just clarify also on Shoppers. With regards to shrink, is it fair to say that's still a headwind, an ongoing headwind for Q4 and Q1? And then by next year, in Q2, you're lapping the peak of that impact. Is that about right?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Our hope is that it continues to go down in Q4. The idea is hopefully that continues to go down throughout 2024. We have plans, specific plans on shrink for both food and drug, and so we're going to be staying very focused on the delivery of these plans.

Mark Petrie — Analyst, CIBC

Okay. But it wasn't as big of a headwind in Q1 as it was in Q2 this year. Is that right?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

That's right. But still in absolute numbers, it's still a big number, and we need to keep—**bring it down**.

Mark Petrie — Analyst, CIBC

Perfect. Thanks a lot. All the best.

Operator

There are no further questions at this time. I would like to turn it back to Roy McDonald for closing remarks.

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

Thanks very much, everybody, for your time this morning. If you have any follow-up questions, call or drop me a line. Mark your calendar for Thursday, February 22, when we will be releasing our Q4 and full year results for 2023. Thanks, and have a great day. .

Operator

Thank you, presenters. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.