

Loblaw Companies Limited

Third Quarter Results 2019 Conference Call

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PRESENTATION

Operator

Welcome to the Loblaw Companies Limited Third Quarter Results 2019 Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. To ask a question during the session you will need to press star, then one on your telephone. Please be advised that today's conference is being recorded. If you require any further assistance please press star, zero.

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

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

Thank you very much, Amy and good morning everybody. Welcome to Loblaw Companies Limited Third Quarter 2019 Results Call. I'm joined this morning by Galen Weston, our Executive Chairman; Sarah Davis, our President; and Darren Myers, our Chief Financial Officer.

Before we begin the call, I want to remind you that today's discussion will include forward-looking statements such as the Company's beliefs and expectations regarding certain aspects of its financial performance in 2019 and in future years. These statements are based on assumptions and reflect Management's current expectations and 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 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 a result of new information, future events, or otherwise unless 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 Darren.

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Thank you, Roy and good morning everyone.

In the third quarter, we continue to deliver on our financial plan. Revenue grew by 2.3 percent, Adjusted EBITDA normalized for IFRS 16 increased 4.7 percent, and adjusted diluted earnings per share increased by 5.6 percent. Adjusted earnings per share grew by 7.9 percent in the quarter after taking into account the timing of Thanksgiving, which negatively impacted results by approximately \$0.03.

Our same-store sales and drug retail grew 4.1 percent, our strongest quarter since Q2 2016. Front store same-store sales grew 3.1 percent and pharmacy same store sales grew 5.3 percent. For front store, we delivered positive comp growth in all categories led by OTC, HABA, and cosmetics. Pharmacy continued its strong trend with prescription count growth of 2.9 percent and a higher average script value. The timing of Thanksgiving had a nominal impact on drug retail same store sales growth.

In our food retail business, the timing of Thanksgiving had a negative impact on our same store sales of approximately 90 basis points. Excluding this impact, our food retail same store sales grew 1 percent in the quarter. Our CPI equivalent internal inflation metric was moderately lower than CPI of 4.1 percent.

Our performance in food retail reflects measured adjustments that we have been making in price. In the quarter, we improved both our traffic and our tonnage trends. That said, we will continue to make deliberate and measured investments to get our sales performance back in-line with our stable trading range.

In the quarter, total retail gross margin was 29.6 percent. Excluding the consolidation of franchises, retail gross margin was essentially flat, compared to last year. Retail gross margin was flat for food, while drug retail declined slightly. Retail SG&A as a percentage of sales of 19.5 percent included \$382 million benefit relating to IFRS 16. Excluding this benefit and the impact of franchise consolidation, retail SG&A improved year-over-year by 10 basis points.

Our SG&A performance benefited from continued progress in our process efficiency initiatives and some one time and timing benefits realized in the quarter offsetting a ramping of investments in our strategic growth areas.

PC Financial revenue grew by 12.8 percent, driven by growth in our credit card portfolio and continued higher year-over-year sales of The Mobile Shop. The Adjusted EBITDA contribution from PC Financial declined slightly year-over-year as growth in the portfolio was offset by investments. Adjusted

consolidated EBITDA margin was 10.2 percent in the quarter, normalized for the impact of IFRS 16 and the consolidation of franchise, the margin improved by 10 basis points.

In the quarter, fully diluted earnings per shares were \$1.25 on a comparable basis to last year after excluding \$0.06 per share from the incremental depreciation due to the spinout of choice and a \$0.03 per share negative impact from the timing of Thanksgiving fully diluted earnings per share for the quarter were \$1.34, an increase of approximately 7.9 percent.

The impact on EPS from IFRS 16 was immaterial in the quarter. IFRS net earnings available to common shareholders from continuing ops was \$331 million in the quarter. Free cash flow was \$186 million and we repurchased 4.3 million common shares at a total cost of \$309 million.

Reflecting on the quarter, we continue to build on our culture of operational excellence and we are pleased with our progress against our strategy. We continue to deliver process and efficiency gains. These gains offset cost pressures and enable us to invest in our growth areas for the future. Our drug retail business continued to perform very well.

Our same store sales performance in food retail is improving and continues to be an area of focus. We are also seeing an increase in competitive intensity in certain sectors of the market. We will continue to make deliberate and measured investments to get our sales performance back in line with our stable trading range.

As a reminder, the timing of Thanksgiving holiday period this year will positively impact fully-diluted earnings per share performance in the fourth quarter by approximately \$0.03.

I will now turn the call over to Sarah to provide additional colour.

Sarah Davis – Loblaw Companies Limited, President

Good morning. We continue to execute our strategy and deliver it against our financial plan in the quarter. We improved the trends of our food sales with measured margin investments. Our internal inflation was moderately lower than CPI with some categories nearing deflation. This has positioned us better with customers and in the quarter our trajectory on traffic, basket, and tonnage improved.

Looking back at the quarter, our consolidated sales grew 2.3 percent. Shoppers Drug Mart continued its strong performance, particularly in important categories like pharmacy and beauty. We are seeing signs of a strong flu season building on strong cough, cold, and allergy sales.

In beauty, we continued to build across our omnichannel touch point, online sales saw very strong growth and we added six next generation beauty boutiques with eight more to come in Q4. In grocery, our key metrics improved. We saw sales lift as customers responded to investments in service and lower prices in key categories.

Our lead value brand, no name is generating fantastic attention through marketing and social media and is now being used as global case study in branding. While we were directionally better in the quarter, we are not where we want to be. We have also seen an uptick in competitive intensity. As a result, we will continue to monitor prices and will make measured investments as necessary.

We are also enhancing our data driven insights. Every day we have more information and we are using it to take practical actions. We are better managing seasonal inventory, piloting flyers with fewer

pages and seeing new proof of our ability to build loyal customers through PC Optimum. Ultimately, we have continued confidence in our strategy.

Process and efficiencies remain an important piece of that strategy with many initiatives completed and hundreds more underway, we continue to find new ways to streamline our business. We have spoken before about the rollout of the Flashfood app that connects customers with food that is unlikely to sell before its code-date at very attractive discounts. That system is now active in all of our corporate stores.

Our customers are enjoying discounts of up to 50 percent and we estimate that will eliminate millions of pounds of food waste before the year is over. The success of our process and efficiency initiatives has allowed us to invest in our future. At the start of this year, our everyday digital retail investments shifted from building e-commerce infrastructure to improving the e-commerce experience.

As we near the end of 2019, our digital businesses are growing significantly year-over-year, we're seeing higher customer satisfaction scores based on speed of service, and we are expanding capacity and service in many stores where e-commerce demand is higher than we ever anticipated. We are also trying new things.

In the quarter, we introduced Shoppers Drug Mart home delivery nationwide. We continue to enhance PC Express processes like our picking app designed to increase efficiency, accuracy, and job satisfaction of our in-store team. We are now building an in-store automated picking area that turns 12,000 square feet of less productive space into a high-tech order fulfillment area dedicated to PC

Express orders. This pilot will automate picking up the highest velocity items, helping our in-store teams fill more orders faster and more efficiently right in your own neighborhood.

While store pickup is the heart of our PC Express success, we continue to test complementary spokes. For example, we just opened a new PC Express pickup point in an urban Toronto condo building, where we can provide a full grocery shop waiting for residents when they get home. The initial response has been stronger than we expected. And we are delighted to see that most of the customers are new to PC Express. Ultimately, we know we need to continue to retain and attract customers.

Our trajectory is improving. We have momentum and data-driven insights. Our process and efficiencies are funding our future. And we are investing in areas, where we have proven strength. We have more work to do, but we have confidence in our strategy.

I will now pass the call over to Galen.

Galen G. Weston – Loblaw Companies Limited, Executive Chairman

Thank you, Sarah. In the third quarter, we improved our sales trajectory, made progress on process and efficiencies, and continued our significant ongoing investments in the future. As Sarah noted, our supermarket sales are not yet where they need to be, but we are doing the right things, always focused on the customer.

We've taken steps like lowering prices and adding to in-store service levels in measured in meaningful ways. Our improving customer satisfaction scores in these areas clearly indicate we're on the right track. Shoppers Drug Mart continues its strong performance across all major categories. Beauty

boutiques, enhanced omni-channel beauty offering, and the urban format food offer are all delivering at or above expectations.

At the same time, we're investing to build the foundation for our connected healthcare strategy. Our digital pharmacy system HealthWATCH is now fully deployed in Ontario and 740 of our other pharmacies across the country. The new system is already driving improved customer prescription adherence and patient health outcomes, and it represents another foundational building block for our healthcare strategy.

Across the enterprise, we continue to focus on executing our strategy and accelerating investments. Good top line sales performance is a strategic imperative, as we use our success in process and efficiencies and data and insights to strike the balance of investing in today's customer and tomorrow's to build shareholder value over the long-term.

I'll now open the call for questions.

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Thank you, Galen. Amy, if you would please introduce the Q&A process, and I'll remind everybody dialing in to please limit your question to a single subject area, and we'll make sure you have a chance to dial back in for follow-ups.

Operator

As a reminder, to ask a question, you will need to press star, then one on your telephone keypad. To withdraw your question, you may press the pound or hash key. Please standby while we compile the Q&A roster.

Your first question today comes from the line of Irene Nattel of RBC Capital Markets. Your line is open.

Irene Nattel – RBC Capital Markets, Analyst

Thanks, and good morning, everyone. Just listening to the commentary, both Darren and Sarah mentioned increased competitive intensity. And so, I guess, I wanted to explore that a little bit, which channel is it sort of channel-focused? Is it regional? Is it on a category specific basis? And how much more intense are we talking?

Sarah Davis – Loblaw Companies Limited, President

Okay, I'll start off. So, basically, what we're saying is, we have noticed an uptick in Q3 in the competitive intensity. I don't know that we're going to go into the specific regions, but it is more in the discount division that we're seeing it. So, we're seeing it through new stores being added. We're seeing it through more renovations being done, and we're definitely seeing it through price investments. Some of that, of course, is us as well.

Irene Nattel – RBC Capital Markets, Analyst

Okay. That's helpful. Thank you, Sarah. And are we seeing overall that having an impact in terms of the relative movement of customers, with discount growing more quickly, continuing to grow more quickly than conventional?

Sarah Davis – Loblaw Companies Limited, President

I wouldn't say we saw a big trend in the difference between how our market division has been performing and our discount division has been performing in the quarter. The discount division, of course, has had more impact from the right-hand side, which we've talked about being not as strong as it has been in previous years. So, I would say, no change in trajectory in Q3 from that.

Irene Nattel – RBC Capital Markets, Analyst

Okay, that's very helpful. You also talked about reducing flyer page or testing sort of smaller less flyer pages and investing in pricing in certain categories. Can you kind of walk us through how that's playing out and what you're seeing in terms of consumer response as you replace flyer pages with personalized promotions?

Sarah Davis – Loblaw Companies Limited, President

Well, earlier this year, we developed this app that allows our customers to provide feedback every moment of everyday in every store. It's really allowed us to try a lot of different things. So, whether that's pricing in certain categories and then seeing sort of more immediate reactions or whether it's changing flyers, we are able to see the impact and customer responses.

I would say we're using different tools. That's another example of using data in order to help us make sure that we make investments in the areas that matter the most to our customers. That could turn out to be in certain categories, which I'm not going to go through which categories in certain regions of the country.

In terms of the flyer what it's doing is, it's allowing us to tests, reduce flyer pages in only certain regions. So, we could perhaps try a flyer that has fewer items in the middle, but just as many strong items on the front page and the back page in certain regions and seeing how that flyer performs versus other parts of the country. The data is allowing us to do a lot more testing in this area and seeing how our customers respond.

Irene Nattel – RBC Capital Markets, Analyst

So, I swear this is the last question. Taking that one step further, Sarah, is it safe to say that as we move forward into 2020, we're going to see a lot more of that kind of thing, and we should be expecting to see fewer of these sort of very sort of unspecific promotions and more targeted promotions?

Sarah Davis – Loblaw Companies Limited, President

I think we'll use a balance, we like the targeted programs, it's less expensive, if you target only certain customers or certain regions, but the mass promotions have a bigger impact, because, of course, they're to everybody. So, I would say that we're trying to fine tune the best combination of math and targeted promos. We will continue doing both but I would say we are emphasizing more of the targeted than just doing math as we would have done in the past.

Irene Nattel – RBC Capital Markets, Analyst

That's great. Thank you.

Operator

Your next question comes from the line of Karen Short of Barclays. Your line is open.

Karen Short – Barclays, Analyst

Hi, thanks very much. I actually just want to elaborate a little bit, if you could elaborate a little bit on the competitive environment commentary. I mean, I guess, coming from the angle that Walmart recently had a change in leadership in Canada, typically, that does come with increased price—focus on price from Walmart, maybe a little colour on that specifically?

Sarah Davis – Loblaw Companies Limited, President

Yes. I think that is part of it. So, we don't specifically talk about each of our competitors, but we have seen, you brought up Walmart. So, we have seen some pricing activity in Walmart, but it's not just them, it would be across all of our competitors.

Karen Short – Barclays, Analyst

Okay. Then turning to the basket within food, maybe can you parse out the composition of the basket with respect to tonnage, price per unit, unit per transactions, a little bit of colour there?

Sarah Davis – Loblaw Companies Limited, President

In what way? So, I would say, in terms of our trends, we would say, we're seeing an improvement in our traffic trends, in our basket size and in our tonnage. But we wouldn't get into the specifics of what each is worth.

Karen Short – Barclays, Analyst

Okay, that's fair. Then just to maybe some preliminary thoughts on how to think about 2020. I guess, with respect to put and takes, and I guess, the bigger question would be whether you think you will be closer to that 4 percent to 6 percent operating profit run rate in 2020 and 8 percent to 10 percent EPS?

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Yes. Hi, good morning, Karen. It's Darren. Yes, I think at this point, it's a little bit too early for us to provide guidance on 2020. Right now, we're really focused on the fourth quarter and improving our trading in a more measured way. I would say, I don't expect that we'll be all the way to break just in one quarter, we're trying to do this in a measured way.

Then when you think about 2020, it's really going to be a continuation of our strategy. So, that's going to be investing in the business, while we also continue the robust process efficiency, project or stream that we have and as well to focus on data-driven insight. That's probably the most colour I can provide today, but we'll give you a better update in our call in February.

Karen Short – Barclays, Analyst

Great. Thank you.

Operator

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

Michael Van Aelst – TD Securities, Analyst

Thank you. I just wanted to try one more time on the inflation, at least. Can you just for investors' sake, because there's a lot of confusion out there? Can you clarify what you mean by moderately below CPI?

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Yes, Mike, I think moderately for us is 1 percent to 2 percent below CPI.

Michael Van Aelst – TD Securities, Analyst

Okay. So, let's say, if we take the midpoint, we're kind of 2.5 percent negative same-store tonnage and 0.9 percent of that is from Thanksgiving. So, negative 1.6 percent, roughly, which compares to the negative 3 percent in Q2. That's the improvement that you're seeing so far, roughly on the tonnage side?

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Yes.

Michael Van Aelst – TD Securities, Analyst

You're saying that you think that can that you're not going to get it all back, obviously, in one quarter? But do you expect to be able to kind of get that closer to nil heading into 2020?

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

I mean, certainly, we're working hard at that, but I think the key is that we're doing things in a measured way. If we just want to get the tonnage overnight, we know we could do things to do that. But we're trying to do things in a responsible and targeted way. I don't want to give a forecast as to what exactly what that number will be. But we're pleased with the progress we made from Q2 to Q3 despite the increase in competitive activity that we're seeing in the market.

Michael Van Aelst – TD Securities, Analyst

Okay. Thank you. Then on e-commerce, you talked about demand being higher than you expected. So, you're testing the micro fulfillment center in one store. Is this what you think is kind of your likely solution to that, or is there other things that you're piloting at the same time as options?

Sarah Davis – Loblaw Companies Limited, President

No, we did a couple of things. So, in Western Canada, we actually have the highest penetration of PC Express and so, we actually renovated seven of our PC Express locations in order to expand for the amount of volume that we're seeing. So, we did seven renovations there and then we're also trying, this

is just a pilot. So the idea being that we're going to have an automated picking facility in one of our stores.

We don't know exactly what that could turn into, but you could imagine it being in some of—you could have that I a few stores that—and I would be a hub that would allow some of the spokes in other stores to not have that and have the picking done in the store. So, I would say, that's what we're piloting. But it's too early to tell exactly what we're going to do going forward but we'll have to see a lot of work.

Michael Van Aelst – TD Securities, Analyst

So, you haven't tried anything else like dark stores or anything like that at this point?

Sarah Davis – Loblaw Companies Limited, President

We have not.

Michael Van Aelst – TD Securities, Analyst

Right. Thank you.

Operator

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

Mark Petrie – CIBC, Analyst

Yes, good morning. Just to follow-up on the MSC topic. Could you just give us a bit more detail in terms of what market is the store in, or what banner is the store under? Then when do you expect it to be operational?

Sarah Davis – Loblaw Companies Limited, President

Well, in Toronto, it's been a Superstore Dufferin and Steeles. It's not up. So, there's nothing to see yet. But I'm sure Roy could organize something then we have something for people to see. So, we expect it to be up and running early in 2020.

Mark Petrie – CIBC, Analyst

Okay, thanks. And then my other question is just around the OpEx efficiencies. Wondering if you could sort of give us an example or maybe highlight a couple of the areas that were the biggest sort of payoffs in the quarter and then outlook for maybe the next couple of quarters, if you think this is kind of a relatively steady run rate? And then if you could quantify the favorable timing that you called out for SG&A in Q3?

Sarah Davis – Loblaw Companies Limited, President

Yes. I'll start on some of the initiatives. I would say, some of the initiatives that we're most pleased with is in terms of process and efficiencies would be self-checkout, particularly in our Shoppers stores, they'll be in 600 stores by the end of the year, and the penetration is quite high. It's in the 30s in terms of the people choosing to use self-checkout and the customer response has been very positive in terms of being able to have alternatives for checking out at the store.

Another one that we feel has been quite successful is our electronic shelf labels, which has an added benefit of improving the job of the colleagues, improving the customer experience or at least being no impact to the customer in terms of the pricing, and of course, being a better customer experience at the cashier, because there's no pricing differences at that time.

So, it's been very smooth and it takes the labor in terms of that type of labor, which is not satisfying labor in the store. So, I would say that one has been a win across the board as well. Those are a couple of examples, but there's lots of initiatives across the business, anything from improving in our supply chain, and processes, but those would be sort of some of the key ones that are easy to describe.

Then maybe, Darren, you can talk a little bit about the numbers.

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Yes. Mark, just add to that. I mean, we've talked about this in the past. So, it is a comprehensive program across six major areas of the business. There's really not an area that's not been touched by the process efficient to Sarah's mentioning some like she said, easy ones to describe. But there's a lot more obviously to that throughout the business.

We still see lots of runway on that. It's a multi-year program. Probably the way to think about SG&A is, we're driving that program. That is helping to offset cost inflation in the business, as well as the investments, which has been ramping through this year and we're going to continue to make investments in the business.

The program really serves as an anchor to be able to help fund those items. For the quarter, we were up 10 basis points in our performance, and I would say that there is about \$10 million that I would call out is timing and one-timers and call it a half-half split, \$5 million being timing from Q4 to Q3 and \$5 million being one-time.

Mark Petrie – CIBC, Analyst

Okay. I appreciate the colour. Thanks.

Operator

Your next question comes from the line of Patricia Baker of Scotiabank. Your line is open.

Patricia Baker – Scotiabank, Analyst

Good morning, everyone. Thank you for taking my questions. Firstly, I just want to come back to tonnage in traffic and more specifically traffic. You indicated that you had improved trends, but traffic, as I understand it still remains negative and you've had negative traffic for a while now. So, when you guys sit down and talk about the business and think about what's going on, what you would do attribute the negative traffic to?

Sarah Davis – Loblaw Companies Limited, President

Well, I think it's a good question. I would say, we have—so, yes, we are saying that our traffic is still negative. But we're pleased with the momentum—with the progress that we are seeing. As we've said in previous quarters, some of our focus with the data was not—maybe not as accurate as we would like. So, we're making a few measured adjustments there.

But I don't think that we've got one specific thing that we're attributing it to. We know that we have some work to do and we're working to improve it, and that's what we're hoping to see by the end of the year. But to Darren's point, it may not be finished, then. We might continue into 2020 as well, but no specific thing that we're attributing it to.

Patricia Baker – Scotiabank, Analyst

Okay. So, you don't think there's something different happening with the consumer, as far as you're concerned? It's just a compilation of factors?

Sarah Davis – Loblaw Companies Limited, President

I think when you think about our business, in total, you actually think of our enterprise and you think about our revenue, our sales growth in the quarter at 2.3 percent. We're performing really well in our Shoppers division a little less. And there's a bunch of—just a whole bunch of different components to it. Some of it is the impact of the right-hand side that we've talked about. Some of it is some of the things that we have done.

Some of it is just some of the things that our competitors are doing by adding more stores, we haven't been adding a lot of stores. We've focused some of our capital towards away from our store

capital into some of our growth areas. So, I would say, all of those would have some impact that we're now working through.

Patricia Baker – Scotiabank, Analyst

Okay, fair enough. You've mentioned the right-hand side twice now, Sarah. I'm just curious about, and you've talked about it in last few quarters, where it has had an impact on the business and obviously, it did again this quarter. Are you guys thinking strategically about what you should be doing with that business and how important it is to the overall enterprise?

Sarah Davis – Loblaw Companies Limited, President

Yes, and I would say that we didn't mention the right-hand side as being a factor that was any more or less impactful in this quarter. I would say, we had the biggest impact in Q4 of last year and then we mentioned it in Q1 having a 60-basis point impact, and it's slowly been declining. I'd say, it's having a less of an impact as the year goes on. So, we are figuring out some of our pieces there, and it hasn't had as negative an impact. So, we're seeing improvements there as well.

In terms of the overall strategy, I would say, in terms of apparel, we're quite pleased with what we're seeing. In terms of the change in performance, we think it's an important part of our business. In terms of general merchandise, the same thing, but I think as time goes on, we'll see how much space in some of our large stores.

And keep in mind, we don't have people think of us as having a lot of large stores. We don't have that many. But I think we will have to think about whether we have—allocate as much space to general

merchandise or whether we give the space to other things like the MSC that we were talking about. So, more to come on that. We're not planning. We don't have a big strategic change in our right-hand side right now.

Patricia Baker – Scotiabank, Analyst

Okay, I really appreciate that, Sarah. Now, I have another question. Why are you guys so reluctant to actually give us an actual inflation number, which we get from everyone else, but you guys always give us the moderately the modest. And today, you did a little bit better by saying, moderate means between 1 percent and 2 percent. But like, what's the rationale for just not giving us a number?

Sarah Davis – Loblaw Companies Limited, President

Yes, it's a fair question. I think what we've talked about over many years is that, it's just not always the CPI and different measures. We have a few different inflation measures. We have one, which we call LPI, which is a lot Loblaw Price Index, which is based on the exact same basket that CPI is based on. But really, it's not rep. So, we could give that number.

We also have one that we believe is more representative of our business, but doesn't necessarily tie to the same basket of CPI. I think we've just decided that we weren't prepared to give a number based on a measure that multiple measures that we use in our business. We're not going to give multiple measures, and so we just have decided not to give one. But I know, Roy has been asking us to reconsider for 2020. So, more to come on that, but I don't think we're going to change and give out that number.

Patricia Baker – Scotiabank, Analyst

Okay. So, just technically, though, so the 1 percent to 2 percent below, is that LPI?

Sarah Davis – Loblaw Companies Limited, President

It is.

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Yes.

Patricia Baker – Scotiabank, Analyst

Okay. Thanks a lot. And Sarah, you mentioned that you've got 30 percent penetration self-checkouts at Shoppers now, can you give us what that figure is at Loblaw?

Sarah Davis – Loblaw Companies Limited, President

Oh, it wouldn't be as high. We don't have self-checkout in as many stores at Loblaw, but in the stores that we do have it in, it would be in mid-20s, and it depends—it's just related to the size of the basket. When you think you have a grocery shop, if you're buying a big basket, you're less likely to go through the self-checkout, so there's (cross talking).

Patricia Baker – Scotiabank, Analyst

Yes, it's more work.

Sarah Davis – Loblaw Companies Limited, President

Yes.

Patricia Baker – Scotiabank, Analyst

Okay. Thanks a lot.

Operator

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

Vishal Shreedhar – National Bank, Analyst

Hi, thanks for taking my questions. Just on the competitive intensity in the industry, is that starting to stabilize or still continuing to increase?

Sarah Davis – Loblaw Companies Limited, President

Well, I think we saw the intensity increasing at the end of the Q3. I would say that it's going to continue into Q4 and, of course, we're making investments in price. So, it will be part of that. I think, I would expect it to continue through Q4.

Vishal Shreedhar – National Bank, Analyst

Okay. And it's reasonable to expect that to start impacting the inflation numbers that we see as well?

Sarah Davis – Loblaw Companies Limited, President

Yes.

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Yes. We would expect...

Sarah Davis – Loblaw Companies Limited, President

Actually, ours is already starting to come down. So, we're already moderately lower than CPI. I would think that that would have an impact on the whole industry.

Vishal Shreedhar – National Bank, Analyst

Okay. At the same time, I think, you flagged in the call or your Management flagged in the call that the investments that Loblaw is making are escalating in the P&L, is that correct?

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Well, the investment so I mean, if you think about it, as you look forward, we are making further measured adjustments to get to back to our stable trading. Yes, that's a pressure as we look forward.

Sarah Davis – Loblaw Companies Limited, President

Are you talking about short-term investments or long-term investments? Because we're doing both. So (cross talking).

Vishal Shreedhar – National Bank, Analyst

Yes.

Sarah Davis – Loblaw Companies Limited, President

Sorry, go ahead, which one?

Vishal Shreedhar – National Bank, Analyst

Oh, I was referring not to be actual price promo investment, but the actual investment in the P&L in the long-term strategic initiative. Is that escalating, or has that stabilized that level?

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

I mean, those have been ramping through this year and we're looking to continue to make investments. But we've certainly been ramping those as the years going on.

Sarah Davis – Loblaw Companies Limited, President

Okay and just so I'm clear by ramping, does that mean that the dollar spend in the P&L will be greater in the coming quarters than they were relative to the prior quarters? Is that what that would mean?

Darren Myers – Loblaw Companies Limited, Chief Financial Officer

Yes. Yes.

Vishal Shreedhar – National Bank, Analyst

Okay, and just switching gears here, in terms of the—and I'm not sure how much colour you can provide. But in terms of the backdrop on pharmacy, a little bit more chatter on National Pharmacare. I'm wondering if Loblaw has a perspective on National Pharmacare and what maybe if there's any words of wisdom, you can offer the investment community on how to think about that and say impact to Shoppers?

Sarah Davis – Loblaw Companies Limited, President

I would say that we have offered up perspective, where we believe in National Pharmacare, but we believe in it being funded by multiple sources. So, we believe in more of the fill the gap strategy, and in terms of what's going to happen, we don't, but obviously, it's an active file for us and we pay a lot of attention to it, there's not really any new news in that area at this time.

Vishal Shreedhar – National Bank, Analyst

Okay. Thank you.

Operator

Your next question comes from the line of Peter Sklar of BMO Capital Markets. Your line is open.

Peter Sklar – BMO Capital Markets, Analyst

On retail food inflation, like you've addressed it in terms of competitive dynamics, but I wanted to know what you're seeing through the quarter and as you exit the quarter in terms of underlying food inflation in terms of commodities, your pricing relationship with your CPG, suppliers, etc. Are you seeing any movements in inflation? Is it decelerating in terms of those underlying trends?

Sarah Davis – Loblaw Companies Limited, President

I'd say that certainly from our perspective, we have been free, inflation is coming down and we're seeing that increase as we went through the quarter, increase in the reduction of inflation through the quarter.

Peter Sklar – BMO Capital Markets, Analyst

Okay, thank you. That's all I have.

Operator

Your next question comes from the line of Keith Howlett of Desjardins Securities. Your line is open.

Keith Howlett – Desjardins Securities, Analyst

Yes, I had some questions around Connected Health. So, the first was the—if you have any further details on the agreement between the Ministry of Health in Ontario and the pharmacists on fee reductions? And the second related to the Patented Medicine Review Board, what information you have here on the adjustment or possible adjustment of branded drug prices?

Sarah Davis – Loblaw Companies Limited, President

I think on the first one, so the Ontario budget came out with a plan of about \$436 million impact on pharmacies over a four-year period. And we would expect that we would take our proportionate share of that impact. So that is something that's going to cause pressure in 2020 that will factor into our 2020 plans.

In terms of the second question, I would say, right now, we're not seeing it as having an impact on us, but we can go through more details maybe with you offline, but right now, I think we're not seeing an impact on us as a result of the generic.

Keith Howlett – Desjardins Securities, Analyst

Then if I could just on Connected Health, what would be the primary initiatives that you'd be working on at this time?

Sarah Davis – Loblaw Companies Limited, President

So, in Connected Health, I think, Galen mentioned, so the first thing would be building the backbone, which is putting in the—our new HealthWATCH system into our stores, so into our pharmacies and we're now in 740 stores, all of Ontario is done. So, that would be the infrastructure and then through QHR, they would be signing up more doctors to have the EMR software.

They have market share of about 27 percent in terms of the EMR, so they're continuing to grow in that area. And they would also be rolling out basically software—an app to consumers, that allows

them to have contact between consumer and doctor. We've got about 150,000 consumers who have signed up for that. It's more designed for consumers that have maybe a stronger relationship with their doctors.

So, more related to chronic illnesses is where you could see the biggest impact, but 150,000 consumers have signed up for that as well. So, we feel like we're making good progress in Connected Healthcare piece as well.

Keith Howlett – Desjardins Securities, Analyst

Thank you.

Operator

There are no further questions in queue at this time. I turn the call back to the presenters for any closing remarks.

Galen G. Weston – Loblaw Companies Limited, Executive Chairman

Thank you. Thank you, everybody, for your time this morning. I'm happy to take any follow-up questions offline and please mark your calendars for February 20, when we will be releasing our Q4 and full-year 2019 results. Have a great day.

Operator

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