Loblaw Companies Limited

First Quarter 2025 Results

Event Date/Time: April 30, 2025 — 10:00 a.m. E.T.

Length: 48 minutes

CORPORATE PARTICIPANTS

Roy MacDonald
Loblaw Companies Limited — Vice President, Investor Relations

Richard Dufresne
Loblaw Companies Limited — Chief Financial Officer

Per Bank
Loblaw Companies Limited — President and Chief Executive Officer

CONFERENCE CALL PARTICIPANTS

Irene Nattel
RBC Capital Markets — Analyst

Mark Petrie
CIBC World Markets — Analyst

Tamy Chen
BMO Capital Markets — Analyst

Michael Van Aelst
TD Cowen — Analyst

Mark Carden
UBS Investment Bank — Analyst

John Zamparo
Scotiabank — Analyst

Chris Li
Desjardins — Analyst

Vishal Shreedhar
National Bank Financial — Analyst

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Loblaws Inc. First Quarter 2025 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 Wednesday, April 30, 2025.

I would now like to turn the conference over to Mr. Roy MacDonald, Vice President of Investor Relations. Thank you. Please go ahead.

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

Thank you very much, and good morning, everybody. Welcome to the Loblaw Companies Limited first quarter 2025 results conference call, and, as usual, I'm joined this morning by Per Bank, our President and Chief Executive Officer; and by Richard Dufresne, our Chief Financial Officer.

Before we begin the call, I'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 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, and 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 events or otherwise, other than what's required by law.

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

With that, I'll turn the call over to Richard.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you, Roy, and good morning, everyone. I'm pleased to report that we delivered strong financial and operational performance in the first quarter, carrying on the momentum from 2024 and setting up 2025 on strong footings. Our businesses continue to perform well, reflecting our ongoing focus on providing Canadians with value, quality, service, and convenience, all part of retail excellence.

Our Retail segment delivered strong revenue growth at 4.1 percent and Adjusted Retail EBITDA growth of 4.1 percent, evidence that our offering continues to resonate very well with customers, especially in light of the strong Q1 performance of last year. On a consolidated basis, revenue growth was also 4.1 percent, reaching $14.1 billion, and Adjusted EBITDA increased by 3 percent.

Adjusted diluted net earnings per share grew by 9.3 percent to $1.88, and on a GAAP basis, our net earnings per share increased by 12.9 percent.

In Food Retail, we drove higher tonnage and basket growth while lapping our strongest quarter of last year. Absolute sales grew 4 percent, reflecting our new store growth, while our food same-store sales momentum continues, as same-store sales increased 2.2 percent. Our right-hand side had a negligible impact on same-store sales.

Canada's grocery CPI was 2.6 percent in Q1, in line with our internal CPI-like food inflation measure. Looking at our average article price data, which reflects the full basket mix bought by our customers across our network, our internal inflation rate was much lower than CPI.

Looking ahead, we're still seeing higher than normal cost increases coming in from our larger global vendors, including many in the double digits. We continue to push back to ensure that any increases we accept are fair and reasonable. In Q1, this was compounded by the incremental pressure we experienced from higher commodity prices and a lower Canadian dollar. As an example, Statistics Canada data shows that coffee prices rose 11 percent in March. That said, the recently-introduced tariffs and counter tariffs did not impact food inflation in Q1. Tariff-related impacts are only showing up in shelf prices—are now only showing up in shelf prices, and we continue to work with vendors to attempt to mitigate those impacts.

Our hard discount banner same-store sales performance continues to outperform our conventional stores, demonstrating the ongoing consumer focus on value. While the gap between hard discount and conventional has stabilized, the growth in hard discount continues to be significantly higher than conventional. As we mentioned last quarter, in 2024, we added 58 hard discount stores to our network through conversions and new builds. These stores continue to resonate very well with Canadians, driving double-digit growth in absolute sales and tonnage growth in the quarter. We are also pleased with the performance in our conventional stores, and see same-store sales strengthening. T&T delivered strong sales growth in Q1.

In Drug Retail, absolute sales increased 4.4 percent and same-store sales grew 3.8 percent. Pharmacy and healthcare services grew same-store sales by 6.4 percent this quarter, driven by broad strength in prescription and new healthcare services. Our specialty acute and chronic prescription growth led our pharmacy numbers. Patients continue to respond very positively to the convenience and expanded level of primary care we offer through our more than 1,800 pharmacies across the country, including our 163 in-store clinics.

Our front store same-store sales grew 0.9 percent, reflecting the strength of our beauty category and the extended cold and flu season. This was partially offset by the exit of certain items in the electronics category. We remain pleased by the underlying strength, profitability, and sales momentum of Shoppers Drug Mart front store business.

Online sales in the quarter increased by 17.4 percent across our retail businesses. Delivery continues to lead growth in the online grocery channel, and we remain pleased with our online sales penetration in both food and pharmacy.

Our retail gross margin was stable at 31.5 percent. The slight decline was driven by sales mix and had many small puts and takes.

Our SG&A rate as a percentage of sales improved by 10 basis points, primarily due to the operating leverage from higher sales, partially offset by incremental costs related to the opening of new stores and the opening of our new automated distribution facility in East Gwillimbury.

Speaking of our new DC, we began migrating operations in Q1. Although still in early days of our transition, we are off to a strong start and are ahead of plan and remain very confident. We expect to run at about 40 percent capacity by year end.

Retail Adjusted EBITDA increased by $59 million, yielding a margin of 10.9 percent.

PC Financial's revenue increased 3.3 percent, driven by higher sales in our mobile shop and higher interchange income. The bank's adjusted earnings before tax decreased by $14 million or 31.8 percent, lapping the benefits associated with the renewal of a long-term agreement with Mastercard and partially offset by higher revenue and positive year-over-year impact to the ECL provisions. We remain very comfortable with the risk profile of the bank's portfolio.

We continue to take a conservative position in our provisioning with a strong and very well-capitalized balance sheet. On a consolidated basis, Adjusted EBITDA increased by 3 percent to $1.6 billion. Free cash flow used in the retail segment was $264 million, reflecting the typical seasonal outflow in Q1. In the quarter, we repurchased $457 million worth of common shares and announced a 10 percent dividend increase, our 14th consecutive annual increase. Our balance sheet remains strong and we continue to improve our key return metrics. Our return on equity sits at 24.4 percent and our return on capital at 11.8 percent.

Looking ahead to Q2, we continue to build on the strength and momentum from our first quarter. Same-store sales in both Food and Drug Retail are off to a strong start, as well as absolute sales growth. New stores are driving our top line. Our focus on retail excellence and on the execution of our strategic initiatives will allow us to keep delivering value to our customers and strong performance to our shareholders.

I will now turn the call over to Per.

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

Thank you, Richard, and good morning, everyone. I'm pleased to report a strong first quarter and a solid start to the year. We delivered revenue growth of 4.1 percent, which reflect our strategic investments in new stores and banner conversions. This top line growth will help future same-store sales growth and our long-term earnings growth.

We delivered adjusted EPS growth of 9.3 percent in the quarter, which is in the middle of our financial framework, while we, at the same time, increased our spend, ramping new stores and our new million square foot DC.

That said, our everyday focus remains on providing quality, value, service, and convenience for our customers. Our efforts are resonating with our customer base, as evidenced by higher tonnage and basket sizes and stable traffic, all contributing to growing market share. We are very pleased with our Q1 market share performance. We achieved growth in tonnage share on the back of a very strong market share growth in quarter one last year, positioning us very well for the balance of the year. This is especially helped by continuing strong performance of our hard discount banners and our ecommerce sales.

We continue to prioritize to understand and to address our customer needs, particularly regarding inflationary pressures and the current tariff uncertainty. Canadians have faced significant affordability headwinds over the past few years, and we understand these challenges. We are working diligently to keep prices as low as possible as tariffs begin to impact prices in the second quarter. We are actively collaborating with our suppliers to mitigate the impact of these tariffs wherever possible.

We remain committed to supporting Canada. We recognize that Canadians care deeply about the region of the products they purchase, and we continue to actually seek out Canadian growers and manufacturers for the products we sell. As always, we are committed to transparency regarding pricing and the application of tariffs, including what they are applied to and how they impact the shopping experience. We have implemented a T symbol to clearly indicate products that have had a direct imposed tariff impacting the price. When tariffs are removed, they will be promptly removed from the price of the products. Additionally, we continue to deleverage our scale to lower prices for our customers. As previously mentioned, we have joined a large European buying group to lower purchasing costs on select commodities and controlled brand products.

Our digital business continues to deliver strong growth. Our digital sales are led by PC Express delivery. We are continuously enhancing the customer experience and differentiating ourselves by offering a choice and speed of service. More customers are recognizing the value of PC Optimum as our digital engagement continues to grow, driven by personalized PC offers, member only pricing, and gamification initiatives.

Our investment in the future remain a priority as we continue to reinvest in the business to support growth and ongoing consistent financial performance. During the first quarter, we opened hard discount banners in five new communities. We also opened four new pharmacies with expanded clinics. Additionally, we opened our second T&T supermarket in Downtown Toronto. As a proud Canadian company with more than 2,800 locations and 220,000 colleagues, we provide life's everyday essentials to Canadian families from coast to coast.

We firmly believe that our prosperity is directly linked to the prosperity of the communities we serve. Today, we released our 2024 Live Life Well report, showcasing our progress relatively to the two key pillars that underpin the Company's commitment to Canada's prosperity; fighting climate change and advancing social equity. This report is built upon the early release of Priority 2024 ESG disclosures, and that was released in February of '25. Together, these two reports demonstrate the Company's commitment to providing timely and relevant information for our stakeholders.

As we enter quarter two, we remain very confident in our 2025 outlook. We have a strong portfolio of businesses that are all well-positioned to meet the everyday needs of Canadians and successfully navigate the macro uncertainty caused by tariffs.

I would like to conclude by expressing my sincere gratitude to all our colleagues for their dedication and unvarying focus on our customers. Thank you.

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

Thank you, Per. Operator, if you'd please introduce the Q&A process.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press star, followed by the one on your telephone keypad, and should you wish to cancel your request, please press star, followed by the two. If you are using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question.

Your first question comes from the line of Irene Nattel from RBC. Please go ahead.

Irene Nattel — Analyst, RBC Capital Markets

Thanks, and good morning, everyone. It looks like the momentum you had at the end of '24 is continuing into '25. Can you talk a little bit about consumer behaviour; what you're seeing, promotional penetration, private label, trade down; where you think you're winning the customers, and also the role of the new stores and some of the momentum?

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

Yes. Let me start, Irene, and then I'll hand it over to Richard. On the consumer health—at the moment, we are much more positive than we were just four weeks to six weeks ago because the indirect tariffs now will be supported from the government, at least for the next six months, and that's why we're able to mitigate these price increases. We still believe it's tough for Canadians, providing value in all aspects of our business is so important. Whether it's value from our hard discount or its value in service and great quality products from our conventional business, we do believe we provide value wherever we are.

Of course, it does not change the fact that food costs have increased materially over the past two years. Many Canadians are still under increased pressure, but we feel good also for the second half. When it comes to buying more into the promotions, to buying more into the control brand, to shifting more into the hard discount, we are seeing that what we saw in quarter four is continuing, so no material change in the pattern for customer. They're still seeking value wherever they can, but it's not—there's not a lot of change to this.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, and what I would add, Irene, is when you look at our sales now, we're benefiting from the 50 stores we've opened last year; those are adding to our sales growth that we see this year. We've opened 10 stores in Q1. Ten stores are going to open in Q2, that's also helping. We're seeing like top line growth accelerate, and we're also seeing momentum in our same-store sales, both in Shoppers and in Food, both of which are continuing to increase following the end of Q1. We feel our business has momentum, and that should continue as the year progresses.

Irene Nattel — Analyst, RBC Capital Markets

That’s great. Thank you. We pay a lot of attention, obviously, to serve to No Frills and Maxi. I saw you’re going to be opening a Maxi in New Brunswick. Can you talk about expansion plans for the banner, also T&T, and any update you have on the No Frills pilot—sorry, the no-name pilot?

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

For now, we have planned 50 new hard discount stores in 2025, and it’s a mix between No Frills and Maxi, so we are focusing on our hard discount banners. T&T, we’ve only opened one in Canada this year; the one that we have opened already, and then we’re opening another one in the second half of the year in the U.S. For us, it’s important that we go where the customers want us to go. The customers, they are increasingly asking us to open more hard discount stores. Wherever we open, whether it’s a small hard discount or it’s a big one, it doesn’t really matter, then we are seeing great success with the new store opening.

We just had two last week, and they are already here the first week doing very, very well. We have not opened that many stores over the last five to 10 years, so Canadians, they are underserved with hard discount. That’s why we’re opening more stores, but in my perspective and where I’m coming from, it’s actually not a lot. I know that we get the question that, oh, 50 new stores, it’s a lot, but it’s not, because in the (inaudible) growth, it’s still limited, but I think it is important that we shape our business to reflect what our customers need. If we can get the hard discount up to more than 20 percent of—25 percent of our total sales, that would be a good place to be in.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, and specifically on Caraquet, this is exactly responding to what customers want. We found an opportunity to open a discount store in Caraquet, and when you look at the mix of the population there, it's very much French speaking, and they associate themselves more with Maxi, so that's why we decided to put a Maxi. There's no plans to like go Maxi all over the Atlantic, but in this instance, it made sense. Again, very—being very focused on customers. On square footage growth, I just want to be very clear, like when you look at what we have in plans this year that we're talking about 80 stores, but it's only 1.8 percent square footage growth, and it's in terms of—if you were to split it food and discount, in food, it's like 1.6 percent; Shoppers is slightly over 2 percent, so this is very much in line with historical patterns. When you look at our square footage share, still, as of today, we have not reached back the number we were in 2019, we're not—we feel we're just going where customers are asking us to go, and when you look at the sales performance of our new discount stores in the areas that we're operating, it's just giving us more confidence that what we're doing makes sense and that we should be continuing.

Irene Nattel — Analyst, RBC Capital Markets

Thank you.

Operator

Thank you, and your next question comes from the line of Mark Petrie from CIBC. Please go ahead.

Mark Petrie — Analyst, CIBC World Markets

Yes, good morning. Thanks. Just to follow-up on the Food same-store sales. I'm curious if there's any difference sort of across geographies or even formats, superstore versus hard discount, if those were there—if there was anything notable to call out with regards to the performance there?

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

I think it's a little bit more like we have seen over the last quarter. Hard discount is having a significantly higher same-store sales than the rest, and then we have seen quite a significant uptick in our superstores over the last quarter, and they're doing very, very well as well. I think that's the two things to call out. I don't know whether you have anything.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, the only other thing I'd add, Mark, is that we're actually seeing improvements in all of our businesses. Even in conventional, we're seeing same-store sales accelerate too. All our businesses are performing well right now.

Mark Petrie — Analyst, CIBC World Markets

Yes, understood. Okay, and you referred to the strong start for Q2 trends to date. Just hoping you can expand on that a little bit. You're lapping a lower figure in Q2 last year. I know there was some noise in that period. Is there a reason why a two-year stacked same-store sales is not a good way to look at 2025, or how should we think about some of the noise?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, I don’t know about the two-year stack, Mark. I’ve not looked at the two-year stack, but I can tell you in absolute terms, same-store sales—we’re only one period in Q2—is running ahead of what we delivered in Q1 in both Food and Drug. We’re pleased, but we don’t know what’s coming ahead. There’s a lot of stuff ahead, but we’re off to a good start, and there’s more stores coming, so that will also help. We feel good about our outlook for the rest of the year, and yes, I’ll leave it at that.

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

Still, the majority of the new stores are coming in the second half. Yes, very promising for quarter two, another 10 stores, but 60 new stores will be coming in the second half.

Mark Petrie — Analyst, CIBC World Markets

Yes, understood. Okay, and I’ll squeeze one more in just on Shoppers, I know you called out beauty and OTC as drivers of growth. Hoping you could just expand on what you’ve seen in the beauty category and trends you’ve seen within subcategories or price points that might highlight any shift in consumer behaviour?

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

On my paper here, I have that HABA is up; that’s driving the growth. Skincare is driving the growth. Shampoo, conditioner is driving the growth, and deodorant and antiperspirant is driving the growth. That should be very, very specific. OTC is up. Cosmetics or (inaudible) cosmetic is still continuing to do well. The Shoppers team, they are doing a super job, and of course, our pharmacy is up as well.

That's on the positive. On the more slow side, that's, of course, Food, and that's why we last year lowered 400 prices to be more relevant for our customers.

Mark Petrie — Analyst, CIBC World Markets

Yes, understood. Okay. Thanks for the colour. All the best.

Operator

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

Tamy Chen — Analyst, BMO Capital Markets

Hi, good morning. Thanks for the questions. I was curious, Richard, your comment around your conventional banner, even there, the same-store sales you are seeing strengthening or accelerating, and I'm just curious, because you talked a lot about the momentum in your discount. What do you think is driving this recent strengthening in even your conventional banners in same-store sales?

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

I think a lot of the initiatives that we implemented last year that Frank Gambioli did—he, for example, chose to add a lot of multicultural products, and that's one of the drivers for the conventional business. He saw that early in when he took over this business, and that's, of course, starting to give us a lot of extra sales at the moment. Think about that we did a lot of change last year, and then when we are lapping like this now, it just works better and better, that's definitely one driver.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. The only thing I'd add is if you go into our conventional stores, you'll see more signage on value. It feels more value when you go into our stores now, and I think that's also having a…

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

Exactly. I think we're trying to find the right balance between giving customers value and still be really adamant to keep the quality and service that we have in our conventional business, because, for us, that's also value. It's not only cheap prices and hard discount. That's also value to continue to give our customers that service.

Tamy Chen — Analyst, BMO Capital Markets

Okay. Got it. On the smaller format, No Frills, that you've opened so far and you're continuing to do this year, the traction that the ones you've opened so far have had—I'm also wondering, given that they continue to perform and ramp up well, who or where do you think you're taking this share or wallet spend from when you put one of these format stores into an area?

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

First of all, it's not a significant amount, even opening 50 stores, it's not like massive. I think we take it from everywhere, whether it's the smaller stores or the bigger stores, and, of course, if we build close to ourself, we have a small impact. That's calculated in our IRR when we build new stores. Of course, we normally try to stay away from our own, but even staying close to one of our own stores, it actually just gives more footfall to the area. I think it's a little bit from everyone. It's definitely not something that's concerning us.

Tamy Chen — Analyst, BMO Capital Markets

Got it, and if I can just squeeze in one last one is on the gross margin, Richard, could you give us an update on shrink, your progress there? In Food, are we all recovered there, and then in Shoppers, I think there's still some work there. Are you still trying different solutions to find what's most effective, or do you feel you've found a solution and you just now need to implement it across the Shoppers' network? Thanks.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. Two points here. The first one is on Food. Most of the benefits have been achieved, but we're still seeing some. Like in Q1, we still had Food shrink improved, and we were very happy with that. We're starting to gain traction in Shoppers, and there's many initiatives that have been—that are being put in place right now, which gives us a lot of confidence that over the next few quarters, you're going to start to see meaningful movement on that. There's a lot of work to be done in Shoppers. We are doing the work and we are hopeful that we're going to start to see the benefits as the year progresses, but overall, on gross margin, the message I want to leave you with is that we still feel good about our gross margin. We told you that we expect gross margin to be stable for the whole year, and we feel very confident about that as of today.

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

I think it's also important to stress that instead of increasing the gross margin, we can invest back in prices so we stay competitive.

Tamy Chen — Analyst, BMO Capital Markets

Thank you.

Operator

Thank you, and your next question comes from the line of Michael Van Aelst from TD Cowen. Please go ahead.

Michael Van Aelst — Analyst, TD Cowen

Thank you. I just wanted to follow up on the gross margin comment. It's good to hear that you're still expected to be stable for the year. Can you give us a little bit more colour, though, as to why it was down in Q1, and is that tied to adding value or giving more value to the consumer or—and—or is it like the discount mix? What is it?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, if you were to look at the charts that we look on this, you would see there's lot of puts and takes, and they're all pretty small, but the bottom line is we still saw some benefit in shrink, okay; that helped. There was some small investment in Shoppers, okay? We've talked about that over the last few quarters, that's continuing in the quarter. Lastly is we cycled our best quarter last year. If you go back to Q1 of last year, we had strong top line, strong gross margin everywhere. When we lapped it and like there were some benefits that we had in gross margin that did not show up this quarter, and that's all in all. That's why, for me, when we see stable, we feel very good because that's what we expect and we see that for the rest of the year.

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

We can never manage a quarter where there's plus/minus 10 bps. For us, this is stable.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, we're in the zone.

Michael Van Aelst — Analyst, TD Cowen

Right. Okay, and the price investments that you made, you talked about the 400 items and—food items. Is that also happening in other categories within the front store?

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

This is primarily where we do price investments in Shoppers. Over and above that, it's promotions where we invest in and also personalized offers to our customers, the digital offers that we have, and else, it's a little bit more of the same in the other banners.

Michael Van Aelst — Analyst, TD Cowen

Okay, and I wanted to touch on—ask about Jeff Leger's departure. Obviously, it's a big loss, but the strategies are, I'm sure, already in place. We've seen you rolling them out, and it doesn't seem like that's going to change at all, but I wonder how this—his departure might affect more kind of the short-term Shoppers' ability to adapt to the consumer market changes over the course of 2025 and whether that might be a risk for the numbers?

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

No. Thank you very much for that question, and we have been very pleased with Jeff's performance over the past 17 years in Shoppers, but because he has done a great job, he has also left a great management team and a team that both Richard and I, we know very well, and they are doing a good job. There will be no change in strategy, no change in delivery. We feel very, very confident with Shoppers also going forward with or without Jeff, and we are—we have initiated a global search. We are looking for the best possible president out there, but we are also looking internally. It's always in a situation like this, maybe we—a new president can unlock more value, new opportunities to the benefit of our patient customers and our shareholders. I'm very confident that we can continue to do well in Shoppers. We have some very, very good plans, and we can and will develop that business going forward as well. All good, but great credit to Jeff—what he has done for us over the last 17 years, and he was entitled to retirement, and that's why he retired, so good luck to him.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Michael, I want to add, we have visibility into Q2, and we feel good about the trajectory for Shoppers in Q2, and the tougher part of the year for us was the first half. As we get in the second half, we feel even better. We feel good about our ability to deliver our numbers in Shoppers in 2025.

Michael Van Aelst — Analyst, TD Cowen

Okay, great, and just quickly on the Buy Canada movement, are you—you're definitely seeing it in your stores by the sounds of it, but do you think your banners are getting more traffic at the expense of some of the U.S. banners, or is it more just product specific?

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

I think it's really, really hard to tell, but we're definitely seeing some momentum. Whether that's coming from customers shifting from one banner to the other or whether it's just because they are buying more and more Canadian, it's hard to say.

Michael Van Aelst — Analyst, TD Cowen

All right. Thank you.

Operator

Thank you, and your next question comes from the line of Mark Carden from UBS. Please go ahead.

Mark Carden — Analyst, UBS Investment Bank

Good morning. Thanks so much for taking the questions. To start, with the continued Hudson Bay closures, are you guys expecting to see many opportunities to add Prestige Cosmetics in additional Shoppers stores or experience other market share gains on that front?

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

Yes. I think we're continuing to look for opportunities. We're working with the big vendors about that. The more we can do within them, the better, and we have increased the number of stores with Prestige Beauty over the years, and that's an opportunity that we are still pursuing. Nothing really new there, but we are following the plan to increase, because, as you know, it's good for customers and it's also margin accretive with these types of business. We are very competitive when we're talking about Prestige Beauty because we have our Optimum program. Then a lot of those major, major retailers, they don't put any promotions out because they simply don't allow that, if they can tell, because then they won't list the product with us, but because we have the 20 times the point and all the offers that we have, then we're really competitive in that area. You're absolutely right, it's a good area for us to have.

Mark Carden — Analyst, UBS Investment Bank

That's great, and then you're seeing some great initial momentum with T&T in the U.S. How are you thinking about the tariff impact as it relates to your expansion in the country?

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

Yes, we discussed that a lot, and we had a good discussion with Tina (phon), and it won't have any impact. The product that we are buying from China, selling in our stores, it's around 15 percent, and when this is set, it's a level playing field. Our T&T business in the U.S. is so different from any of the other Asian grocers there that, yes, it's just amazing how good a job that Tina and the team have done in the U.S. A very, very good start, and we stay at our pilots, we agreed seven stores for now, that's what we're pursuing.

Mark Carden — Analyst, UBS Investment Bank

That's great. Thanks so much. Good luck, guys.

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

Thank you.

Operator

Thank you, and your next question comes from the line of John Zamparo from Scotiabank. Please go ahead.

John Zamparo — Analyst, Scotiabank

Thank you. Good morning. I wonder if we could come back to the new smaller format, No Frills and the performance you're seeing there. Is there anything you're learning along the way that you're willing to share, and then given how pleased you are with those stores, is it possible they become EBIT positive earlier than you'd initially planned?

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

Yes. I think, as always, when you build 50 new stores, then you will have 30 percent, 40 percent who are doing much better than expected, and you have a few that's doing a little bit less as well as expected, but the majority of these stores are living up to our expectations. Yes, it could be that some of them are doing a little bit better, but that's coming along.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes. We feel good. We're not slowing down like all the data points. We opened one last week, again, that we can't believe the numbers again, we're excited and we're continuing.

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

Yes, and trust me, if the new stores wouldn't be working, then I would not open one more store. I'm only doing it when it's accretive—or we're only doing it when it's accretive for our business. The moment that we see that it won't work, then, of course, we will stop building new stores, but trust me, that will work the next five years, because customers, they are asking for lower prices; they are asking for hard discount.

John Zamparo — Analyst, Scotiabank

Okay. Understood. Then a follow-up on consumer preferences and buying Canadian. You mentioned it's difficult to measure, but I wonder if it's different on the ecomm business, because you pivoted fairly quickly on communicating or emphasizing Canadian products to consumers within your ecomm business. Do you have a greater sense of or a greater ability to gauge what type of impact that has on your Food business within ecomm?

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

No, that’s a really, really relevant question, because actually, Lauren (phon) from our team, she looked at that last week. On our PCX—which, by the way, was growing very, very well and we have the highest penetration since COVID in quarter one, we are more than double up of the customers buying Canadians on the ecomm, because we have this swap to Canadian products, and a lot of customers, they are—they’re using it, so the penetration of Canadian or the uplift in Canadian products is more than double in stores because it’s so easier to navigate with the tools that we have, so more there.

I think, in general, there’s a—and you all know that, there’s a big sentiment on buying more and more Canadian. Already this year, we have on-boarded 30 new Canadian suppliers, and also looking into the tariff situation, we changed like just the PC meatball (inaudible) suppliers moving from U.S. to Canada. We already now resource six of our most popular citrus SKUs from the U.S. to Spain. Our most popular dips like hummus are Canadian made with Canadian ingredients, and we are doing a lot of that, and if you look at our (inaudible), less than 4 percent of those products come from the U.S. Just anecdotally, just before this meeting, I was down in the test kits, and I was observing that they are testing a lot of new products. They have been really, really busy to help mitigating the tariff situation so we can buy less from the U.S.

John Zamparo — Analyst, Scotiabank

Okay. That’s helpful. I’ll pass it on. Thank you.

Operator

Thank you. One second. Should you have a question, that is star and one. Your next question is from Chris Li from Desjardins. Please go ahead.

Chris Li — Analyst, Desjardins

Good morning, everyone. Just curious, you mentioned the right-hand side decline was negligible in the quarter. I'm just wondering, is that just simply lapping the decline from last year, or is this starting to reflect some of the enhancements that you've been doing in some of the stores?

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

First of all, the enhancement is only being done in three test stores, which is, as I think I said last time, doing very, very well. This year, we'll do another 20. I'm going out to the rest in a few weeks to see how they're doing. So far, very good, but the new stores, you won't really see that before next year, but a good, promising start, and, of course, we're changing a little bit the way that we sell those products, so over time, we hopefully would see that that is getting better and better.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, but apparel is doing better. Apparel is definitely—which was a drag last year. It's no longer a drag this year.

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

Yes, what we did on apparel, we took in a lot of the branded suppliers, and that really do resonate well with our customer base, and also customers who did not before buy into apparel, they are now buying into it, and by buying brands, they're also getting curious of our Joe Fresh offer.

Chris Li — Analyst, Desjardins

Okay. Well, that's great. Thanks for that. Then just shifting to Shoppers, you mentioned specialty drugs sales remain very strong. Is it fair to say that you guys are growing faster than the industry partly because of all the pharmacy clinics that you're putting forth so that is getting more traffic into the store. Is that the statement?

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

I don't think it's because—I don't know whether we're growing fast or not. I don't think we have market share data on that. We are growing fast because the category is growing a lot, but on the pharmacy clinic, we still only have about 165 out of the 1,350 stores that we have.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, Chris, we're growing fast. We've opened more than 20 Shoppers last year. We opened over like 30 this year, and that's going to be the pace going forward. That's going to allow us to continue to grow fast.

Chris Li — Analyst, Desjardins

Got it. Okay, and then just on Ozempic, I know there's only one drug, but it is a big drug, and with them potentially becoming generic next year, what type of impact do you think that would have on your business overall?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

First of all, Chris, there's not only one drug. We only talk about one because that's what people remember. There's actually four, and so right now, we're seeing like double-digit growth, and we expect that to continue, and when drugs become generic, historically, in Shoppers Drug Mart, it's positive for us. The price goes down, but demand shoots up. That's how we're thinking about it, but it's still early for us to see what's going to happen with that.

Chris Li — Analyst, Desjardins

But it's not a worry?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It's not a worry.

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

I discussed this with Jeff, and actually, he can see this as an opportunity as well.

Chris Li — Analyst, Desjardins

Presumably the gross profit dollars on generic are higher than branded, should be accretive to your…

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, the rate, yes.

Chris Li — Analyst, Desjardins

Okay. Then my last question is just on depreciation. It was a bit lower than at least my expectation. I know there are some puts and takes and we can take it offline if it's easier, but just want to see if the Q1 run rate is a good one for the rest of the year or do you expect that to gradually pick up through the year?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It's going to gradually pick up because we're ramping up East Gwillimbury, and—but this is all part of our plan and it's all part of our outlook. We feel very good about that. It's all been taken care of. Like for me, the key message that I'm going to leave you with is that our—the ramp up of our DC is on plan so far. All streams are on track. We're ramping up the fresh temperatures (inaudible). There has been no surprises, and we remain ahead of budget, which is quite exciting to see so early in this process. We feel very good about what's going on in East Gwillimbury right now.

Chris Li — Analyst, Desjardins

Great. That's great to hear, and best of luck. Thank you.

Operator

Thank you, and your next question comes from the line of Vishal Shreedhar from National Bank. Please go ahead.

Vishal Shreedhar — Analyst, National Bank Financial

Hi, thanks for taking my question. I wanted to get your thoughts on the joining of European buying group. When should we start seeing benefits and what is the materiality of that?

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

Yes. I think we are—we're starting to see some benefit this year, but it will gradually become a benefit over the next few years, because every year, the buying group will take up a certain number of categories, and then it works like that, that our (inaudible), us, (inaudible), we all combine our volume, and then we put a request for proposal out there, and then Canadian suppliers can bid in and European suppliers can bid, and it's meaningful on commodity. We don't want to talk about the numbers, how much it is, but that's definitely a good—to think about it, a good way to—for us to keep staying within our framework. It is helping, among other things, yes.

Vishal Shreedhar — Analyst, National Bank Financial

Okay, and when do we expect that to hit run rate? Like how long will that take?

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

Well, it’s hitting already now. We have a few categories already now where we’re seeing some cheaper prices because of that.

Vishal Shreedhar — Analyst, National Bank Financial

I see. Okay. Just switching gears here to SG&A, it was a little better than we would have otherwise anticipated. I know there’s the pressure from the DC, which I think you indicated could be a headwind on rate, Richard, for the year. Just wondering how we should expect SG&A to unfold through the course of the year and what in particular helped the rate become favourable this quarter?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, we’ve been telling The Street that we would see stability in SG&A (inaudible) the year and we’re very happy to show that we did a little bit better than that despite the extra cost from ramping up East Gwillimbury and new stores, and we feel good about the rest of the year on that metric, so expect to see more of the same for the year as we ramp up that DC.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. With respect to the new stores, when do you start anniversarying it so it’s not a hit to your profit and it actually starts becoming accretive on a run rate basis?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

It takes a few years for the store to break even, okay, but like, obviously, year one, you get the startup costs of a store, which are significant—but our plan is made to absorb all of these and still deliver our framework, and again, we feel good about that based on what we've done so far in Q1.

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

I think that is an important point, Richard, because our strategy to keep on being in our framework is to grow sales and then keep our margin flat so we can continue to be relevant and price competitive for our customers. By growing the top line more than we have done in the past, then we get the quantum dollars to continue to deliver within our framework. Growing with hard discount, growing with Shoppers, keeping the costs low, and that's kind of very simply put how we see the future.

Vishal Shreedhar — Analyst, National Bank Financial

Okay. With respect to the Buy Canada movement, do you anticipate that to be a trend that persists, or do you think it's more a shorter-term reaction to some of the headlines that emerged earlier in the year?

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

Yes. I would hope it was something that would persist, but using my experience, maybe a third of it will stick, but else, customers, they are normally choosing price and quality, and if price and quality is best of a Canadian product, then they choose those, but if it's like a foreign product, then they will choose that. Right now, they prefer Canadian product, and I would say, if the price is almost the same, like up to 5 percent different, then customers, they buy Canadian. I hope it sticks. It might stick a little bit more because we are on-boarding. As I said before, we are on-boarding another 30 new Canadian suppliers this year, and by mitigating some of it from the U.S. to others, then I think we will be supporting the Canadian society more than we have done in the past. Actually, it's—at least that's good for something with the tariffs; probably also the only thing it's good for.

Vishal Shreedhar — Analyst, National Bank Financial

Thank you.

Operator

Thank you. There are no further questions at this time. I will now hand the call back to Mr. Roy McDonald for any closing remarks.

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

Great. Thanks, everybody, for your time this morning. Just reach out if you've got any follow-up questions and mark your calendars for Thursday, July 24 when we'll be reporting our Q2 results. Have a great day, everybody.

Operator

This concludes today's call. Thank you for participating. You may all disconnect.