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FINAL TRANSCRIPT

Loblaw Companies Limited

Fourth Quarter 2023 Results Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Loblaw Companies Limited Fourth Quarter 2023 Results Conference Call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Thursday, February 22, 2024.

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

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

Thank you, Sinthu, and good morning, everybody. Welcome to the Loblaw Companies Limited fourth quarter and full year 2023 results call. I'm happy to be joined here 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, but are not limited to, statements with respect to Loblaw's anticipated future results, and these statements are based on assumptions and reflect management's current expectations. As such, are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from our expectations. These risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulator. Any forward-looking statements speak only as of the date they're made. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future results, or otherwise, other than what's required by law.

Also, certain non-GAAP financial measures may be discussed or referred to 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 the call over to Richard.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you, Roy, and good morning, everyone.

We are very pleased to deliver another year of consistent operational and financial results. Our businesses continue to perform well, reflecting our focus on retail excellence. On the full year, revenue came in at just under $60 billion and we generated earnings in excess of $2 billion. We plan to reinvest over $2 billion back into the Canadian economy and in jobs through our 2024 capital program.

Turning to the quarter, I'm especially pleased with our performance given that we are lapping an extremely strong Q4 last year when sales grew almost 10%, EBITDA increased by double digits, and EPS grew 16%. We accomplished this by remaining focused on delivering value to consumers, carefully managing our expenses, and continuing to invest for the future. On a consolidated basis, revenue grew by 3.7% and EBITDA increased by 9.4%. Adjusted diluted net earnings per share grew by 13.6% to $2 a share. On a GAAP basis, our net earnings available to common shareholders grew by 2.3%.

In drug retail, absolute sales increased 4.9% and same-store sales grew 4.6%. Front store performance exceeded our own expectations this quarter given our strong performance in Q4 last year. Front store same-store sales grew by 1.7% while lapping growth of 11.5% last year. Cosmetics and health and beauty continue to deliver very strong results. OTC sales remained strong. Overall, we are very pleased with the ongoing strength of our front store business. Pharmacy and healthcare services same-store sales grew by 8%, driven by growth in acute and chronic prescriptions, including continued strength 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.

In food retail, absolute sales increased 2.7% and same-store sales grew 2% against last year's same-store sales growth of 8.4%. Our offers are resonating well with customers, demonstrated by higher traffic and continued market share momentum. Our leading hard discount grocery banners outperformed in Q4 and lead our performance, bringing value to Canadians at a time of heightened cost of living pressure. Our internal food inflation was significantly lower than CPI again this quarter. This clearly demonstrates the role we are playing to help stabilize food prices for our customers. In Q4, our average item price increase was the lowest it has been in more than two years.

Loblaw continued to leverage its strength to bring value to our customers. The strength of our discount offering across the country is evident, as consumers continue to migrate their shop to hard discount stores. In Quebec, we have converted 24 Provigo stores to Maxi and plan to convert another 30 stores this year. We believe the outperformance of our hard discount stores will continue as Canadians seek value to help manage through the challenges of this extended period of economic uncertainty. Although discount continues to outperform conventional grocery, our market banners remain very healthy and we are pleased with our performance. Having the right customer offer in all our stores remains a key focus.

Right-hand side had a negative impact on same-store sales of 80 basis points again this quarter. These categories remain accretive to our gross margin as we continue to carefully manage inventory levels. Online sales in the quarter increased 14.6% and exceeded $3.3 billion on a full-year basis. We continue to enhance our customer experience and differentiate ourselves by offering more choice and flexibility. Delivery continues to outperform as a channel.

Total retail gross margin was 31.1%, in line with our full year rate of 31%. In Q4, our margin was up 50 basis points as we lapped a decline of 30 basis points last year. This reflects sequential shrink momentum and initiatives such as our freight business, which allow us to invest in value while delivering stable margin performance.

Turning to SG&A, our spend rate as a percentage of sales increased 10 basis points and included a number of one-time costs this quarter that offset our operating leverage. We finalized two important labour agreements in the quarter, which will benefit over 24,000 colleagues and bring certainty to our costs and operation. With these agreements in place, we do not have another major labour contract up for negotiation until the second half of 2026.

Adjusted retail EBITDA increased by $114 million, yielding a margin of 10.8%, up 40 basis points compared to last year. This quarter saw strong performance at the bank. PC Financial's revenues increased 16.8% driven by growth in the credit card portfolio, supported by an increase in customer spending and higher mobile shop sales.

Adjusted earnings before tax increased 45.5% with higher interest income and lower operating costs partly offset by higher credit losses and loss provisions. We remain very comfortable with the risk profile of our portfolio. We have a strong and well capitalized balance sheet and we continue to take a conservative position in our provisioning.

On a consolidated basis, adjusted EBITDA margin was 11.2% in the quarter, up 50 basis points compared to last year. Our retail free cash flow was $512 million and we repurchased $494 million worth of common shares in the quarter.

On a full-year basis, our retail free cash flow was $1.7 billion and we repurchased $1.8 billion worth of common shares. We invested approximately $2.1 billion in CapEx and our free cash flow generation continues to be very strong, as demonstrated again in 2023.

Our balance sheet remains strong and we continue to improve our key return metrics. Our return on equity sits at 22.2% and our return on capital at 11.5%.

Looking ahead to 2024, we have a solid plan in place to continue to deliver consistent financial and operational performance while advancing our growth initiatives. This will allow us to continue to deliver value to our customers and to our shareholders. Specifically, we are accelerating our opening of new stores. We plan to open over 40 new stores in 2024 and convert another 30 stores discount. Our real estate strategy is working. For the full year 2024, we expect our retail business to grow earnings faster than sales and adjusted earnings per share growth in the high single digits. We plan to invest approximately $2.2 billion in capital expenditures or $1.1 billion net of proceeds from planned property disposal. Again, we plan to return most of our strong retail free cash flow to shareholders through dividends and share buybacks. We begin the new year confidently as we are carrying our Q4 momentum into Q1.

I will now turn the call over to Per.

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

Thank you, Richard, and good morning, everyone. This is my first analyst call since joining the organization as CEO. It has been an exciting time for me and I have been looking forward to sharing my thoughts and our progress with you.

From my perspective, the past several months have been amazing. I’ve traveled the country talking to customers, visiting colleagues, suppliers, investors, and other important stakeholders. I have learned so much about Canadian customers and about the Loblaw business. Two things have really struck me during my travels. First, at Loblaw, we have a unique and very special relationship with our customers; in fact, with most Canadians. This means that they have higher expectations of us. Customers are increasingly rewarding us with their business, but they’re also not shy about letting us know when we can do things better. Secondly, Loblaw has tremendous strength in the commitment, diversity, and experience of our team coast to coast. Together, we are executing well across our business and have an excellent foundation to build upon, including the great assets and proven strategies we are pursuing to drive consistent growth and performance. 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 that we do.

Turning to the quarter, I'm very pleased with our results. We experienced continued market share momentum and top-line sales growth against a very strong Q4 last year. In our food business, we lapped very strong same-store sales and drove further growth; increasingly, Canadians are looking for and rewarding value. In my view, Loblaw is better positioned than any other food retailer to deliver value. One of our focus areas is to relentlessly pursue new opportunities to unlock value and respond to customers' needs. To illustrate, we continue to lever our leading control brands, promotional activity, and personalized PC Optimum offers. We're also expanding our hard discount Maxi and No Frills stores by opening 31 hard discount locations last year alone. Our recently announced Hit of the Month campaign is a great demonstration of our unique ability to appeal to Canadians and our commitment to provide them with unmatched value offerings on some key everyday products across our banners. Customers' response to this program has been terrific. We are in the early days of this program and there are more exciting things to come.

Canadians continue to see greater value as they face challenging and persistent inflationary pressures and we are committed to delivering that. Once again, our internal inflation was lower than growth of CPI while our food gross margin is still below pre-COVID levels. Food price increases in our stores are as low as they have been over the past two years. We are pushing back whenever we can on suppliers' cost increases and we are finding more ways to be efficient to keep prices low for our customers. Our colleagues are doing a great job to reduce costs and be more efficient, allowing us to reinvest back into the business and help offset inflation. Our hard discount banners are outpacing the market and we are well placed to benefit from the ongoing discount and trade down effects. Our [inaudible] banners continue to perform well. These stores are being refocused on value and we are targeting our offers in a more meaningful way to our customers. We are pleased with the early results.

In pharmacy, we're also lapping very strong results from last year. Our continued positive same-store sales growth reflects the continued strength in front store beauty products and from strong store sales in cough and cold category. Customers continue to respond very positive to the convenience level, to the convenient and level of care we offer to our more than 2,100 pharmacies and clinics and over 20,000 healthcare professionals and our PC Health interactive app. We have seen a very positive reaction across the country to our ability to deliver expanded scope of practice in our pharmacies, including our 74 new pharmacy-based clinics. Our pharmacies provided 2.4 million prescribing services last year. Another way to think about it is that we freed up an additional 2.4 million appointments with doctors. This is important when wait times are long and many Canadians do not have a family doctor. We will continue to invest in this area with more than 140 new clinics already planned for this year.

Another area in which we are unlocking value is the digital domain. We are harnessing the combined strength of Loblaw digital loyalty in advance and we are well positioned to create seamless and personalized experiences that enhance our customers' shopping journey and deliver exceptional value. In particular, we are investing in our personalization platform that will allow us to showcase the most appealing and relevant offers to our customers depending on their personal preferences. Canadians continue to take advantage of PC Optimum loyalty points across our business and in record levels, with increasing digital customer engagement, more meaningful personal offers, and effective promotions. This high level of engagement PC Optimum enjoys creates a loyalty loop for us and is resulting in increasing share of customer wallet. Building on the leadership position of our loyalty program, we are working to increase digital engagement on our PC Optimum platform by providing our members greater value. To illustrate, we have seen a double-digit increase in weekly active users in 2023.

Another area of growth is expansion of our reach. In 2024 we will continue to invest to update and expand our store network and distribution centers. This is part of our capital program where we expect to reinvest a total of $2.2 billion back into communities across the country. This record investment reflects our commitment to enhancing the store network, creating job opportunities, and improving access to affordable food and healthcare services for Canadians. This year investment in addition to more than $10 billion the Company has invested since 2016.

I mentioned at the outset that Canadians have high expectations of Loblaw. We do a lot, but of course we can always do better. One of the many ways we are working to live up to the expectations and be a leader is our commitment to environmental, social, and governance leadership. As a part of our overall ESG framework, we have two main pillars of advancing social equity and fighting climate change. I'm pleased to share that today we have issued some early priority disclosures around these two pillars. This is in advance of our annual ESG report, which is scheduled to be issued in April. In these pages you'll read about some of the significant strides we have made on our ESG agenda.

For example, in plastic, we've taken a leadership position to drive change across our industry. On our target to reduce plastic waste by ensuring all control brands and in-store plastic packaging a recycle or reusable by 2025, we have made excellent progress, achieving 64% compliance in 2023. We also made considerable progress in reducing our food waste. On our way to our target of zero food waste to landfill by 2030, 100% of our corporate stores are now partnered with food banks and other food recovery agencies, more than doubling our food donation rate in 2023 and moving us much closer to our zero-waste target. And our colleagues and customers should be particularly proud working together. Our PC Children Charity came very close to reaching its 2025 target of feeding one million Canadian children in schools across the country. Thank you for your ongoing support of this important initiative. I'm proud of this progress and I look forward to future engagements with you on our ESG journey.

To sum up, we delivered another strong quarter to wrap up a very successful year. We opened and converted over 40 stores, expanded our scope of healthcare [inaudible], and greatly advanced our ESG initiatives. I'm proud of how our team is delivering retail excellence, creating value for our customers and our shareholders. I would like to extend a heartfelt thanks to all of our colleagues for your pursuit of these goals every single day. Entering the new year, our portfolio of businesses remains strong and well positioned to deliver for Canadians who are increasingly turning to us for value and service. Our focus remains on delivering retail excellence, executing well across our operations, and an unrelenting focus on our customers, which is what allows us to continue to invest in our business and in growth. Personally, I'm looking very much forward to working with the team and unlocking further value to drive growth across our business.

With that, I will open the call for any questions that you may have. Thank you.

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

Thank you, Per. Sinthu, if you'd go ahead and introduce the process for asking questions.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the one on your touchtone phone. You will hear a three-tone prompt acknowledging your request. If you would like to withdraw your question, please press the star followed by the two.

Our first question comes from Mark Petrie from CIBC. Please go ahead, your line is open. Mark, please go ahead. Your line is open.

Mark Petrie — Analyst, CIBC Capital Markets

Sorry. Thanks and good morning. First, would you say the performance gap between discount and conventional sales growth is stable or is it expanding at this point?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It's about the same, Mark, as we've seen over the last few quarters.

Mark Petrie — Analyst, CIBC Capital Markets

Okay, thanks. And I also wanted to ask about the dynamic that you're seeing in terms of the balance between national brands and control brands. Obviously private label is a massive part of your sales and earnings base. They've been strong performers and outpacing national brands. I know there's a natural tension there that you're always managing, but I'm curious just to hear your perspectives, Per, I guess, just given your experience in Europe, the different dynamics there, and then what you've seen in Canada, not just at Loblaw but in the market overall.

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

No, yeah, I think that we haven't changed our strategy on pursuing our control brands. But when this is said, I do believe that we can believe that we can grow with both national brands and our control brands because, like the Hit of the Month, there we are, we are only doing the national brands, because we think that we can tap in and help the national brands grow and hopefully also tap into the profit pool, because they actually make a lot of money, and hopefully they will support us in growing. So it comes down to that. I think we can grow with both national brands and control brands at the same time to the benefit of our customers, because many of our customers, they still want both control brands and they also love some of the national brands.

Mark Petrie — Analyst, CIBC Capital Markets

Yeah. Understood. Okay. And then Richard, or maybe Per, what do you see as the drivers for neutralizing the right-hand side of the store as a headwind to the food same-store sales result? And do you think that could be an area of growth at some point or is it just a question of, as you sort of said, managing inventory to preserve the gross margin?

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

Yeah, no, it's a very good point and, when we talk about the right-hand side of the stores, we are talking about the superstores only. And it is, of course, something that we are looking into. We are talking about health and beauty, we are talking about non-food, and we are talking about clothing. So yes, it is something that's on our mind, it's something that we are working with, and of course we would like to pursue some growth there. It's too early to reveal anything, but it's definitely on my mind to do even better at the right-hand side of the store. And it is margin enhancing as well.

Mark Petrie — Analyst, CIBC Capital Markets

Understood. Okay. Thank you. I'll pass the line. All the best.

Operator

Thank you. The next question comes from Irene Nattel from RBC Capital Markets. Please go ahead, your line is open.

Irene Nattel — Analyst, RBC Capital Markets

Thanks and good morning, everyone. You noted that your internal inflation was, I think significantly is the word you used, Richard, below CPI. So how are you walking this line of continuing to invest in pricing, it sounds as though, to deliver value for consumers while simultaneously protecting the gross margin?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

So I think we need to be careful, Irene, when we look at the numbers, because like it's math, eh? And if you look at Q4 last year, we had comp sales in food that was north of 8%. Inflation was running very high single digits. So we're lapping those numbers. So that is a factor. But when you look at our strategies, like we continue to do what's right to invest to drive traffic to our stores and that's what we're really focused on. The comp performance or the inflation is just an implicit number that comes out of all of this. But like you look at what we're doing now, like we're very happy with what's happening with our market share performance, specifically in discount, and so that tells us that our strategies are working.

Irene Nattel — Analyst, RBC Capital Markets

That's very helpful, thank you. And can you talk about what you're seeing, we're hearing a lot from, whether it's the other food retail or other retailers period or suppliers, what you're seeing in terms of consumer trade-down behaviour and sort of, as you think about 2024, what your underlying expectations are on that side?

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

So for this year I think we will see more of the same. So what we have seen last year is that customers, they are increasingly looking for value and they're doing it in three ways. So one, they are buying more into our promotions, because that's a way of mitigating their own internal inflation; two, they're buying more into the control brand, especially our No Name is really, really successful; and then thirdly, moving more to hard discount. So I think that's the three things that we will see more of this year, as we saw last year.

Irene Nattel — Analyst, RBC Capital Markets

Understood. Thank you. And as we think about this consumer value-seeking behaviour, can you talk about what you're seeing in front of store Shoppers where you have a larger component of discretionary spend?

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

No, yeah, it's funny, because when I speak to some of our beauty managers at Shoppers when I did my introduction, I was curious to see how customers are responding to beauty. For them, if they buy a fragrance for $100, actually customers, they don't care. It feels like it's not the same customer as we have in our grocery stores, because in a grocery store then $0.10 of a loaf of bread means so much to them, but we don't see the same in Shoppers. They are not as price sensitive when they're buying more expensive beauty products. But when this is said, then when we discuss and we talk about our Hit of the Month product, so for example, Kraft Dinner at $0.55, it's also sold across all our Shoppers, because we also want our customers in our Shoppers Drug Mart to have that feel of value, especially in the grocery part. But it's kind of a different business.

Irene Nattel — Analyst, RBC Capital Markets

And are you seeing, last question I promise, are you seeing a step up in redemption activity on those higher price point items at Shoppers?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We're seeing a slightly higher redemption activity in total, Irene. Like I actually don't, I haven't looked at the specifics of it, but because customers have a tighter wallet they're using their points more and we're definitely seeing that.

Irene Nattel — Analyst, RBC Capital Markets

That's great, thank you. And love the LinkedIn post, by the way. Thanks.

Operator

Thank you. Our next question comes from George Doumet from Scotiabank. Please go ahead, your line is open.

George Doumet — Analyst, Scotiabank

Hi. Good morning, guys. Richard, I just wanted to hone in on the drivers of the high single digit EPS growth that you're calling out for next year in terms of maybe goalpost for sales, gross margin, and SG&A. And buyback activity came in kind of ahead of expectations in 2023. Do you expect to buy back the same number of shares in 2024?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

So the drivers for 2024 are going to look a lot like the drivers in 2023. We expect gross margin to be more or less stable, okay? SG&A rate will be more or less stable, because we have the labour cost pressures that everybody has been facing but we put in place initiatives to offset, to reduce cost to be able to manage those. And we are expecting a small tailwind from shrink. So together, these three things will allow us to deliver on our framework. And the answer to your last part of your question is yes, we expect to return again a significant portion of our excess free cash flow and the free cash flow should be more or less in line in 2024 as it was in 2023.

George Doumet — Analyst, Scotiabank

Great, thanks. And this it's probably a bit of a crystal ball question, but we saw a material deceleration in food CPI in January. Just wondering when you think you can see maybe a more pronounced disinflation at the center of the store.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Oh, we're seeing it now. Like our inflation, if you were to look at our inflation measurement by period, because we look at it every month, unlike where we report the quarter, it's actually been going down steadily since January 2023. And so the number we finished in December was lower than the average that we're reporting for the quarter. So inflation, I'd say, right now seems to be stabilizing and it's still positive, but the next number we report should be lower than what we reported in Q4.

George Doumet — Analyst, Scotiabank

Okay, thanks. And just maybe one last one for Per. If you can talk a little bit about what you think of the long-term plans to grow square footage at the grocery side of the business. Just wondering, Per, where do you see the most run rate for growth. Thanks.

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

I think it's too early to say, but clearly you can see that we are stepping up in our new store growth already this year. So we are paying attention to it and looking for opportunities, but more to come later on that.

George Doumet — Analyst, Scotiabank

Okay. Thanks, guys. Good quarter.

Operator

Thank you. The next question comes from Tamy Chen from BMO. Please go ahead, your line is open.

Tamy Chen — Analyst, BMO Capital Markets

Hi. Good morning. Thanks for the question. I wanted to talk about shrink at Shoppers. Richard, you briefly alluded to it in the previous question, but I believe you were expecting, and it sounds like you did see, sequential improvement in the shrink this quarter versus Q3. And so can you talk a bit about where you stand now as you exited last year? Like is the headwind really modest now and you're assuming that the first half of this year you're going to largely get back to a normal level?

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

I think we are cautious positive on the shrink and we are seeing that it's coming down since last quarter and we're entering into this year at the level where we want it to be, but it's something that we are paying really, really attention to and we need to work hard to continue to reduce shrink, and especially in Shoppers, because that's where we have the most expensive products. And we have done a lot. So the teams have locked up a lot of products. We are looking at [inaudible] stores and we're implementing gates. But we're paying a lot of attention to it because we know it's important to continue [inaudible] of getting the shrink down.

I don't know if you have anything, Richard…

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No, I think that's good.

Tamy Chen — Analyst, BMO Capital Markets

Okay. That's good to hear. Then some of the other pieces in the gross margin, so you mentioned freight as a service, and I think there's also been rebidding with vendors that has been a bit of a tailwind. Can you talk about those two? Like were they quite meaningful in terms of tailwinds this quarter?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Freight as a service is starting to be meaningful, yes. So it's not a few basis points. It's more than that. And so this is a business that has grown quite significantly in 2023 and we are anticipating some, again, outsized growth in 2024 for that business.

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

And you should think as freight as a service as we are helping our suppliers, because they're only using us when they can get cheaper freight than elsewhere. So that's always a good thing for Canadians.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Got it. And my last question is on, in Shoppers, the pharmacy comp. So, like you said, it continues to be very strong. On the expanded scope, I mean you ended the year with a bit over 70 locations that have this, but it sounds like it's contributing quite a meaningful component to the comp. You alluded to 2.4 million appointments that you did last year. Can you talk a bit about like what was it in 2022? Is that mostly skewed to Alberta? I think that's the most advanced province doing this, right? And so I just want a bit more colour on the magnitude expanded scope had this quarter and your expectations going forward. Thanks.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It was zero in 2022. We started that last year. So this is a new initiative and we're actually quite thrilled with what it's doing for us, so that's why, like we have 70-plus clinics now and we plan to open another 140 this year, because we're seeing some great traction.

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

Yeah, and we are continuing the momentum that we saw in Q4, so we feel confident.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Thank you.

Operator

Thank you. The next question comes from Vishal Shreedhar from National Bank. Please go ahead, your line is open.

Vishal Shreedhar — Analyst, National Bank Financial

Hi. Per, I just want to talk about some of the recent management changes that were made, including the president of discount taking over market. Does this signal changes in the market division focusing more on discount-oriented merchandising tactics? What should we take away from that change?

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

Thanks for the question. And for me, when I started my role here, it was a question, because we had a discount division consisting of our Real Canadian Superstores and then our hard discount, and for me this is two completely different ways of approaching our customers, because in the Superstores you'll have, whatever, 40,000, 50,000, 60,000 products available for customers and it's like on 100,000 to 160,000 square feet and in a discount store it's much more limited space. It ranges from 10,000 to 35,000 square feet. So it's a different customer experience. It's a different way of trading. So for me, to get the most out of both our market and our superstores and hard discount, then I thought it was, it made absolutely sense to carve out our hard discount in separate division led by Melanie Singh, because I think we can get more out of it by doing it this way, because I also want to really operate the hard discounters as hard discounters. And as customers, they turn more into hard discount, I think it makes a lot of sense to have that separately. And when I look at the market and superstore division, now, for example, we have the Real Atlantic Superstores combined with the Real Canadian Superstores, so now we have a superstore banner coast to coast, we didn't have that before, meaning that we can utilize the strength of negotiating with suppliers and giving great promotion and great offers to customers across the country. And it's a more [inaudible] base as well, so there are so many similarities, and having [inaudible] running our market and superstores makes, again, a ton of sense. He's been 38 years in the business and he's a retailer by heart and he's already now started to implement some of his thinking and giving more value to our customers in that segment as well. So yeah, it was something that I discussed with the chairman very early and agreed that it was a good thing to do.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. Just moving on to the Maxi conversions, obviously the indications are it's been very successful and continuing with that and probably likely going across Canada as well. When the first tranche were converting underperforming stores, should we expect a similar level of performance as you continue to roll out these Maxi conversions? And how successful do you think these conversions will be in other parts of Canada?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Well, let me just talk about Quebec for a second. Like obviously, when we get to the tail end of the conversions, we're sort of getting to our stores that are not losing as much money as before. So, from profitability, it's a higher hurdle. But having said all that, the lift in sales we've been experiencing with those conversions continues to be quite significant and so, therefore, net-net as an organization, we're definitely winning. So that is giving us the confidence to consider doing this beyond Quebec and that's what the teams are thinking about right now.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. And maybe just one on connected healthcare. How high up the list of priorities is evolving connected healthcare and when should we think of that meaningfully taking shape in terms of us understanding what the proposition has become at Loblaw.

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

Yeah, I think it continues to play a big role for Shoppers, so you should think about it as being extremely important for us and we are continuing to, again, see great performance on connected healthcare. So it's an important strategic pillar for us.

Vishal Shreedhar — Analyst, National Bank Financial

Can you give me some examples of what are the major planks in connected healthcare?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Lifemark acquisition, to me, is connected healthcare. Like you look at something that's complementary to our business and we look at the performance of Lifemark this year and we're starting to be excited, okay? Like we have a new leader running the business and she's doing a great job both on top line and bottom line, so that's a good example of a business that's adding to the roster of what Shoppers is offering. And then it's going to be, it's all the other initiatives that Shoppers does that brings everything together that is going to just drive sort of the growth of healthcare in general, of which Shoppers is part of.

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

Yeah, and we now have 320 Lifemark clinics in our portfolio, so it is becoming significant, and then, of course, our future pharmacy. So we have invested in four future pharmacy locations in Q4 and now totaling of six locations. As you probably remember, the future pharmacy is a full redesign of a dispensary with a waiting room. It's digital screens, there's [inaudible], and it's built to include consultation rooms that enable them to function like pharmacy clinics. So we're on it.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. And the items like QHX and enabling doctors, is that still high in the priority list, enabling doctors to send scripts and get their information all digitized? Is that still a focus?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

That is still happening. In terms of the scale of this versus what we just talked about, it's not as significant. What we just talked about is going to be what's going to drive the whole Shoppers Drug Mart ecosystem of businesses.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. Thank you very much.

Operator

Thank you. Our next question comes from Michael Van Aelst from TD Securities. Please go ahead, your line is open.

Michael Van Aelst — Analyst, TD Securities

Thank you. You've covered a lot, but I wanted to go back to the consumer health a little bit. It certainly seems like the industry overall is seeing lower tonnage. Have you seen that level off at all on a sequential basis? Have consumers got to the point where they can't really cut too much in terms of the amount of calories they intake?

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

No, we don't see that and we believe it will be more of the same as last year. So customers, they will still, I think, be at the same level as last year. But again, they will buy cheaper products, they will buy more into the promotions, they will buy more into a control brand and seeking into discount.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, Mike, specifically, overall tonnage in Q4 was essentially flat, okay? And when you look at what we were cycling, that's actually pretty good, okay, because last year in Q4 we were heavily invested. But it's a tale of two stories. Like in discount, like tonnage is up, and in market it's down a bit. So that's what we're seeing right now, but overall, our organization, it's more or less flat.

Michael Van Aelst — Analyst, TD Securities

And do you believe you're gaining share and so, in other words, tonnage for the industry is down?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. We're definitely gaining share in discount and in market, like the whole conventional segment is losing share, but we're holding our own versus our peers. That's how you should think about this.

Michael Van Aelst — Analyst, TD Securities

Okay. And the trade down that we see happening to private label, we all know it's normally margin accretive. Is that margin upside, is that still holding true even as you try to hold prices lower?

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

I think you should see that as being neutral, because it's customers are trading down to some of our No Name, they are buying products at a lower price but with a higher margin, which in control by [inaudible]. So the penny profit would be the same, so it's absolutely fine for us.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, No Name continues to grow faster, but it's not… It's slowing. It's slowing. Like we saw like No Name spike a lot, especially last year. It's still running higher than normal, but you can see the growth slowly inching back down as national brand growth starts to slowly inch back up. I think that's probably the best way to characterize this.

Michael Van Aelst — Analyst, TD Securities

Yes. I don't know if you have crystal ball or not, but wage growth is expected to grow faster than inflation this year. If that happens, is that enough, do you think, to see an improving consumer health or do you think that the hangover is going to be there for, all this inflation is going to be there for into 2025?

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

No, I think it will definitely help. So customers are getting more money to spend, of course that will help, but whether it's enough, yeah, it's too difficult to say.

Michael Van Aelst — Analyst, TD Securities

Okay. And just finally on ecommerce, can you give us an idea what the penetration is now, you should get that at the end of the year, and then how does your performance differ in terms of the growth? How does that 15% break down between food and drug?

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

Yeah, no, so it is the food part that's growing and it's good for us and it's good for our customers, because we are helping a lot of customers through life. So, when they have small kids, they are buying more into our food offering and it's close to 6% penetration. And as we stated, we have $3.3 billion total sales, but that's including Shoppers as well. When we talk about the food only it's, of course, a little bit less, but we are growing ahead of the physical stores, like a little bit more than double.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We're seeing a slight increase in penetration as the year progressed and I'd say, as we said in our remarks, like where the growth in food is coming more from it's on the delivery part. So that's where the big chunk of the growth is coming.

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

Yeah, and the split now is 60% pickup and 40% delivery.

Michael Van Aelst — Analyst, TD Securities

All right, thank you.

Operator

Thank you. As a reminder, to register for a question, please press the star followed by the one on your touchtone phone.

The next question comes from Chris Li from Desjardins Securities. Please go ahead, your line is open.

Chris Li — Analyst, Desjardins Securities

Good morning, everyone. Hello, Per. I know you've kind of answered this in your opening remarks and some questions to the peers as well, but I just want to ask again, given your extensive experience in grocery, especially in discount, what do you see as some of the greatest opportunities in terms of leveraging your experience to sort of enhance Loblaw's value proposition?

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

Thanks for that. I think my experience actually is both in hypermarket, supermarket, and in discount and, yeah, in my previous company, our discount penetration was just over 50%. So I think there's a lot of learnings that we can take from Europe, but as I get to know this business here in Canada, I also see that a lot of learnings that, if I was to go back, which I'm not, then it's a lot of learnings that I could take from our hard discount format here.

So I think that we have the strongest hard discount format in both Maxi and No Frills in Canada. The way that we prioritize the fresh, the produce, the meat, I think that's excellent. And yeah, and then learnings there, just a simple thing as shelf-ready packaging. So, if you go to Aldi and Lidl, you will see that's 100% implemented, and if you go to our stores we may be 10%, 15%. So that's just one example. So we have several examples and several things that we are working with where we can both take cost out but also other examples where we can give more value to our customers. So it's good and I learn a lot and hopefully I can contribute a little bit with my experience.

Chris Li — Analyst, Desjardins Securities

Great. Thanks for that. And then Richard, I'm just wondering, you know, for your high single-digit EPS growth for the full year, just on a quarter-to-quarter basis, can we expect kind of similar high single digit kind of spread out through, consistently through the quarter, or do you expect to be skewed to one period over the other?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Very happy you asked that question, Chris. So actually, when you look at our plan, like it's actually very, very stable for every quarter. So our plan, the way it's laid out, it should be the same number for every quarter. So in reality it's probably going to be exactly that, but that's what the plan contemplates. So there are no spikes in first year or first half or second half. It's sort of stable throughout the year.

Chris Li — Analyst, Desjardins Securities

Okay. That's helpful. And maybe just one on Shoppers. Richard, I think in the past you've said that Shoppers accounted for about 40% of retail EBITDA. I'm just wondering, do you have an updated number now what percentage is Shoppers for EBITDA?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It's in the mid-40s now.

Chris Li — Analyst, Desjardins Securities

Okay. In the mid-40s. Okay. So if I just, and maybe we can take this off line afterwards, but if I just do the quick math and, you know, based on the revenues for food and drug that you do disclose publicly, based on that 45% contribution, that would suggest your Shoppers EBITDA margin is more like 17% versus 8% or 9% for food implied. I guess my question is has that margin gap widened over time and, if so, what has been the drivers and do you expect Shoppers margin to continue to grow given all the initiatives that you've noted that are still to come?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, Chris, let's take that one off line.

Chris Li — Analyst, Desjardins Securities

Okay. No worries. Last one just on Shoppers again. I think this is like the second and third quarter in a row where you call out specialty drugs as being a driver. Just wondering if you can size that for us. How much of a contribution is that helping your comps just on the specialty drugs alone?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It's a relatively new phenomenon, okay, but the average value of these drugs is extremely high and so it's a driver of average script value. And demand is also very high and the issue we're facing is we don't have enough supply. That's the issue we're facing. So we don't know what's the size of this yet, because we just can't meet demand for the moment.

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

Yeah, especially Ozempic has been short in deliveries.

Chris Li — Analyst, Desjardins Securities

Okay. Thanks very much.

Operator

Thank you. There appear to be no further questions, so I'll turn the conference back your speakers for any closing comments.

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

Great. Thanks, everybody, for your time this morning, and if you have any follow-up questions, give me a shout or drop me an email. And finally, please mark your calendars for Wednesday, May 1st when we'll be releasing our Q1 results. Thanks and have a great day.

Operator

Thank you. This does conclude today's conference call. Thank you all for attending. You may now disconnect your lines.