FINAL TRANSCRIPT

Loblaw Companies Limited

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Loblaws Incorporated Fourth Quarter 2024 Results conference call.

At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star, zero for the Operator. This call is being recorded on Thursday, February 20, 2025.

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

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

Thank you, Constantine, and good morning, everybody.

Welcome to the Loblaw Companies Limited fourth quarter and fiscal year 2024 results conference call. I'm joined this morning as usual by Per Bank, our President and Chief Executive Officer, and by Richard Dufresne, our Chief Financial Officer.

Before we begin the call, I want to remind you that today's discussion will include forward-looking statements, which may include but are not limited to statements with respect to Loblaw's anticipated future results. These statements are based on assumptions and reflect Management's current expectations, as such, are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from our expectations. These results 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 the 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 referenced to today. Please refer to our Annual Report and other materials filed with the Canadian Securities regulators for a full reconciliation of each of these measures to the most directly comparable GAAP financial measure.

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

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you, Roy, and good morning, everyone.

We are very pleased to have delivered another year of consistent operational and financial performance. Our businesses continue to perform well, reflecting our focus on retail excellence.

On the full year, revenue came in at $61 billion and adjusted earnings at more than $2.6 billion. We delivered improving sales momentum, stable gross margin and carefully managed our expenses while once again delivering strong earnings performance. In 2024, we repurchased $1.8 billion worth of our shares and increased our dividend per share by 13.9 percent. We also accelerated capital investments in our stores, adding 52 new Food and Drug Retail stores and 78 pharmacy care clinics, representing 1.1 percent of square footage growth. We're already seeing a meaningful lift to our absolute sales from these stores.

As we announced on Tuesday, we plan to reinvest over $10 billion back into the Canadian economy over next five years, improving access to affordable food and healthcare services and creating jobs in communities across Canada. This includes opening another 80 stores and approximately 100 pharmacist care clinics in 2025.

Turning to the quarter, we continue to see growing momentum across our businesses. On a consolidated basis, revenue growth was solid at 2.9 percent, reaching $14.9 billion, and Adjusted EBITDA increased by 4 percent. Consolidated revenue and same-store sales were positively impacted by the shift in Thanksgiving, which occurred in Q4 this year, compared to Q3 last year. Our sales performance in Food improved even when adjusting for this shift, and improved from Q3.

Adjusted diluted net earnings per share grew by 10 percent to $2.20. On a GAAP basis, our net earnings decreased by 14.6 percent, primarily driven by a non-cash charge of $129 million related to the revaluation of our existing PC Optimum program liability. This non-recurring charge reflects the fact that customer engagement with our popular PC Optimum program is increasing leading to higher redemption rates in our stores in recent years. We increased this liability based on our expectation that more customers will redeem more of their PCO points going forward, reflecting the long-term success of our program.

In Food Retail, we attracted higher customer traffic and drove tonnage growth. Absolute sales grew 3.7 percent. Our reported food same-store sales increased 2.5 percent. As previously mentioned, the Thanksgiving shift, our right-hand side performance and the elimination of multi-buys all impacted our same-store sales. Our adjusted same-store sales growth was up 2 percent in the quarter.

Canada's grocery CPI was 2.4 percent in the quarter. Our internal CPI-like food inflation measure was lower than CPI this quarter. But also, looking at our average article price data, which reflects the full basket mix bought by our customers, our internal inflation rate was much lower than CPI. Looking ahead, we're still seeing higher than normal price increases coming in from our larger global vendors, and many are requesting double-digit price increases.

We continue to push back to mitigate these increases. This is compounded by the fact that we are working with a Canadian dollar that trades at its lowest level in over 20 years. A year ago, the Canadian dollar traded at US $0.74, and we began Q4 at that level, but since our dollar has declined by 5 percent to $0.70. This adds further inflationary pressure at a time when Canada relies on US imports for most of its fresh produce.

We see consumers continuing to favor discount offerings. This is clearly demonstrated in our hard discounts banner same store sale performance, which is outperforming our conventional stores. We recorded double digit growth in absolute sales across our discount network in Q4 and in T&T Canada. T&T Canada is our fastest growing banner. While the gap between hard discount and conventional has stabilized, the growth in hard discount continues to be significantly higher than conventional. Last year, we added 58 hard discount stores to our network through conversions and new builds. These stores continue to resonate well with Canadians driving strong performance.

Q4 was a particularly busy quarter for our team. We opened 26 new grocery stores including our first T&T supermarket in Seattle, Washington. In Q4, we also concluded our network optimization initiative in Quebec. We now have 187 hard discount Maxi stores in Quebec, leading to market share growth in that province. Going forward, we will continue to expand our hard discount presence by adding approximately 50 new stores across the country in 2025, bringing more quality and value to more communities across Canada. Hard discount is still gaining tonnage market share, and our conventional stores are performing well.

In Drug Retail, absolute sales increased 1.3 percent, and same-store sales grew 1.3 percent. Pharmacy and Healthcare Services grew same-store sales by 6.3 percent again this quarter, driven by broad strength in prescription and new Healthcare Services. Our Specialty, Acute and Chronic prescription growth led our pharmacy numbers. Patients continued 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 152 new in-store clinics.

Our front store same-store sale declined 3.1 percent, primarily driven by the month-long Canada Post strike and our decision to exit electronics categories. We see ongoing pressure in convenience categories like Food and Household items. That said, we have continued strength in prestige beauty. Cough and cold was also weaker than planned, largely driven by a mild fall. Looking ahead, our decision to exit certain low margin electronics categories such as laptops, computers, TVs, cameras, and games and consoles will have about a 1 percent impact on front store sales in 2025. That said, 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 18.4 percent, carrying on our momentum from Q3. Within Grocery, delivery continues to outperform as a channel. We remain pleased with our online sales penetration in both Food and Pharmacy. Full year sales grew at 16.9 percent to $3.9 billion and our Food penetration rate increased slightly. Across our Grocery and Pharmacy banners, we are proud to see Canadians increasingly choosing our stores for value, quality, service and convenience.

Total Retail gross margin was 30.9 percent, down 20 basis points. The decline was mainly driven by sales mix, the impact of the closure of postal services during Canada Post strike, and the Thanksgiving shift, partially offset by improvements in shrink in this quarter. I'm pleased with the strong shrink improvements in both food and drug this past year. Food is now back to 2020 shrink rates, but we still have work to do across our pharmacies.

Turning to SG&A, our spend rate as a percentage of sales improved by 20 basis points, driven by the lapping of prior year labor costs, including expenses related to the ratification of union labor agreements and some operating leverage. This was partially offset by incremental costs related to the ramp up of new stores and conversions.

Fourth quarter Retail EBITDA increased by $47 million, yielding a margin of 10.8 percent. PC Financial's revenue decreased 2.3 percent driven by lower services growth in our mobile shop, which was partially offset by growth in the credit card portfolio. The bank's adjusted earnings before tax increased by $20 million with higher interchange and credit card fee income, lower operating costs, and positive year-over-year impact to the ECL provisions of setting the lapping of benefits associated with the renewal of a long-term agreement with MasterCard. 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 well-capitalized balance sheet.

On a consolidated basis, Adjusted EBITDA increased by 4 percent to $1.7 billion. Our Retail free cash flow was $828 million, and we repurchased $352 million worth of common share. On a full year basis, our Retail free cash flow was $1.5 billion. We grew our common share dividend by 13.9 percent, and we repurchased $1.8 billion worth of common shares. Our balance sheet remains strong, and we continue to improve our key return metrics. Our return on equity sits at 23.6 percent and our return on capital at 11.8 percent.

Looking ahead to 2025, we have a solid plan in place to keep on delivering consistent financial and operational performance while advancing our growth initiatives. We plan to open approximately 50 hard discount stores, approximately 30 Shoppers Drug Mart and two T&T in 2025, bringing quality, value, service, and convenience to our customers. These new stores will grow our Retail square footage by less than 2 percent. This year, we will also begin migrating operations to our new 1.2 million square feet fully automated distribution center in East Gwillimbury, Ontario. This facility will further enhance our best-in-class supply chain while delivering efficiencies once fully operational.

Please note that in 2025, we will have an extra week. We estimate that the resulting incremental impact on our EPS will be approximately 2 percent for the full year. Excluding the benefit of the extra week, we expect our retail business to grow earnings faster than sales and adjusted earnings per share growth in the high single digits. We plan to invest approximately $2.2 billion in capital expenditures or

$1.9 billion net of proceeds from planned property disposals. Again, we plan to return most of our free cash flow to Shareholders through dividends and share buybacks.

We begin the New Year encouraged by our early results in Q1. Same-store sales in both Food and Drug Retail are off to a strong start, including positive same-store sales growth in Shoppers Front store. Looking ahead, our focus on retail excellence and on the execution of our strategic initiatives will allow us to keep on delivering value to our customers and strong performance to our Shareholders and sets us up well for the future.

I will now turn the call over to Per.

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

Thanks, Richard, and good morning, everyone.

Looking back on 2024, I'm so pleased with our progress and performance. We maintained an unrelenting focus on providing quality, value, service and convenience to our customers to help Canadians Live Life Well. We ended the year with revenue growth of 2.5 percent, surpassing the $60 billion for the first time. We delivered adjusted EPS growth of 10.3 percent. The strength of our performance allows us to reinvest back into the business to support our future growth and set us up to continue to deliver consistent financial performance.

In ’25, we will invest another $2.2 billion into the Canadian economy, reflecting Loblaw's commitment to enhancing its store and distribution network, creating job opportunities and improving accessibility to affordable food and healthcare services for communities across the country. A year ago, I talked about traveling the country, listening to customers, visiting colleagues, suppliers, Investors, and other important stakeholders. This remains an important part of my job. Customers are not shy to tell me that they continue to feel stress from affordability pressures and economic uncertainty. We focus every day on how we can deliver against their expectations, and we continue to work hard to reduce the impact of global food inflation on Canadians.

We launched several new initiatives to demonstrate this with innovative features like Hit of the Month and programs like Marvel and Collect & Save. We brought more specials and everyday value across our business. We have removed multi-buys and Hard Discounts. Customers responded positively to these initiatives, rewarding us with our best full year Food market share growth in more than a decade. Alongside our focus on understanding and meeting customer's needs, we are forced to have (phon) a cost management mindset with the business and put programs in place to drive savings across our organizations.

Our colleagues are doing a great job serving our customers, while at the same time working to reduce costs and find ways for us to be even more efficient. Let me give you a couple of examples. We made some difficult decisions in exiting low margin categories like electronics. These decisions will set us up well for the future but will be headwinds to our front store sales growth over the next year. We are realizing more value from existing assets, creating new margin accretive businesses like Freight as a Service. This year we joined a large European buying group to lower our purchasing costs on certain commodities and control brand products.

Digital engagement grew at a strong rate in ’24. Our weekly engaged digital user growth reflected a new level of personalization in our PC offers, more members-only pricing and gamification of our app. Hopefully many of you have spun the price wheel in Q4 and took home some free products. If not, stay tuned. You can expect to see even more excitement with greater frequency this year. Customers can also use our Swap and Save feature as a digital tool to save on everyday groceries. Based on recent customer feedback, we have within a few days added swap and shop Canadian Tap to allow you to easily find products prepared in Canada. As we continue to expand this feature, we are already seeing a significant uplift in sales products identified as prepared in Canada.

Our digital business continues to grow. In addition to enhancing the customer-facing features, we have added free delivery to our No Frills stores in the fourth quarter, introducing new customers to our digital offer. Refreshing the right-hand side of our Superstores is another initiative that has created a lot of customer excitement. We have put together a new look and feel with better navigation for customers, extended our range across many categories, and introduced new and exciting brands, all underpinned by action-oriented offers. We need more call to action.

We're just getting started. We have three pilot stores, and we expect to roll this upgrade to many more stores this year. The uniqueness and strength of our Pharmaprix and Shoppers Drug Mart pharmacies continues to impress me. This is just an incredible asset unlike any pharmacy I have come across in my career. We are investing to grow our network and better positioning for the future. We are bringing customers more value to convenience for good shop and we are strengthening our leadership position in cosmetic adding new brands and targeting younger customers.

We are improving our processes, rolling out central field capabilities and improving app-based scheduling for pharmacy appointments. By the end of ’25 we will have built over 250 new in-store customer care clinics where our pharmacists can offer private patient care. Last year our pharmacists provided 3.1 million prescribing services, and we expect demand to grow as provinces expand their scope of care for pharmacists.

For over a decade, our new store growth across our Food and Pharmacy business has led Canadian population growth. Our team has now developed a very strong pipeline. In ’24, we opened 50 new stores, growing our Retail square footage by 1.1 percent. We are now even better positioned to meet the growing demand for hard discount groceries with the addition of 12 new No Frills stores and the conversion of 30 stores to Maxi, and the opening of five new Maxi stores in Quebec. These stores are performing very well.

Looking ahead, we plan to accelerate our growth, adding approximately 80 new stores this year, focused on hard discount and as well focused on Pharmacy. In December, we proudly celebrated the very successful opening of our first T&T stores in the U.S. If you were thinking that T&T was only a Canadian thing, I can tell you it's not anymore. In our first of two planned stores in Seattle, our new T&T is just exciting new customers and setting a new sales record. Just two months in, this 55,000 square foot store continues to outperform every store in our network.

Just last week, we also opened our second T&T store downtown Toronto, just steps away from Yonge and Dundas Square. I'm really proud of what the team has accomplished. I can't wait to see what the new stores are bringing us. This month we will begin shipping frozen products from our fully automated 1.2 million square foot distribution center outside the GTA. This DC will deliver improved capacity and efficiency for the future. This year we will demonstrate a carefully planned ramp up of volume in frozen, and fresh and finally ambient products.

I'm proud to note that the DC will be equipped with a massive array of solar panels, expected to be the largest rooftop solar array in Canada. Our ESG principles remain embedded in everything that we do. Today we are providing an early release of our 2024 ESG disclosures. We hope you'll visit our website to catch up on some of the great work we have accomplished against our two main pillars of advancing social equity and fighting climate change.

I would like to acknowledge the importance of the work our PC Children's Charity and Shoppers Foundation for Women's Health Organization do across the country. Together with our customers, colleagues and suppliers, we collaborate on dozens of events that raised more than $35 million in the year. We helped put that money to work, feeded almost a million children in our local schools, and provided more than $12 million support of initiatives that improved women's access to care in Canada. Just last week Shoppers Foundation for Women's Health announced a $10 million donation to the Manitoba government's new Healing and Empowerment Fund.

Our everyday focus remains on retail excellence, executing well across our operations and maintaining an unrelenting focus on our customers which is what allows us to continue to invest in our business and in growth. We are really excited and optimistic entering the New Year. Our portfolio of businesses remains strong and well positioned to deliver for Canadians who are increasingly turning to us for quality, value, service and convenience. I would like to extend a heartfelt thank you to all our colleagues for pursuit of these goals every single day and for what they are doing for our customers. Thank you.

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

Thank you, Per. Constantine, would you remind those dialed in of the process for asking questions.

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 number one on your touchtone phone. You will hear a prompt that your hand has been raised. Should you wish to decline from the polling process, please press star, followed by the number two. If you are using a speakerphone, please make sure to lift your handset before pressing any keys.

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

Irene Nattel — Analyst, RBC Capital Markets

Thanks, and good morning, everyone. From everything that you just said, it sounds as though you exited 2024 with accelerating momentum across the platform, putting aside the issue of the lower sales in electronics and front store shoppers. Can you talk a little bit about what is driving that momentum?

What is your PC Optimum and PC Bank data telling you about your share of customer wallet? Is it really mostly, you said conventional is up, but is it really more discount? How we should think about that unfolding in 2025? Thank you.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

If I could start, Irene, I think we finished the year quite strongly from a share perspective, as Per mentioned. That momentum is carrying through. As we discussed, we've opened many, many stores last year and typically like those stores open more later in the year than at the beginning of the year. As we start 2025, we're benefiting from the full momentum of all of these stores. That is definitely a factor.

On front store specifically, you probably remember that in the fall, we had a pretty mild fall. We did mention that cough and cold sales were pretty weak in the fall compared to peak period with experience. But if you look outside, here in Toronto, I can tell you it’s white everywhere and its minus 10 degrees. Cough and cold sales since the beginning of January have been very, very strong and they continue beyond what is typically the normal season. We're getting a benefit in front store that essentially was a delay. Those factors along with new stores are what's giving us momentum as we start the year.

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

Thanks Richard, and if I can add, we ended the year very strong on a market share gain and we also, as I said, had the best market share gain in a decade. We also do expect to have another record year on market share this year. But I also do believe that a lot of the initiatives that we put in place last year, the longer we go, the more they are embedded in our stores and the more they are working in our favor. Just think about removing the multi-buys and also something that we do not talk about that often is that we've combined the real Canadian Superstores with the Atlantic Superstores. Now we have 180 Superstores from coast to coast allowing us to harmonize and getting synergies from that.

There is a lot of things that's going on, not least our hard discount creating even more momentum. There is more stores that we have put in place, so about 14 of them last year. They're doing really, really well. Just as one example of the thing that we're doing, just the cookware promotion that the customers, they can get savings on pots and pans, we sold four years of cookware in the duration of that campaign. Some of that stuff is really, really exciting—exciting our customers, and we'll do more of these things this year.

There is a lot of good things, and just the T&T that I know that you have visited many times. I mean, it was the fastest growing of our formats, of our banners last year, and it's continuing to outperform. I think with our Superstores, our convenience stores, our hard discounts, our T&T and not least our Shoppers, we have a good store portfolio that caters for all of our customers' needs.

Irene Nattel — Analyst, RBC Capital Markets

That's great, thank you. Just one follow-up note, we're talking about new stores. I've been getting a lot of questions from Investors about the drag on gross margins and performance as you both accelerate the new store opening and also as you open the frozen DC. Can you talk about how we should expect to see this in your financial results and the degree of confidence you have in delivering to your financial framework, notwithstanding those headwinds? Thank you.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Good question, Irene. These two specific events are quantified and have been incorporated in our plan and form part of the guidance that we are providing to you this morning, i.e. we know the impact of earnings drag that these new stores are going to have. We know the impact of this ramp up of East Gwillimbury, and all of this is in. I can tell you; we're sort of like two months in. East Gwillimbury started operation in January. We're on plan. We definitely feel good on that. We're just starting new stores. We have two new stores that have opened since January now.

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

I think also you should see the new stores as a guarantee for the future, because adding 50 last year, 80 this year, and I don't know how many next year, that's too early to tell. Because just talking about like the second year, a new store and stores performing, it's growing maybe three, four, five six times a year, the normal same sales growth in a normalized store. Then we will start to see a lot of tailwind after few years.

Our strategy is really to grow our sales but also get leverage on cost and thereby keep the cost low. That's all in our plan. I believe with our strategy which I very strongly believe in, we can both deliver the short-term, the medium-term, and the long-term.

Irene Nattel — Analyst, RBC Capital Markets

That's great. Thank you.

Operator

Your next question comes from the line of Mark Hardin from UBS. Please go ahead.

Mark Hardin — Analyst, UBS

Good morning. Thanks so much for taking the questions. To start, you're planning on adding another 80 stores in 2025, including 50 hard discount stores. As you guys look out over the course of the next few years, how do you think about the longer term opportunity for unit growth? Could this pace be sustained beyond 2025, even if population growth slows? Just your general thoughts there.

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

I think it's too early to say how many stores we will build in 2026, but we don't build stores on behalf of population growth. We find white spots in the cities where we don't have a lot of sales and a lot of representation already. We don't see a lot of impact on our existing store portfolio by building these new stores. It's like 90 percent to 95 percent extra sales for us. Even where we have another closer store next to, like when we build a new hard discount, it's actually creating more footfall to both stores, both our conventional stores and our hard discount stores.

For us, it's a very, very good way for us to continue to grow our portfolio. Again, we're not growing more than 1.1 percent square footage growth in Canada. It sounds like a lot of stores, maybe because we haven't opened a lot of stores in the past, but also if I compare to other countries and the size of Canada, 80 stores is not a lot. We also have ambitions to continue to grow our top line. Again, that tailwind that we will get over time from our new stores will be important for us to sustain the growth going forward.

Mark Hardin — Analyst, UBS

Great, that's helpful, thanks. Then with respect to potential tariffs, how much exposure do you have to imports from the US? You talked a bit about fresh produce. How do you think about exposure on the packaged goods front? Then how will you pivot your sourcing? Thanks.

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

No, yes, no, thanks. That's a really good question. First of all, it's less than 10 percent of our COGS that we buy from the US. It's mostly in produce. If tariffs are applied on produce, that's where we will be mostly impacted. We're looking at it and we have some really, really good plans how we can mitigate. On produce, it's probably the most difficult place. I think we can probably mitigate half of our suppliers. We are seeing these tariffs as a kind of a tax on product that will hurt consumers on both sides, on the border. For us, we really understand the affordability challenges that many Canadians continue to face. But we also believe that on produce, for example, if tariffs are applied, they will buy less of that produce that comes from the US with a tax on.

Of course, it's our job to work hard with suppliers and try to mitigate as much of the impact as possible. That's produce. I think that's the obvious one. But if we just take one example, you mentioned like kind of the center of store. Household and cleaning, that's one area where we have more than 30 vendors coming from the US. But we also have a very, very strong control brand portfolio in household and cleaning. We have our No Name and our PC. If the tariffs will be applied on household and cleaning, then of course those products will not be competitive anymore. All the sales will go to our control brands, and they're all produced in Canada. That's good for Canada. It's good for customers and it's good for us. But of course, we have a very, very detailed plan how to mitigate it. But overall, it's again, it's less than 10 percent of our profits.

Mark Hardin — Analyst, UBS

That's really good context. Thanks so much and good luck guys.

Operator

Your next question comes from the line of Michael Van Aelst from TD Cowen. Please go ahead.

Michael Van Aelst — Analyst, TD Cowen

Hi, good morning. I just want to finish off on the square footage side of it. I understood the response to your earlier questions, but I'm also wondering if as you plan out your real estate expansion, have you changed your return on invested capital parameters and hurdle rates as you add increasing amount of new stores?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No, Mike, if you look at our plans for 2025 are all approved. Like right now when we're meeting, we're approving stores for ’26 now. All our plans were approved, and we benefited from the dozen of small format store we've opened last year to fine tune our model. That became the basis for the site we chose for 2025. But no, we are not lowering down our return.

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

Mike, I know you know that, but still 80 sounds like a lot, but a lot of those stores are small stores and it's not 80 Superstores we're building. There's a lot of Shoppers and a lot of small hard discount stores. First of all, they don't cost as much. They don't take as much CapEx to build, and the square footage is down to 8,000 square foot to 10,000 square foot.

Also putting that in perspective, I think because we're changing the way that we build new stores, it sounds like a lot, but actually on the square footage, it's less.

Michael Van Aelst — Analyst, TD Cowen

Yes, it sounds like, I think earlier you said not quite 2 percent square footage growth, although it seems like most of your peers are also adding 1 percent to 1.5 percent at a time when there's no population growth expected over the next few years. I just wonder, you might be moving into other white space, but you've got your competitors that might be moving into your territories. I'm just wondering how you're modeling that in your guidance.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We're modeling that. We know exactly where everybody's going because in the real estate world, you see where people are doing work now. But we take that into consideration as to where we put stores and it's a market by market analysis. As Per mentioned, we're not basing our store decision based on population to come. We're making store decision based on the population that is here today. This is always how we make our decision. Therefore, based on what we've seen with the dozen small format we did in our other stores, that's how we decided where we're planting the 50-ish Food stores and 30-ish Shoppers Drug Mart for next year.

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

Again, in an international perspective, it's not a lot of stores that, I know it's a lot compared to the past, but it's not that many new stores into Canada. Of course, there will be other formats will be impacted, but there's also a lot of other stores that are not among the big four that will be impacted.

Michael Van Aelst — Analyst, TD Cowen

All right. Then just on the competitive environment and your gross margin performance, you clearly had some good market share gains in the quarter, at least tonnage gains in the quarter. But when I look at your implied inflation rates, it sounds like you were maybe closer to 1 percent on inflation when the CPI was over 2 percent, I think it was closer to 2.5 percent. Of course, your gross margins were down and maybe we call it flat if we exclude some of these timing differences in that. But with flat gross margins and tonnage gains, flat gross margins, increasing square footage, are you seeing a little bit more of a competitive market out there or is that lower inflation that you're recording more related to trade down into private label and other factors?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Mike, the market continues to be rational, like as it's been for a long time in Canada. What you're seeing is more and more stability. I think that's how to think about it. Gross margin, as we start this year, we're going to be back to normal. Our outlook for this year is to have slightly increased gross margin like we did last year. But Q4 was a bit of a blip for the factors we mentioned. The Canada Post thing was a bit of a surprise for us because we were essentially caught in the busiest season of Canada Post, and we have over 800 Canada Post outlets in Shoppers Drug Mart. Both traffic and the sales performance of those outlets were essentially shut. That really affected gross margin in Q4.

But going forward, when we look at where we are now, we're like three quarters, two thirds of Q1 done. We sort of feel that that's behind us.

Michael Van Aelst — Analyst, TD Cowen

Great, thank you very much.

Operator

Your next question is from the line of Tamy Chen from BMO Capital Market. Please go ahead.

Tamy Chen — Analyst, BMO Capital Markets

Thanks, good morning. I wanted to wrap up the discussion on inflation, food inflation. How are you thinking about that this year versus last year? You talked a bit about the exchange rate, but it looks like, you said 10 percent really of your buy is from the U.S. You've also mentioned the vendor prices (phon). I just wanted to start there and get a sense of how you're expecting food inflation to trend through this year versus last year.

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

Yes, if I start, then I'm pleased to say that we have seen normalized inflation for almost nine months now and also continued into January. We are pleased, especially because customers, they are still having a tough time. We will do, of course, our utmost to continue to keep prices low, whether that's pushing back on increases for suppliers. That's at least some of the things that we can do, and of course, give customers the opportunity to go to a hard discount, to buy into our No Name range and give them great promotion. But of course, the FX has an impact. If the Canadian dollar continues to weaken, there will be a further impact on inflation. But if it strengthens, then it will be positive for the consumers.

On tariffs, it is still too early to say. Again, if tariffs are put on specific products, customers have the opportunity to mitigate that by buying Canadian products or buying products with no tariffs on them. We are doing a lot to help them navigate and make that even clear to them how they can do that.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, just add some specificity around numbers now. Then probably touch both Mike's question and your question, Tamy. CPI in a quarter was 2.4. Our own internal measure of CPI, which is called LPI, which is a carbon copy of CPI using our stuff, our products that was slightly lower than 2.4. Our average article price, which is what customers are buying, was significantly lower. Mike was in the zone in terms of what that number is. That is the number that really is part of same-store sales.

We've seen stability in those figures for most of 2024 but because FX started to turn, because the peak was around end of September at $0.745-ish, and it touched as low as $0.68, a few weeks ago. That is inflationary, and we've been starting to feel it quite seriously over the last few weeks. It's definitely starting to show. But can't predict the future as to where it's going to go from here.

Tamy Chen — Analyst, BMO Capital Markets

Okay, thank you for that. Then my follow-up question is on the new Food stores you've got planned for this year. I understand, I think most of them will be your small format, No Frills and some additional Maxis. Can you remind us for those two formats, how quickly you expect the sales to ramp to maturity based on what you've seen in the existing stores of those formats? Also, specifically on the small No Frills, I'm just curious, I think most of the stores you've opened right now are in more downtown urban locations. What have been the learnings there and what provides you the confidence that this format will also resonate in say places like the suburbs and rural regions? Thank you.

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

Thank you. First of all, it would probably dependent by store by store, but normally a rule of thumb is that a retail store will take three to four years to normalize sales, which is all the positive because then you will have over and above same-store sales for about three years after the first opening year. It will take some time, but still we're off to a very good start and see that we're getting to the sales numbers that we expected. Some of them even much, much better. There was another question, right?

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

No, I think that’s it.

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

Okay.

Operator

Sorry, we're moving on to the next question sir.

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

You want to jump back in, Tami and we will catch the second half of your question.

Operator

Your next question comes from the line of Mark Petrie from CIBC. Please go ahead.

Mark Petrie — Analyst, CIBC World Markets

Hey, good morning, thanks. I wanted to ask about Shoppers. You've made some important shifts to the offering, and I guess obviously thinking of the exit of electronics, but also and even more so the adjustments you've made to price and promo and sort of the go-to-market approach, especially in Food and consumable. Just curious to hear your thoughts about sort of what you've learned about the business and learned about the customer from those adjustments.

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

First of all, we are seeing some very positive impact from our customers. We lowered prices of 400 food items in Shoppers. In every aisle that you walk, you will see that we lower products. Of course, it's important because customers, they are seeking more and more value also in Shoppers. Exiting electronics is good for us because customers, they can now use the points on some of the products that they love the most. Some of the beauty products, which is good for both us and for customers because having electronics in the Shoppers was not really great adjacent product categories. It was not in line with what we sell overall in Shoppers.

We're seeing some good momentum coming out of last year, and as Richard alluded to into the first quarter. We feel good about Shoppers. Also on the pharmacy side, not only the front store. In the pharmacy, we've seen some really good growth, and also the GLP-1 is still growing very, very nicely.

Mark Petrie — Analyst, CIBC World Markets

Does that sort of—does that response and I guess specifically in Food, does that sort of set the stage for other adjustments that you might make or are you satisfied with what you've done so far and now it's more status quo?

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

No, I think in Retail, it's never status quo. I think we always follow and watch if we need to do some corrections, but for now we're good. We're not coming up with a lot of new changes tomorrow. Also, a lot of the initiatives that we started last year, we need to see them work because it takes some time really to resonate with our customers. But for sure we'll continue to make adjustments if needed.

Mark Petrie — Analyst, CIBC World Markets

Okay, thanks. Then following up on the tariff question, I'm just curious if in the conversations that you're having with your suppliers, if all of the uncertainty in trade and supply chain affects how they have approached the market at all with regards to their promotion or product innovation pipeline?

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

Not so far. So far, everything is as usual, but of course, going forward, if you have a 25 percent tax tariff on Kellogg's, if that should come so far, then of course we will probably promote our control brands instead of Kellogg's because nobody will buy it if it's 25 percent more expensive. I think, yes, it will have some impact, but for now, no impact.

Mark Petrie — Analyst, CIBC World Markets

Yes, understood. If I could just squeeze in one more, I know you're very pleased with the early results from the T&T in Seattle. Just hoping you could talk a bit more about your plans for growth in the U.S. specifically and the total size of the opportunity as you see it.

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

Yes, for now, we stick to the plan of opening seven stores as a test and a trial. That's what we're sticking to. But when that's set, we're just overwhelmed with the success that Tina Lee and the team are having in the U.S. But for now, we're sticking to the trial of the seven stores, and we are following that closely. But yes, we're so pleased with what we're seeing right now.

Mark Petrie — Analyst, CIBC World Markets

Understood. Thanks for all the comments and all the color.

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

Thank you.

Operator

Next question is from the line of Vishal Shreedhar from National Bank. Your line is now open.

Vishal Shreedhar — Analyst, National Bank Financial

Thank you. Just switching gears to financial and the ECL release, is Loblaw expecting a more constructive consumer environment or is that more of a reflection of that the prior provisioning was over conservative and the adjustment reflects more current thinking?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Okay, so the ECL is a black box. It's very much driven by unemployment forecast prepared by economists. Specifically, what happened is the buildup of the ECL in Q4 this year was less than the buildup of last year. Year-over-year, it created a benefit. It's actually impossible to predict, I've tried. It's a bit of a volatile number that moves every quarter. But overall, as of Q4, the health of the consumer was getting slightly better in Canada, yes.

Vishal Shreedhar — Analyst, National Bank Financial

Okay, thank you. The PC Optimum, the charge related to higher member participation and redemption rates, how is Management interpreting that increase in participation? Is that a reflection of the offering or something that Loblaw is doing or is that more a reflection of consumers seeking more value?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, so let me walk you through what specifically happened here. That rate was set when we merged PC Plus and PC Optimum probably six, seven, eight years ago. We never touched that redemption rate. As the year evolved, we saw like picking up of redemption. After a certain number of years, you need to validate whether or not this is the right assumption. Therefore, we made the decision to increase the redemption rate by some one-ish percent more than what it was. That's what resulted in the one-time liability. We feel that that's going give us room for many, many, many years going forward.

But you're right, what it reflects is that more and more consumers are liking PC Optimum and are using it. From our perspective, this is a non-recurring, non-cash charge, and we're more than happy to do it because it reflects what's happening in our stores.

Vishal Shreedhar — Analyst, National Bank Financial

Okay, and are you able to quantify the impact of the Postal strike and specifically the electronics, exiting category on Shoppers?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, we know exactly Vishal, but we won't tell you. Sorry. Okay.

Vishal Shreedhar — Analyst, National Bank Financial

Was the Postal strike also related to the lack of flyers, and did that impact?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

No, Postal strike was essentially lost traffic, and we could actually measure it. Like if you look at a store that had the Post Office in it versus a store that didn't have it, you could markedly see that the store with the Post Office, when the strike happened, traffic went down. That was overall store, front store impact on the whole business. Then there was the profitability associated with running the Canada Post outlet itself that essentially went to zero at the time of the year where everybody's trying to send a Christmas card to their families. We didn't sell Christmas cards, and we didn't send any Christmas cards. It was sort of the worst time for this to happen, and we really felt it. It was interesting to see that the moment that the strike ended, we saw people come back to our store.

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

Yes, and we could easily verify that because we have 800 with and 500 without. For us, it's easily measurable.

Vishal Shreedhar — Analyst, National Bank Financial

Then just one last one here. In terms of the smaller format stores, after the trial period and customers go to them, are you finding that they're sticking? Is their ability to do a full shop constrained and that creating issues with customer satisfaction or is that not an issue?

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

I'm glad that you asked that question because the small stores have a range of 7,000 to 8,000 products. You are absolutely able to do a full shop. We might have less phasing. Instead of having the same product, three side by side, we might only have one or two. Compared to the German discounters like Aldi, they will probably have a range of 2,500 to 3,000 and they still claim that you can do a full shop. Our hard discount in Canada is very different from hard discount elsewhere. You can do a nice full shop in a hard discount. Of course, not with the same range as you can get in some of our conventional stores.

It is a different shopping trip, but you can definitely do a full shop, which is also why it's so successful and why so many customers like it. Also, because it's fast in and out and a lot of customers, they like time. If they can do a shopping trip in 15 minutes instead of maybe spending 40 minutes, they're happily willing to do that.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We look at sales on a weekly basis and those store sales, they're not dropping. They're actually going up every week. People like them and continue to shop them more and more.

Vishal Shreedhar — Analyst, National Bank Financial

Appreciate the color, thank you.

Operator

Your next question comes from the line of John Zamparo from Scotiabank. Please go ahead.

John Zamparo — Analyst, Scotia Capital, Inc.

Thank you. Good morning. I wanted to come back to the same store sales, and you referenced the strong start to the year. I wonder what you're seeing from consumers over the last few weeks, both on the shift in sentiment from tariff talk and also the theme of buying Canadian, either Canadian brands or Canadian retailers. As always, appreciate your disclosures on LinkedIn, but I wonder if you can add more color on this subject and just overall what you're seeing over the past three weeks or so.

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

Yes, I can say that they are really seeking to buy more Canadian products. Again, when I'm out in stores, so every single person I meet, they want help and guidance how they can buy more Canadian products. We are really trying to do everything we can to help them. One of our features on the swap to Canadian that our digital team have done in a few days, we are seeing an uplift of 75 percent week-on-week of how many of our customers who are tapping into that feature and using it. In store, I don't have last week's number, but I have the week before, and it was approximately about a 10 percent uplift in

Canadian product. That's even before we have done a great, great job in helping them navigate in our store.

Mid next week, we will have the danglers and the flags on all products prepared in Canada in our store. We will probably see a further uplift when it comes to that. Else, I think customers are behaving more or less the same as last year. There's not a lot of change. They are still buying a lot into our promotions. They are buying into our private labels, especially our No Name is doing very well. Then still we're seeing the shift to discount.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

We're seeing good tonnage performance as the year starts. But as I said earlier, the FX is definitely affecting inflation. That's a factor that we're now starting to see every week in our sales.

John Zamparo — Analyst, Scotia Capital, Inc.

Okay, that's helpful. Thank you. Then as a follow up, I wanted to ask about the Retail Media business. I wonder if you expect this portion of the business to reach sufficient scale where you plan to add more disclosure on it and how did that business perform to end 2024?

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

Yes, we're seeing a good uplift this year and still not enough to disclose it for you. But it's up a double digit in profit this year and we expect it to continue to be. Hopefully not that long till we can start to report on it.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, both our Retail Media business and Freight-as-a-Service business will grow double digit earnings in 2025.

John Zamparo — Analyst, Scotia Capital, Inc.

Great, thank you very much. I'll leave it there.

Operator

Ladies and gentlemen, as a reminder, if you would like to ask a question please press star, followed by the number one on your touchtone phone. If you would like to decline from the polling process, please press star, followed by the number two. If you are using a speakerphone, please make sure to lift your handset before pressing any keys.

Your next question comes from the line of Chris Li from Desjardins. Please go ahead.

Chris Li — Analyst, Desjardins

Hi, good afternoon. Just maybe a question on the outlook for the year. Richard, you mentioned that you expect gross margin to increase modestly this year. Is that mainly driven by more shrink improvement in Shoppers?

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, what we're expecting to see based on what you heard us talk about on this call is you're probably going to see a little bit more top line growth because of new stores that we opened last year and more stores this year in a low inflation environment. That's definitely what we have in our plan, to see slight increase in gross margin rate. That's a part of our plan. You're going see a very slight deterioration in SG&A rate driven by East Gwillimbury and new stores.

Overall, all of this will allow us to deliver the high single digit growth for EPS to which you need to add 2 percent for the 53 week that we're going to be experiencing this year. That's our outlook for 2025.

Chris Li — Analyst, Desjardins

Okay, that's clear. My follow up was, I guess, the cadence of that high single digit EPS growth. We should expect pretty steady (multiple speakers).

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Yes, you should expect the way we budgeted the year each quarter looks a lot like the other. You should not see much volatility. That's our hope and plan, but that's how we plotted the year. Yes.

Chris Li — Analyst, Desjardins

Perfect, thanks and all the best.

Richard Dufresne — Chief Financial Officer, Loblaw Companies Limited

Thank you.

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

Thank you.

Operator

There are no further questions at this time. I'd like to turn the call over to Roy MacDonald for closing remarks. Sir, please go ahead.

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

Great, thanks for your time and the great questions this morning. Give me a shout if you have any follow ups. Mark your calendar for Wednesday, April 30 when we will be discussing our Q1 results. Have a great day, everybody.

Operator

This concludes today’s conference call. Thank you very much for your participation. You may now disconnect.