FINAL TRANSCRIPT

Loblaw Companies Limited

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Loblaw Companies Limited Third Quarter 2022 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 November 16, 2022.

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

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

Great. Thank you very much, Colin, and good morning, everybody. Welcome to our Third Quarter 2022 Conference Call. I'm joined in the room this morning by Galen Weston, our Chairman and President, and by Richard Dufresne, our Chief Financial Officer.

And before we begin the call I'll remind you that today's discussion will include forward-looking statements, which may include, but are not limited to, statements with respect to Loblaw's anticipated future results and the impact of the ongoing COVID-19 pandemic. These statements are based on assumptions and reflect management's current expectations. As such, are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from our expectations. These risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulators. Any forward-looking statements speak only as of the date they are made. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, other than what is required by law.

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

And 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.

In Q3 we delivered another quarter of steady operational and financial performance, reflecting our focus on our core retail businesses. Our strong value offering, best-in-class loyalty program, and leading food and drug retail businesses continue to position us well in a challenging marketplace.

On a consolidated basis, revenue grew by 8.3%, adjusted EBITDA increased by 10.3%, and adjusted earnings per share grew by 26.4% to $2.01 a share. In drug retail, absolute sales increased 10.3% and same-store sales grew 7.7%, lapping an increase of 4.4% last year. Front store same-store sales grew by 10.7%. We continue to see strong growth in margin-accretive categories like cosmetics and OTC, which are both showing double-digit growth. Again this quarter, front store sales drove Loblaw's gross margin improvement. Pharmacy same-store sales grew 4.7%. Acute and chronic prescription volumes are continuing to show steady growth and are approaching pre-pandemic levels. Pharmacy services have seen demand for COVID vaccines and testing slow versus last year while core pharmacy services like med reviews have rebounded. All in all, services are on track to deliver similar performance to last year's record sales.

In food retail, absolute sales increased 7.4% and same-store sales grew 6.9%, led by the strength of our discount banners. In fact, we are pleased with our performance across all our banners and our market share improved over the quarter. Performance in our discount banners continued to strengthen as market share and traffic improved year over year. We continue to see a larger share of wallet spent in our discount banners. Although not included in our same-store sale numbers, we are very excited about the performance of the seven stores that have been converted from market to discount in Quebec. Four more are opening over the next few weeks. Having the right customer offer in each (inaudible) area remains a key priority. The macro environment is favouring our discount banners, but our market banners are also delivering strong results and outperforming their conventional peer group. This is evidence that our value proposition is resonating. In food retail, our right-hand side had a negative impact on same-store sales of 120 basis points; having said that, our inventory levels in those categories remain healthy.

Online sales in the quarter increased 3%, lapping flat growth last year and 175% sales growth in Q3 of 2020. We are pleased with our online penetration rates, which are trending well above pre-pandemic levels, even as customers returned to in-store shopping. Retail gross margin in Q3 was 30.8%, up 10 basis points compared to last year, driven by continued strength in the higher margin mix of cosmetics and OTC categories in our drug retail businesses. Gross margin performance in food retail was flat. A strong private label offering and promotional effectiveness enabled us to balance value and deliver sustainable performance.

In light of our strong bottom line result this quarter, I thought it might be helpful if I commented in a bit more detail on how inflation has impacted our performance. First and foremost, the pressure on cost is more significant than anything I've seen in my career and it's translating to increased prices everywhere, particularly in food. This is a global issue facing all countries and all sectors and policymakers around the world are doing what they can to bring it under control. When it comes to food prices, we know Canada is doing better than most, with some of the lowest inflation in the G7, but that is no comfort for customers who are paying over 10% more for their essentials than they were just 12 months ago. At Loblaw, we're taking active measures to combat the pressure on behalf of our customers and it's important to keep in mind that the levers available to us are limited. We are a food distributor. We buy goods from suppliers and then sell them to customers. So we are largely dependent on what suppliers ask us to pay for their products. Suppliers determine the cost and we determine the retail prices. We have seen unprecedented cost increases from our suppliers this year and we continue to receive new cost increases. Part of our job is to evaluate these and push back where they do not make sense. We have done that vigorously over the last two years and will continue to do so going forward. Our objective is to make sure that our prices on the shelf do not rise faster than supplier costs.

Gross margin is an important measure we track to ensure we are delivering on that goal. We watch it very closely. In every quarter since inflation took off last summer, gross margins in food have been essentially flat. This gives us the confidence to say categorically that retail prices are not growing faster than costs and the Company is not taking advantage of inflation to drive profit. In fact, we remain focused on finding ways to provide the best value to Canadians and continue to make investments in lower prices. We measure our success every day at the checkout counter and our strong sales and market share performance this quarter are a clear indication that our efforts are resonating with customers.

Retail SG&A as a percentage of sales was 20.3%, an improvement of 20 basis points compared to last year. Adjusted retail EBITDA increased by $175 million or 10.8% in the quarter, yielding a margin of 10.5%. We were pleased with PC Financial's performance. Revenue was up $53 million, driven by higher interchange and interest income that resulted from a broad-based increase in customer spending. Contribution to adjusted EBITDA from the bank was flat. In addition to operating costs increasing on an improvement in consumer activity, we continue to see credit losses normalize to our pre-pandemic levels and we increased our credit loss provision to reflect the macroeconomic outlook. On a consolidated basis, adjusted EBITDA margin was 10.6% in the quarter, up 20 basis points compared to last year. In Q3, we repurchased $403 million worth of common shares, representing 3.4 million shares. This brings year-to-date purchases to $1.2 billion. We are confirming our full-year outlook at the higher end of the range we provided last quarter. I'm pleased with our performance again this quarter. With our focus on retail excellence, we continued to deliver consistent operational and financial performance.

I will now turn the call over to Galen.

Galen Weston — Chairman & President, Loblaw Companies Limited

Thank you, Richard, and good morning.

I'm pleased with the results of the quarter as well. The Company delivered strong financial performance in both sales and earnings. All our businesses performed well as we continued to execute against our three strategic pillars of retail excellence, driving growth, and investing in the future, while delivering on our purpose to help Canadians live life well. This has positioned us well as the economy and the industry have faced unusual pressures.

As the summer ended and Canadians returned both to the office and to school, we saw a marked acceleration of sales in our beauty aisles. As a high-margin category, this significantly benefitted our results. Then, as the weather cooled and people stayed indoors, all that extra social contact contributed to more respiratory illnesses than would be typical. The combination of COVID, RSV, and flu brought more customers to our pharmacies, leading to all-time highs in the sale of cough and cold meds and sustained growth in prescriptions.

In addition to the traditional strength of Shoppers, our health services businesses have also done well. As you know, we're passionate about the vital role pharmacists can play in improving access to healthcare for Canadians. That opportunity is being well demonstrated in our first pharmacist-led health clinic in Lethbridge, Alberta. Based on the strong patient response, we will open four more clinics in that province before the end of the year. And we continue to work with other jurisdictions to expand the scope of practice for pharmacists to complement and enhance existing care models.

In the quarter we also saw sustained food inflation. Richard did a good job of explaining how we're approaching this at Loblaw by taking a thoughtful and decisive action in the areas that we control. This includes strong pricing programs across our business and great value in our flyers every week. As you know, we took the unprecedented step of freezing prices on Canada's second-largest brand, No Name, locking down 1,500 items. The response has been overwhelmingly positive, leading to even stronger control brand sales outperformance since the announcement. We also added an incremental Points Day event in the quarter, offering exceptional points-based discounts across our entire business. This event is now one of our most impactful sales drivers of the year and I'm pleased to say that Canadians are on track to save more than $1 billion in points this year, the highest ever. And I would be remiss if I didn't call out the recent launch of our holiday *Insiders Report*. It's my favourite since we've introduced the report two years ago with a focus on holiday entertaining, innovation, and value. The PC Everything Pan is a blow-away item for the season at just $59.99, and I expect this *Insiders* to be the most successful ever.

This comes as we continue to invest in value while keeping a firm grip on margins and customers and consumers are responding well to our efforts. We're winning market share overall, led by our discount division, as customers looking for value increasingly choose to shop with us. At the same time, our market division is holding its own against its peers and Shoppers Drug Mart remains the destination of choice for Canadians looking after their health.

Finally, we continue to execute against our ESG commitments as we published a new human rights statement and our inaugural TCFD report. On the ground, our support for food banks and recovery agencies remain industry leading and our partnership with Flashfood has to reduce food waste has kept 40 million pounds of food from landfill and saved customers more than $100 million.

As we look forward, Loblaw is well positioned to meet the challenges ahead. We are executing our strategy and actively supporting Canadians as they seek more value in food and improved access to healthcare.

I’ll now turn the call over for questions.

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

Thank you, Galen. Colin, could I ask you to please introduce the Q&A process?

Q & A

Operator

Absolutely. Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press star followed by one on your telephone keypad. If you’d like to withdraw your question, please press star followed by two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment for your first question.

Your first question comes from Mark Petrie from CIBC. Mark, please go ahead.

Kunaal Gidwani — Analyst, CIBC Capital Markets

Hi. This is Kunaal filling in for Mark. Thanks for taking our questions and congrats on a great quarter. First I wanted to know if you could talk about how consumers have been responding to your various loyalty program offers and how that might have evolved through the year as inflation has increasingly shifted consumer priorities and behaviour. You alluded a little bit on the call to the incremental Points Day, but any colour there would be helpful. And can you kind of talk about how this is different in food versus drug, if at all?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, absolutely. So, the points program continues to build momentum and has done so through all of 2022. The incremental Points Day made a significant impact on increasing the number of engaged customers actively using the program and across the board we're seeing customers actively changing their behaviour to earn more points and we're seeing more redemptions in the program than we would see typically. All of this is an indication to us that customers, quite rightly, see points as a strong equivalent to value and, as customers are more value focused, they're more focused on earning their PC Optimum points.

Kunaal Gidwani — Analyst, CIBC Capital Markets

Okay. That's great. Thank you. And then my second question is on the mounting pressures on SG&A given labour contracts above normal rates of increase and broad inflation across the business. I understand that you proactively manage your cost, but it would be helpful to hear more about that and, specifically, any thoughts you can provide around 2023 and your expectation for expense leverage or deleverage after a pretty strong performance so far in 2022?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, we always do our best to manage our cost. The labour cost pressures that you allude to are very prevalent in our business and we're planning for them for 2023 but we need to go and find other opportunity elsewhere so that we can deliver on our financial plan. So that's our daily job, that's what we need to do every day, and we feel confident about the plans we have in place for 2023.

Kunaal Gidwani — Analyst, CIBC Capital Markets

Okay, great. And then my last question is just on the incremental business opportunity, specifically developing your transportation assets, and I'm hoping you can provide a little bit of an update there and ideally on the sense of the materiality of the contribution of that portion of the business and timing.

Galen Weston — Chairman & President, Loblaw Companies Limited

So, look, we continue to invest in that business. It's small today, but certainly something that we see has material potential for the enterprise. There are really two things standing in the way of accelerated growth at the moment. One is we need to acquire incremental trucks. That takes a little bit of time. Second, we need to make sure that we have sufficient drivers in our trucks to run those extra routes and we're actively working to recruit those drivers as we speak. But the business is profitable as it stands today and it is growing very much relative, you know, on a quarter-over-quarter basis, and we expect that to continue as we move into 2023.

Kunaal Gidwani — Analyst, CIBC Capital Markets

Okay, perfect. I'll pass it on. Thank you very much.

Operator

Your next question comes from Michael Van Aelst from TD Securities. Michael, please go ahead.

Michael Van Aelst — Analyst, TD Securities

Thank you and good quarter. I wanted to ask a bit more about the discount versus conventional trends and whether—are you seeing tonnage growth overall? Is the industry still seeing tonnage growth and we're just not really seeing it in the simple math?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

So, Michael, we're clearly seeing tonnage growth in our hard discount banners. Clearly. Our view is that the industry is still running tonnage negative, albeit much closer to flat than what we experienced last year, but we're happy to see that, in hard discount, we've turned positive.

Michael Van Aelst — Analyst, TD Securities

Okay. And you believe that you gained market share when it comes to tonnage?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, we gained market share overall in both businesses together, yes.

Michael Van Aelst — Analyst, TD Securities

Okay. And then I asked this question on an earlier call today but, on beauty, when do you start lapping your tougher comps, because it's been growing very rapidly over the past year, and how sensitive has it been to the economic downturns in the past from Shoppers' perspective?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, Michael, I guess the beauty category started to get going when the restrictions ended last, I guess last June, and they've been going strong ever since. So we've lapped that and it continued to go strong. So I can't predict the future, but it looks good. And in the context of a recession, we feel those are like small indulgences that people will continue to spend on and so, when we look at our results historically, this is not very much affected, so we think this trend should continue.

Michael Van Aelst — Analyst, TD Securities

That's helpful. And then finally, on financial services, you had very good revenue growth. Your EBITDA was down slightly. Can you just give us some details on the level of PCLs that you had this year and the outlook for what you're seeing in the health of your credit card holders now?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Okay. So, yes, so the drop in EBITDA is driven essentially by like the movement in our expected credit losses provisions, okay, which is, in the banking world is a big deal, so this is driven by unemployment rate forecasts driven by big banks, so that's something we need to do. Having said that, when you look at the customer, clearly we're starting to see a trend going the other way, like the consumer spending is slowing down and we're starting to see delinquencies go up again. But we're still far from the levels we were prior to the pandemic, but there's definitely been a change in trend.

Michael Van Aelst — Analyst, TD Securities

Okay. And what was the PCL level this year versus last year?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

The PC what, sorry?

Michael Van Aelst — Analyst, TD Securities

The PCLs for this year versus last year.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Oh, ECL. I don't have that number in my head, Michael. I've got a number, but I'll check and get back to you.

Michael Van Aelst — Analyst, TD Securities

All right. Thank you very much.

Operator

Your next question comes from Kenric Tyghe from ATB Capital Markets. Kenric, please go ahead.

Kenric Tyghe — Analyst, ATB Capital Markets

Thank you and good morning. Just a follow up on the beauty question. Could you give some indication of where we are peak to trough in terms of how much of a recovery we've seen sort of looking back pre-pandemic type levels on beauty and beauty spend? And then perhaps also, just on the evolution of that beauty spend or, call it, the derivative impact, you know, you commented, Galen, that we saw the big lift in beauty through the summer and fall, the increase sort of socializing in part contributed to increased cases. How are you thinking about the risk of those increased cases now on the other side perhaps slowing that recovery in beauty as we move through the holiday season and into the sort of first quarter of next year?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

So, on beauty, we're definitely past pre-pandemic levels, so we're essentially back to normal and, as I was saying earlier to Michael, I think I'd expect the trend to continue. As to cases, I think you refer more to like other aspects beyond beauty in front of store, which is cough and cold, and cough and cold, I've had that conversation with a lot of investors over the last year. Typically cough and cold follows a U-shaped curve, okay? Like it's high at the beginning of the year, abates during the summer, and then picks up in the fall. What we've experienced this year has been a flat line, okay? And it's been flat until about, I don't know, a month and a half. But a month and a half ago it started to accelerate based on the comments that Galen was talking about and now we're running at record levels of cough and cold that we've never seen before. So, very tough to forecast what's going to happen next year, but that's what we're experiencing right now.

Galen Weston — Chairman & President, Loblaw Companies Limited

And so, Kenric, I think as a follow up to your question about, I think what you're asking was do we see some kind of behavioural shutdown negatively impacting our beauty sales. I think the answer to that would be it depends entirely on what kind of consumer behaviour change takes place. If it masks, probably not. And if there's some form of lockdown, then it certainly would. But we're not reading anything about that level of severity at this point and so, as per Richard's point, we think it's going to continue at this more normalized level of performance.

Kenric Tyghe — Analyst, ATB Capital Markets

That's great. Thank you, gents. Just switching gears, on the loyalty resets from a number of your competitors, it's obviously been a very headline-heavy couple of months. How are you thinking about your sort of absolute and relative proposition on these resets, your ability if you need to move quickly should you see any material changes with respect to their value propositions, and then perhaps also more specifically, how are you thinking about Quebec, most importantly in the short to medium term, from a loyalty perspective?

Galen Weston — Chairman & President, Loblaw Companies Limited

Okay, yeah, so the first question is about loyalty and relative to the new entrants in the space in our industry. So the program of PC Optimum is designed with an enormous amount of flexibility in it. I think you can see we're out there marketing today that you can earn up to 10% in savings if you actively engage in all of the sort of components of the program and you can earn at various lower degrees if your level of engagement is less. And we can toggle up and down that investment on a per-customer basis. So our capacity to be precise in response to any competitive activity is almost unlimited. Having said that, we feel extremely confident about the value proposition that is already in the market and we're not seeing any signs at this point of anybody fundamentally matching it, so that continues to be good. And we see robust performance in the markets with PC Optimum where competitors have launched.

In terms of Quebec, you're speaking now of our renovation program, I'm guessing. Is that right, Kenric?

Kenric Tyghe — Analyst, ATB Capital Markets

In part the renovation program, but also just sort of closing out the loyalty discussion, I mean the more material of the resets is Quebec-based, so just trying to understand that given that that will come to market a lot sooner than the other big reset that we're seeing, which has a much longer time to market.

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, well, I think it's the same answer that I provided before. Our view, we're confident. And I think one of the things that makes PC Optimum particularly strong at a time like this is it's available in all of our discount formats and that's not the case with everybody in the market.

Kenric Tyghe — Analyst, ATB Capital Markets

Thank you, Galen. I'll get back in queue.

Operator

Your next question comes from George Doumet from Scotiabank. George, please go ahead.

George Doumet — Analyst, Scotiabank

Hi. Good morning, Galen and Richard. Just wondering, through your consumer analytic data that you have, are you seeing at all a new cohort shop at our discount banners, perhaps higher earners and anything there? What's the ability maybe to retain those guys in the longer term?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yes, we are seeing a new cohort, maybe not a new cohort, there've always been customers like that shopping in our discount business, but certainly, you know, in the old school version of analytics, we're seeing a lot more Mercedes and Range Rovers in the parking lots in those stores than would been the case before.

Look, who knows how many of those customers will ultimately stay in the discount format, but that discount growth has been prevalent across our industry for a decade and a half, which suggests that the discount formats are successfully converting higher-income customers. And we see the same thing through our investment in the quality of our value proposition, the quality of our supermarkets, the quality of our opening price point control brands. All of these things are very satisfying, I think, when a higher-income customer comes into one of our discount stores and so, if you were to ask me to speculate, I would say that we're better equipped to hang on to those customers today than perhaps we would have been with the discount format of a decade ago.

George Doumet — Analyst, Scotiabank

Okay, thanks. I'm just curious about the pace and maybe in the magnitude of the shift towards private label and then maybe how that compares to past periods of economic stress. Is it similar? Is it happening more acutely? And can you maybe talk about dynamics shifts kind of within our own private label assortment, if any?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah. So, it's a long time since we've had this kind of food price inflation pressure. In fact, I think even back in the 80s it wasn't anywhere near this high. But No Name was born out of a high inflation environment when there was an opportunity to deliver the same quality product at a significantly lower price than what was being offered by the national brand, and it took off in a very similar context to the one that we're facing today. And over the last five or six years we've made a considerable effort to increase the quality of our No Name product. Our Simple Check program is a good example of that. And so we are seeing an enormous amount of new trial. And I don't know what it was like in the 1980s, but I certainly, in my time in the business, haven't seen this kind of growth in an opening price point brand ever. So it's pretty significant.

One of the bigger reasons for that, we think, is we've got a broad assortment of No Name products in produce, which is one of the most acute areas for price inflation in the market right now. And just like your question about discount formats, I'd be optimistic that we'll hang on to a lot of customers in the No Name category as well. I do want to say though that President's Choice is growing as well, not at the same rate as No Name but it's also putting up terrific numbers, and we expect that to continue too. And No Name also has a value gap to the national brand, so when you think of those two being the largest two consumer brands in the industry, both being better priced than national brands, it's a good place to be.

George Doumet — Analyst, Scotiabank

Okay, great. And just one last one, if I may, for Richard. Can you talk a little bit, if you exclude the proceeds from property sales, can you maybe talk about CapEx for next year? And how should we just generally think about capital intensity of the business over the next little bit? Thanks.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, I can start to give you a glimpse. We're going to give you more details when we release Q4, but like we're going to increase our gross CapEx starting next year, because we're embarking on an automation journey. So we're talking like a few hundred millions more.

But one way which we plan to sort of mitigate the impact on the cash flow of the business is we still have a lot of real estate in Loblaw that was not vended in into Choice at the time of the IPO, and we intend to use and sell a lot of that real estate over the time of this program to mitigate the impact of this increase in capital. But I will be back to you in Q4 with more details around that.

George Doumet — Analyst, Scotiabank

All right. Thanks, guys. Great quarter.

Operator

Your next question comes from Vishal Shreedhar from National Bank. Please go ahead.

Vishal Shreedhar — Analyst, National Bank Financial

Hi. Thanks for taking my questions. I think off the top, Richard, you may have said there was 120 basis points of pressure on the comp related to right-hand side.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes.

Vishal Shreedhar — Analyst, National Bank Financial

Wondering how management thinks about alleviating that pressure. Or is that something we have to live with for the next little bit? And was there an associated gross margin impact as well?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Somewhat, but not that significant, because the size of these businesses are not that significant compared to the whole thing. It's tough to predict what's going to happen going forward, but we're focused very much on managing shrink and our inventory so that we don't need to do as much sell-downs at discount prices, and that's been very successful for us over the last two years as we've been managing through the pandemic.

Vishal Shreedhar — Analyst, National Bank Financial

Right. And the shrink management is on the food side, right?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No, but also on the right-hand side, especially in apparel. Like if you buy too much and you end up with stuff, you're going to have to sell it at a huge discount. So we've become very disciplined in buying the right amount so that we can sell more stuff at full margin and that's been a key driver of our gross margin improvement in apparel over the last two years.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. And just changing topics here to Rx count growth, it seems to be decelerating, notwithstanding all the trends that you've talked about on cough/cold improvements and so on, so it was about 0.8% this quarter. I'm wondering if there's anything we should read into that decelerating trend over the last few quarters.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No, I think there's nothing to read into it. Like, as we said in our remarks, we're not back to pre-pandemic level on scripts, but we're getting close, and so we expect to get back to there over the next few quarters and we think that business continues to be very healthy.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. And maybe another one, Richard, where I'm going to try to ask you about 2023 and your thoughts. Loblaw, very strong earnings growth over the last couple of years, I know you're pretty committed to this financial framework and delivering that for shareholders, wondering if you can provide any early thoughts on 2023. Previously the expectation was that H2 was going to slow in 2022, but it's looking to continue to be strong, at least this quarter, so any thoughts on how investors should think about the growth cadence on the EPS line?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Well, for the moment, we feel confident in our ability to deliver on our financial framework for 2023 and we will give you more details on that when we release Q4.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. And the financial framework, that's 8%-plus?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. All right. Thank you.

Operator

Your next question comes from Peter Sklar from BMO Capital Markets. Peter, please go ahead.

Peter Sklar — Analyst, BMO Capital Markets

Good morning. Richard, in the past we've talked about, ah, hold on a second. There we go. We've talked in the past about since you changed the management team at Loblaw and you and Galen and Robert Sawyer arrived, the various things you've worked on that have had an impact on results, so what's kind of top of mind now that the group of you are working on? What are the things you're addressing?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Well, we're working on the same things, Peter, like we're just focused on running our business every day the best way we can and all the stuff we've been talking about over the 18 months continues to happen and we still have lots to do. But we do feel good about where we're positioned and look forward to 2023.

Peter Sklar — Analyst, BMO Capital Markets

So there's no particular items you want to call out that are warranting your attention?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Well, real estate remains a key area of focus for us. As we said in the past, like we've fallen behind from a square footage share in this market and so we've embarked on a plan to accelerate our new store opening. This takes time, but I'm happy to say that I have now visibility to a significantly higher number of new stores next year, but it will take until 2024 before we reach the cadence that we want to get to. And there's still going to be more renos and more store conversions that you're going to hear about. And based on what we've experienced so far, we're very pleased with the progress with that, so expect to see more of that.

Peter Sklar — Analyst, BMO Capital Markets

Okay. And then just lastly, I know it's a bit of an awkward question, this federal government investigation of the grocery industry. I'm just wondering, have you heard from them yet? Is anything happening? Have they asked you for information? Or what is going on there?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, so this is a fairly standard process, the protocols of which, I think, are easy to get from Ottawa. It involves anybody who's interested making a submission. And as you would expect, we're actively participating in the bureau's study and our objective is to make sure that we share, in a transparent way, all the most relevant information and to make sure that the facts of what's happening in this inflationary environment are properly understood by all stakeholders. And we clearly feel strongly about what's going on and the actions that we're taking to help mitigate food price inflation.

Peter Sklar — Analyst, BMO Capital Markets

But from a process point of view, have they started the process? And are you working on it and submitting, like preparing your submissions, et cetera?

Galen Weston — Chairman & President, Loblaw Companies Limited

Yep.

Peter Sklar — Analyst, BMO Capital Markets

Okay. Thank you.

Operator

Your next question comes from Chris Li from Desjardins. Chris, please go ahead.

Chris Li — Analyst, Desjardins

Hi. Good morning, everyone. Can you maybe talk a little bit about the shortage of certain over-the-counter medication? When do you expect the situation to return to normal and is the impact on your front store sales from the shortage meaningful? Thank you.

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, so there are two things happening. One is we have substantial demand, over and above normal rates in this particular category, and the multinationals and the generics who manufacture these products are having trouble keeping up with demand. So everybody in the industry is facing the same challenge. In the retail industry, we're all on allocation and doing our best in that circumstance to stay in stock and be there for our customers. Our hope is that these manufacturers, as I know they're working hard, continue to improve their production systems and continue to get more and more product available to us. At this point it's too difficult to say exactly when this shortage will end and, as I said, part of it is being driven by this unusual demand and it's hard to say when that is also going to abate as well.

Chris Li — Analyst, Desjardins

Okay. Thanks for that, Galen. And maybe just sticking with the pharmacy business, have you seen any improvement in the pharmacist availability? And can you also maybe provide us with an update on the deployment of central filling? Thank you.

Galen Weston — Chairman & President, Loblaw Companies Limited

Yeah, with all forms of labour at the moment, there are challenges. It's hard to find people to work in stores, it's hard to find people to work in pharmacies, and it's hard to find people for just about anything. As it relates to pharmacists specifically, we are active out there in the marketplace with the pharmacy colleges. We are active with new immigrants in the country who are already trained to be pharmacists. We're supporting them on their path to get certification in the various provinces. But what I'd say is probably the single biggest attraction that we're now seeing for new pharmacists to come to Shoppers Drug Mart is the opportunity in expanded scope of practice. Young graduates from pharmacy college today are looking to provide that expanded scope and our ambition in this area is a real draw for that talent, and when we do go to these recruiting events, we certainly get a very positive response as a result of that. So we expect it will continue to be a source of pressure for us over the next six to twelve months. At this point we don't see it being a meaningful constraint on our growth plans as it relates to expanded scope.

Chris Li — Analyst, Desjardins

Okay. And how are you dealing with your central filling deployment? Are you sort of halfway through the deployment?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, we're progressing well. I don't remember the exact percentage, but I think we're in sort of the high 30s percentage of our volume that's flowing through the central fill centres now. And those are being deployed quite easily without any glitch.

Chris Li — Analyst, Desjardins

Okay. Thanks, Richard. Maybe just one last quick one for you, so your high teens EPS growth guidance for this year implies roughly sort of mid to mid single digit percentage growth for Q4 for EPS, which is quite a bit of a slowdown from the 20% in the first nine months. Is lapping strong comps really the main reason for the slowdown or are you seeing anything in the near-term horizon that will cause—

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yeah, that's a good question, Chris. I think you need to look, like we're getting in more normal market conditions now and so this quarter was really high because there's been some volatility because of what's happening with our non-controlling interest line. And Roy will give you some details as to how this thing works, but essentially, if you take that out of the equation, no, we're going to be performing, I would say, more in line like this quarter in Q4 from an operating perspective. And so with the information that Roy will provide you, you should be able to get pretty close to where we'll land.

Chris Li — Analyst, Desjardins

Okay. That's very helpful. All the best. Thank you.

Operator

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

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

Great. Thanks, Colin. Thank you, everybody, for your time this morning. Feel free to reach out to me with your follow-up questions and circle your calendars for Thursday, February 23rd when we will be releasing our Q4 results. Thanks very much and have a great day.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.