FINAL TRANSCRIPT

Loblaw Companies Limited

Fourth Quarter Results 2019

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Loblaw Companies Limited Fourth Quarter and Full Year 2019 Conference Call.

At this time, all participants are in a listen-only mode.

After the speakers' presentation, there will be a question and answer session. To ask a question during this time, you will need to press star, then one on your telephone.

Please be advised that today's conference is being recorded.

If you require any further assistance, please press star, zero.

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

Roy MacDonald — Vice President, Investor Relations

Thank you, Amy, and good morning, everybody. Welcome to Loblaw Companies Limited Fourth Quarter and Full Year 2019 Results Conference Call.

I am joined here this morning by Galen Weston, our Executive Chairman; Sarah Davis, our President; and Darren Myers, our Chief Financial Officer.

Before we begin the call, I want to remind you that today's discussion will include forward-looking statements, such as the Company's beliefs and expectations regarding certain aspects of its financial performance in 2020 and in future years. These statements are based on assumptions and reflect Management's current expectations and are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from our expectation. These risks and uncertainties are discussed in the Company's financial material filed with the Canadian regulators. 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 will turn the call over to Darren.

Darren Myers — Chief Financial Officer

Thank you, Roy, and good morning, everybody.

We're pleased with our financial performance to end the year, with strong results in drug retail and continued improvements in our food retail business.

In the fourth quarter, on an adjusted consolidated basis and normalized for IFRS 16 and the spin-out of Choice Properties, our reported revenue grew by 3.3 percent, Adjusted EBITDA increased by

2.8 percent, and adjusted diluted earnings per share increased by 9.6 percent. Adjusted earnings per share grew by 7 percent in the quarter after taking into account the timing of Thanksgiving.

Our same store sales and drug retail grew 3.9 percent in the quarter. Front store same store sales grew 2.2 percent, while pharmacy same store sales grew 6.1 percent. For front store, we delivered positive comp growth in all major categories, led by cosmetics, OTC and food. Pharmacy continued its strong trend, with prescription growth of 3.1 percent and a 2.4 percent higher average script value. As we mentioned last quarter, the timing of Thanksgiving had a nominal impact on same store sales growth for drug retail.

Food retail same store sales grew by 1.9 percent in the quarter, or 80 basis points after adjusting for the timing of Thanksgiving. Our average article price was 0.8 percent for the quarter.

Our same store sales performance in the quarter was negatively impacted by approximately 60 basis points from non-food sales, most notably tobacco. Normalizing for non-food sales, our Thanksgiving-adjusted same store sales were approximately 1.4 percent in the quarter.

As I'm sure you noted, based on investor feedback, I am pleased to let you know that starting this quarter we reported our average article price, which reflects the average price of the specific mix of goods sold in our stores in the quarter. As in the past, we will continue to provide incremental inflation colour as required, to help you better understand the impact of inflation on our performance.

In the quarter, we delivered positive momentum in our food business, including positive comps in both traffic and basket. We increased our promotional activity and made deliberate and measured investments to continue to improve our sales performance.

In the quarter, retail gross margin was 29.8 percent. Excluding the consolidation of franchises, retail gross margin declined 10 basis points compared to last year, driven by pricing investments in food and drug mix within our prescription business.

Retail SG&A as a percentage of sales of 19.8 percent included $285 million benefit related to IFRS 16. Excluding this benefit and the impact of franchise consolidation, retail SG&A was flat year over year. Our SG&A performance benefited from continued progress in our process efficiency initiatives, with productivity improvements offsetting continued investments, inflation, and timing as mentioned in the third quarter.

Moving to PC Financial. Revenue included a negative impact from a $19 million re-class between revenue and expenses that had no impact on earnings. Excluding this re-class, revenue increased by 6 percent, driven by growth in our credit card portfolio and continued higher year-over-year sales of the mobile shop.

The adjusted EBITDA contribution from PC Financial grew by 75 percent compared to last year. This represented strong growth for the quarter driven, by our revenue growth and a reduction in costs relating to timing of our investments. Moving into 2020, we're focused on continuing to invest in the business, as we ramp our new payments platform.

Adjusted consolidated EBITDA margin was 10.4 percent in the quarter. Normalized for the impact of IFRS 16 and the consolidation of franchises, the EBITDA margin was flat.

In the quarter, fully diluted earnings per share were $1.09. On a comparable basis to last year, after excluding $0.03 per share from the incremental depreciation from the spin-out of Choice, a $0.01 impact on EPS from IFRS 16 and a $0.03 per share positive impact from the timing of Thanksgiving, fully diluted earnings per share for the quarter were $1.10, an increase of approximately 7 percent.

IFRS net earnings available to common shareholders from continuing operations was $254 million.

Free cash flow was $272 million this quarter.

In the quarter, we repurchased 2.3 million common shares at a total cost of $163 million.

Turning to the full year, revenue grew by 2.9 percent. We delivered same-store sales of 1.1 per cent in food and 3.6 percent in drug. Our food sales momentum has continued to show improvements over the past two quarters, and drug sales performed very well in both front store and pharmacy.

We saw continued cost pressures in 2019, including the significant health care reform from 2018, which we did not lap until the second quarter.

Our focus continued on driving process and efficiencies throughout the business, while we invest to position ourselves for the future.

On an adjusted basis, excluding the impact of IFRS 16 and Choice spinout, EBITDA grew 4.1 per cent, net earnings grew 3.4 percent, and diluted earnings per share grew by 6.4 percent.

Free cash flow was $1.2 billion, with free cash flow from retail business at approximately $1.5 billion.

We repurchased a total of 13.6 million common shares at a total cost of $937 million.

Looking ahead to 2020, on a full year comparative basis, we expect to deliver positive same store sales and stable gross margin in the retail segment, deliver positive adjusted net earnings growth, invest approximately $1.1 billion in capital expenditures, and return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

Please note that in 2020 we will have an extra week. We estimate that the resulting incremental impact on our earnings per share in the fourth quarter of 2020 will be approximately $0.08.

In conclusion, we are focused on continuing to improve our sales performance while we make the necessary investments to deliver long-term value. We are on a multiyear journey to take costs out of our business. These savings offset ongoing cost pressure and are helping to fund our investments in our strategic growth areas. Two thousand and twenty will see us continue on this path as we invest in our strategic assets to position us for long-term success and value creation.

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

Sarah Davis — President

Thank you, Darren, and good morning, everyone.

In Q4, we continued our positive trading momentum. Shoppers delivered another impressive quarter, with continued leadership in beauty, strong performance in cold and flu, and the best pharmacy comps that we've seen in five years, led by strong script count growth.

In our food business, you may remember from our Q3 call that we reported an improved trajectory for food tonnage and sales. That continued in Q4. We invested in sales by promoting items in key weeks, lowering prices in the right markets, and giving more relevant offers to our customers. We are pleased with the results. Our tonnage share, basket and traffic all increased in the quarter.

Our ability to generate sales and hold market share with stable margins is key, as we expect competitive pressures to continue in 2020. Our business, including our brands, stores and digital services, is well positioned to do so. We have continued to refine our food, pharmacy, beauty and apparel e-commerce businesses, improving customer service by shortening the wait time between clicking and order and receiving it. Our customers rewarded us in 2019 with more than a billion dollars in e-commerce sales, almost double that of the previous year. While we often refer to our online food business, the impressive growth in e-commerce is right across the board, including mass and prestige cosmetics, prescription and caregiver services. We are assembling the right pieces to lead in everyday digital retail.

With increasing stability in our base business, and confidence in our strategy, we continue to invest for the future.

We are investing in infrastructure, announcing the closure of two aging DCs and migrating to a modern facility four times more productive.

We are investing in innovation. We have many examples of this across our business, but let me highlight a couple. We are testing an expanded centralized automated fulfillment model for some of our highest-volume prescription meds, to free up pharmacists for more personal service to their patients. Then another example is the micro-fulfillment center, that we are installing in a food store to test automated picking, close to the customer.

We continue to invest in data and analytics, scaling up resources and our infrastructure to better support our strategy. Loblaw Media is a great example of a business that is benefiting from our data assets to drive customer purchases and insights for our vendors.

We are investing in the next steps of our payment and rewards strategy. This includes investing in our PC Optimum app, which is being used to market more of our services and to generate leads for our PC MasterCard and PC Express businesses. Our investments in our PC Financial digital platform are setting the stage for a next-generation payment product that will launch this fall. It will be an everyday spend and save account, combined with the nation's most trusted loyalty program. We are currently in pilot, with live accounts, and the feedback is positive.

Looking back at 2019, we did what we said we would do. It wasn't necessarily a straight line but, following some midyear adjustments, we showed that we have the assets to attract customers and defend and grow our market share. With solid sales and customer satisfaction in check, we have an exciting strategy to take us forward, to help Canadians live life well.

I will now turn the call over to Galen.

Galen Weston — Executive Chairman

Thank you, Sarah.

At the close of 2019, I'm satisfied with our progress. Our results reflect the challenges of a competitive marketplace, met with a strong strategic plan. Sales have been hard won, as we made meaningful adjustments to our merchandising and promotional programs throughout the year.

At the same time, our industry is in a transitional phase, with new cost pressures, potential competitive disruption, and exciting new opportunities. We will continue investing in those opportunities with conviction, as we see a number of them begin to bear fruit.

In 2019, we delivered EPS growth of over 6 percent, while ramping our investments. We continue on this path in 2020, endeavouring to strike the balance between our passion for customers, unlocking productivity through process and efficiency savings, investing in Loblaw's future, and delivering appropriate returns to shareholders.

Thank you.

Roy MacDonald — Vice President, Investor Relations

Thank you, Galen. I would ask Amy to please introduce the Q&A process.

Q & A

Operator

Ladies and gentlemen, if you would like to ask a question, you will need to press star, then one on your telephone. To withdraw your question, you may press the pound or hash key.

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

Karen Short – Barclays Capital

Hi. Thanks for taking my question.

A couple of questions on the food side. Within the reported food comp of 0.8 on an adjusted basis, can you give a little color on what the food versus non-food comp was? I'm asking in the context of CPI being at 3.7, because that's obviously—on a reported basis, that's a wider gap than we've previously seen? Then I had a couple other questions.

Darren Myers – Chief Financial Officer

Good morning, Karen, it’s Darren.

As mentioned, when you exclude the right hand side, our food comp would have been around the 1.4 range, and when we look at average article price and we exclude the right hand side, it would be just slightly under that, more about 1.3 percent, so that just gives you a better indication relative to where we are now.

Recognize that that represents the average article price; that's not the same as CPI, which is the same hundred items and the price of those hundred items represents the actual mix that we saw in the stores.

Karen Short – Barclays Capital

Right, so that 0.8 average article price versus CPI of, again, 3.7, I guess that would tell you on the surface that you're getting more aggressive on price. Again, can you frame that in the context of where you're at? Because obviously your gross margin was fairly flat.

Darren Myers – Chief Financial Officer

Yes, I mean, we definitely have increased the promotional intensity, as we've talked about on prior quarters, and again, on the food side, average article price would be more in the 1.3 range, and when we think of CPI, I would say our basket on a light apples-to-apples basis would be moderately lower than CPI.

Karen Short – Barclays Capital

Okay. Then within CAPEX, any color on allocation of CAPEX as it relates to intangibles versus say bricks and mortar? Then I'm asking in the context of how we should think about depreciation in 2020 versus 2019 as CAPEX moves more to shorter depreciation life?

Darren Myers – Chief Financial Officer

Sure. Yes, there's no—when you think about the overall CAPEX, I wouldn't say we're changing the composition. We have been over the last couple of years, but next—2020 will look more like 2019, and so it's investing in foundation, productivity and innovation. Most of that foundation is the brick and mortar. It's still the largest amount of spend, then productivity, and on the smaller amount would be in innovation.

On depreciation, as a result of the last few years and just the cycle as you spend more in IT and things like that, I would expect it to be a little bit higher next year in terms of depreciation.

Karen Short – Barclays Capital

Okay; and then any thoughts on what CPI versus what your, I guess, average article price would look like for 2020?

Darren Myers – Chief Financial Officer

I don't think we can provide color on that, Karen. It's so hard to predict where inflation is going to go and CPI.

Karen Short – Barclays Capital

Okay. Thanks.

Operator

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

Mark Petrie – CIBC World Markets

Hey good morning. Just had a couple questions. Obviously you guys are a leader in private brands, but your competitors are putting significant emphasis on closing that gap. Do you expect private labels to be an incremental benefit in 2020? From here, how do you innovate in order to drive sort of incremental penetration?

Sarah Davis – President

Hi Mark, it's Sarah. I'll take that. Yes, we expect that our control brands will have an impact in 2020. We do have large penetration of control brand, but we expect to increase the penetration, in 2020, we do have some targets to do that. With control brand it does result in higher margins as well. It should have an impact.

In terms of what areas, we always follow the food trends. We have a team that does go around the world, looking at where the trends are going. Certainly a big focus area for us will be in the non-meat proteins, looking at plant proteins, that will be an area of focus and different areas, so always trying to come up with new innovative brands for our control brands.

Mark Petrie – CIBC World Markets

Is there still opportunity for harmonization between the food and pharmacy business, or is that pretty much set?

Sarah Davis – President

We have an initiative that's ongoing now with the Life brand transition. Life brand is moving into the food business, so we will have all of the brands, so PC, No Name and Life in both of the food and the shoppers business, and the Life brand with its new packaging, and it's going into the food stores is something that you should expect to see throughout 2020, the transition's already started, and it will continue throughout the year.

Mark Petrie – CIBC World Markets

Okay, thanks.

You touched on this but I just wanted to ask you about the Loblaw Media business. It's launched. But could you just give some additional commentary on sort of the scale today, and then some sense of how material you think the contribution can be from that segment over the next year or two?

Sarah Davis – President

Yes, so I would say the Loblaw Media business is an interesting one for us, because it does take advantage of the data that we do have, and we see it as a win-win-win: a win for customers because they get more relevant offers, a win for the CPG companies because they can direct their advertising in a more precise way, and a win for us because it is a new revenue stream for us.

In terms of how big do we think it will get, I'm not prepared to tell you yet, but I would say in 2020 we're pretty pleased that it's going to be EBITDA-neutral, so there's not too many new businesses that are basically EBITDA-neutral in their first year. We've been working with quite a few different CPG companies. Some of them are very excited about what they're seeing, in terms of the opportunity to really target directly to customers. I think lots of interesting work to be done there.

When you think about the addressable market, the CPG companies in Canada spend about $2.4 billion on digital advertising. It's that market that we would be looking to address.

Mark Petrie – CIBC World Markets

Okay. Thanks a lot, I'll pass the line.

Operator

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

Irene Nattel – RBC Capital Markets

Good morning. A couple of questions if I might, just around the whole issue of drivers of same store sales, balance of same store sales, and margin and the competitive intensity. Clearly there was a trajectory and a mid-course correction in 2019; were you satisfied with your same store sales performance in Q4, and/or should we expect more tweaking in 2020?

Sarah Davis – President

Hi Irene, it's Sarah. I think, when we think about Q3 and Q4 where we would have made the corrections in order to improve our trajectory, we're starting to see some traction. We were pleased with what we saw in Q4. When we think of the investment that we made, we did use our data-driven insights. We feel that they are working well. We are pleased with the development there. But in Q4 we also looked at some traditional tactics. We were promotional in the quarter, which did resonate with customers and did have an impact on the sales and margin in the quarter. In terms of how satisfied are we, we're satisfied with where we ended the year, and we hope to hold share, so when you look forward to 2020, we're hoping to hold our increased market share in any quarter.

Irene Nattel – RBC Capital Markets

Okay, that's great.

I guess, when we had the Q3 call, you were talking about what you saw as heightened competitive intensity. Can you comment on how that evolved in Q4 and I guess 2020 to date?

Sarah Davis – President

Yes, I would say in Q4 we did, we continued with THE heightened competitiveness. We are, I think, in both my comments and Darren's comments, it is the balance that we're trying to look for in 2020 to have some market share, make sure that we keep our tonnage share, make sure we have some sales, but also have stable margins. That's ultimately the goal. But I would say, based on where the competitive position is right now, we feel confident that we have the right plan in place.

Irene Nattel – RBC Capital Markets

That's great. One more question if I might, and I guess this is more of a 35,000 feet one.

EPS grew 6.4 percent in 2019, which is below I guess your targeted growth algorithm, and you know that you invested. The word investing was one that was used an awful lot in the script. How would you describe 2020? Is it another investment year? Is it as much of an investment year as 2019? How should we be thinking about the growth algorithm at this point?

Darren Myers – Chief Financial Officer

Okay, Irene, it’s Darren. I'm just thinking, I’ve never used growth algorithm with our financial framework. But as we think, I mean, as you know, we have a financial framework which is in the long term. The way I would describe things today is we continue to be in a cycle where the industry is quickly changing, we're driving our P&E as aggressively as we can to offset our costs and help enable our investments. But you heard the theme, we continue to invest because we think, with all the changes in the industry and where we're at, it's the right thing to do, and those investments, we're not in a position where those are a tailwind yet, they continue to be a headwind. When you take that, take the increasing cost pressures in the business, I would say 2020, best way to think about it, is really a continuation of where we are in 2019.

Irene Nattel – RBC Capital Markets

That's very helpful. Thank you.

Operator

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

Michael Van Aelst – TD Securities

Thanks. Just want to start off by continuing along the tonnage commentary and questions. You did make good progress stabilizing it after that big fall in Q2. But now that you've got back to normal or stabilized same store tonnage, do you see a way to go back and revisit your promo efficiency efforts, and maybe do it in a more—in a different way that's less of a negative impact on tonnage and can continue to help drive margins?

Sarah Davis – President

Yes. I think that would be what our intention would be, that we are using data and insights, we are building a skill set that is increasing over time, and our idea would be to maintain our market share and increase our sales and have stable margins. That is absolutely what we're trying to do.

Michael Van Aelst – TD Securities

What would you do differently? Are you able to actually pinpoint anything that you'd do differently that—so you don't have a recurrence of what happened in 2019?

Sarah Davis – President

Oh, I think our key would be just to narrow the framework, so not allow us to have any waiting period. We allowed ourselves to—as we went through the algorithm we were prepared to lose—it was intentional for us to lose some of the bad share. We now feel that we've done that, and we're in a good position and we'll just hold tight to that going forward.

Michael Van Aelst – TD Securities

Okay.

In your outlook statement, you talk about gaining some operating leverage. But when you look at Q4, there is no real timing impact on OPEX, and it was flat year over year. There's no operating leverage in Q4. What are you going to do differently in 2020, that you didn't do in Q4?

Darren Myers – Chief Financial Officer

Hi Mike, it's Darren. SG&A, when you do think about the fourth quarter, there was some time and we mentioned it in Q3, so that would have impacted us a little bit. We're obviously flat, and all in all I think we're pleased with flat, because we did drive a lot of productivity that offset some of the investments. The productivity is really in the 20 to 30 basis point range, and that gets offset by cost increases and what have you.

We never said, when we were delivering 30 basis points in the first half of the year, we said that's not what we would expect. Our goal really is to maintain our rate but improve it over time. I think as you think about next year, that's really going to be the continued theme, and then as we get more and more traction with our investments we'd expect to start seeing improvements in the rate as time goes on.

Michael Van Aelst – TD Securities

On that extra week, you pointed to an $0.08 benefit. Last time you did it, I think in 2014, there was an $0.11 benefit, and you had lower net earnings and a lot higher EPS. So why is it a smaller impact this year?

Darren Myers – Chief Financial Officer

Yes, Mike, it's a good point. I mean, I obviously wasn't here six years ago, but I mean we've gone through this in a lot of detail and very comfortable, we've probably refined the estimates over time, and very comfortable on the $0.08.

Sarah Davis – President

I think you could just—we would calculate it based on the timing of when the holidays fell. It's not going to be exactly the same every seven years, and so it's in that mix as well.

Michael Van Aelst – TD Securities

Okay.

Then just finally on the general merchandise, are you able to give us a ballpark idea as to what percentage of sales that right-hand side of the store accounts for, over all? What's your strategy to deal with the weak demand on that side?

Darren Myers – Chief Financial Officer

We're not going to give the size of it. We are still seeing some declines now. As I noted in my prepared comments, the largest part of the drop this quarter was from tobacco, due to a legislative change in the packaging and just some disruption that happened as a result of that. But beyond that, we do still could see a softer environment on the apparel and the GM side. We got a number of actions in place to try to improve that. Some of that is happening industry-wide, but we feel pretty comfortable on the number of steps we're putting in place to address that.

Michael Van Aelst – TD Securities

All right, and I assume you're not willing to give us any specifics on that front?

Sarah Davis – President

Well I would say it just comes down to regular category management. When you think of the GM side, it's just allocation of space and have we allocated too much space to areas that aren't growing or are in decline. We're piloting a few things. You would have seen some of them in our stores, certainly in Superstore where we're looking at party as an example. Then we have plans to expand in pet, which would be another area where we don't see the decline. It would be regular category management for now. I think from Darren's point what you should expect is don't expect the right hand side to add growth to sales, but we don't think it's going to be as big a decrease as we've seen in the past few quarters.

Michael Van Aelst – TD Securities

All right, thank you.

Operator

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

Patricia Baker – Scotia Bank

Thank you very much for taking my questions. I come back on this discussion on GM. In your last comment that you made, Sarah, would I be right in interpreting it as you feel that you've stabilized the general merchandise side of the business currently?

Sarah Davis – President

I think we've stabilized our tactics and understand where we are, but I don't think that we necessarily have solved the industry issue of GM declining, so I think that's what we're expecting going forward. From our own perspective we've stabilized, but I think that there is a declining trend in the industry and that is something we're going to have to deal with going forward.

Patricia Baker – Scotia Bank

Okay, that's very helpful. Then just, Darren, when you were discussing the general merchandise side and you noted that the biggest impact was tobacco, just curious, has tobacco always been considered part of GM?

Darren Myers – Chief Financial Officer

It's the right hand side. Not part of GM, but just when we think of non-food sales on right hand side, that …

Patricia Baker – Scotia Bank

Right. Okay. Okay, fair enough.

Sarah Davis – President

When you think of the non-food, it would be anything from general merchandise, apparel, the pharmacy is actually in the non-food side of the food businesses, and then it would be tobacco and all the miscellaneous things, so we don't normally highlight tobacco because it's not a big piece, but it did actually have an impact in the quarter due to the legislative changes.

Patricia Baker – Scotia Bank

In Q1 or Q2, you'll have that tobacco issue behind you, am I right?

Darren Myers – Chief Financial Officer

Yes, the supply issues are now behind us. I mean, that's still a declining category, but nothing that I would expect we'd have to call out.

Patricia Baker – Scotia Bank

Yes. Okay. Then, in the opening remarks and giving the guidance for F'20, you noted that you expect the competitive pressures to continue. Am I right in assuming there you're just talking about the general competitive nature of the market, not anything—any greater intensification that you're anticipating, or something new impacting the grocery market?

Sarah Davis – President

I think we're just expecting it to continue to be competitive. We know that some of our competitors are adding new stores and changing some format, so that's going to continue in 2020, just like what we saw in 2019.

Patricia Baker – Scotia Bank

Okay, fair enough. Thank you very much for providing us with the update on what your e-commerce business is now, the $1 billion in 2019. Is the greater proportion of that still click-and-collect versus delivery to home?

Sarah Davis – President

The greater proportion is click-and-collect. When you consider the billion dollars, it's actually all of the e-commerce businesses, which all saw high growth. It would include food, it would include beauty and it would include pharmacy. The billion dollars represents all of them. On the food side though, it's predominantly still click-and-collect.

Patricia Baker – Scotia Bank

Okay, thank you very much, Sarah.

Operator

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

Peter Sklar – BMO Capital Markets

Thanks. Just referring to one of the numbers you provided in the supplemental information deck, where you drill down and give this adjusted retail EBITDA number, excluding the impact, the accounting effect of IFRS 16, and your EBITDA in the retail business was down slightly. It was $850 million versus $855 million, and that's in a quarter where you grew the top line over 3 percent. I'm just wondering if you could explain, were you forecasting that your earnings would be flat to slightly down? I assume you thought going into the quarter you would grow the business. What didn't go your way during the quarter?

Darren Myers – Chief Financial Officer

Well, I think there's two things I'd point out. One is, and we called it out in Q3, there is some timing impacts certainly between the quarters, and just year-over-year, there's obviously lots of moving parts on investments and timing, so that is a big part of it, and then as we've mentioned, both Sarah and I, we did increase the promotional intensity; that did cost a certain amount of money, and so as a result of those two things combined we have more or less flat performance in retail profit. We do expect that to improve as we are into 2020, so I would look at it more as a Q4 thing at this point.

Sarah Davis – President

But I wouldn't say anything didn't go the way that we planned. We're managing the business as an enterprise. We knew the forecast and what we expected the bank to deliver in the quarter as well. We knew how much we could invest to come in where we were planning for the quarter.

Peter Sklar – BMO Capital Markets

Okay. Darren, when you talk about a calendar effect, you're talking about that there was like really one less week of Christmas shopping?

Darren Myers – Chief Financial Officer

No, I'm referring to just timing of investments. Not everything is a linear straight line. When you just look year over year, it’s obviously lots of details behind things, and quarter to quarter you do have the impact of timing on certain things. It'd be more just the timing of all the many moving parts.

Peter Sklar – BMO Capital Markets

Okay. Okay, thank you.

Operator

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

Vishal Shreedhar – National Bank Financial

Hi, thanks for taking my questions. Just on the rail blockages across Canada, wondering if investors should consider any impact to Loblaw. I know some of your suppliers are talking about it.

Sarah Davis – President

Yes, I think from our perspective our logistics team and supply chain team have actually done a nice job in dealing with that and having a mitigation plan, so it hasn't been a big impact on us. We've moved from rail to road. You shouldn't expect, at this point, a big impact on our performance in Q1. A few delays in deliveries to the Atlantic region, but everything that's manageable.

Vishal Shreedhar – National Bank Financial

Okay, thanks for that.

On the efficiency and productivity initiatives, I believe it was noted about 20 to 30 bps, I think that was in Q4, so thanks for that color. Through 2020, as those initiatives continue, should we think a similar kind of level, or would that cadence improve, or slightly reduce?

Darren Myers – Chief Financial Officer

Our ambitions are similar next year. We've got quite pleased with the multiyear road map. We're continuing to find levels of process efficiencies that are equal now. Again, I just—make sure you recognize that number goes off against cost inflation and the investments we're making, but I thought it would be helpful just to frame the size of what we're doing in P&E because we're quite pleased with what we're doing.

Vishal Shreedhar – National Bank Financial

Right, right, absolutely. It does get offset, you mentioned that, so thank you.

On the right hand side, I think it was noted earlier that some of the pressures you're experiencing are industry-wide. Tobacco aside, I'm wondering what in particular categories are you noting these industry-wide pressures? Are you talking about sales pressures or margin pressures or both? If you can give me some maybe large categories to help me understand the issue better.

Sarah Davis – President

I would say in terms of general merchandise and apparel, it would be a big piece of our business. Certainly apparel has been impacted and is an industry trend. I would say some of the home items would also have been impacted. Those would be the big areas that we would say from a—and impacted by having people moving online for some of those purchases. It's a big e-comm draw when you think of some of the competition that's come in, in those areas.

Darren Myers – Chief Financial Officer

We're also focused on our e-comm penetration in these areas, so really putting more online and getting more penetration there, so that's one of the strategies around to offset decline.

Vishal Shreedhar – National Bank Financial

Okay. Is Joe Fresh, is that still a strategically important business to Loblaw?

Sarah Davis – President

Yes.

Vishal Shreedhar – National Bank Financial

Okay.

Just moving on to another question here. I guess it's an old favorite. Conventional sales growth versus discount. Is it still fair to presume that discount is outpacing conventional?

Sarah Davis – President

In the Q4 we would have had market share gains in both our discount and our market business. But it's fair to say that the market, it has gone more to discount. There's more space in the industry allocated to discount than there was, say, five years ago. The trend is still there. But in terms of our business, we saw market share growth in both of our divisions.

Vishal Shreedhar – National Bank Financial

Thank you.

Operator

Your next question comes from the line of Chris Li of Desjardins. Your line is open.

Chris Li – Desjardins Securities Research

Hi, good morning. My first question is just on e-commerce. It sounds to me, I mean, one of the positive surprises so far is if I look at just the click-and-collect business in general, if I listen to what you guys have been saying and listening to the big U.S. retailers, it seems like the click-and-collect business is doing really well. I guess my question is, in Canada in particular, do you think it's partly a function the fact that there is really not a strong home delivery solution yet, or is there something inherent within the click-and-collect model that you guys are seeing that is really resonating with customers and therefore, even if there's a home delivery solution, that the click-and-collect is still going to be a strong model going forward?

Sarah Davis – President

I think we believe that the click-and-collect model will be a strong one going forward, and Canadians have adopted it readily. In our business, we have a higher growth in the click-and-collect business than we do in delivery.

Having said that, we believe in giving our customers choice, so we're always going to offer them different alternatives. That's how we expect to stay competitive going forward.

Chris Li – Desjardins Securities Research

Okay. That's helpful. Maybe just a follow-up on that. For some of your stores that have been offering click-and-collect for the last three or four years, can you share with us how those stores are comping for the click-and-collect piece of that business?

Sarah Davis – President

I'm not going to give you specific comps on those stores. But what I would say is that we are comping positive. Our growth in 2019 is a combination of comping positive on existing stores and adding new customers and adding the frequency of customers who do shop with us, so it's all three of those things. I would say that we're seeing—what we are pleased with is the retention rate that we have and the repeat business of customers that—we have some customers who continue and will do multiple orders in a week, and keep coming back for it, so clearly are satisfied with the service and continue to use it.

Darren Myers – Chief Financial Officer

Chris, we are seeing a number of locations where we having to expand the amount of space we allocate for PC Express, just based on the demand that we're seeing, so.

Chris Li – Desjardins Securities Research

Okay, that's helpful.

Then, for your PC Insiders program, can you share with us what percentage of your click-and-collect customers are on that PC Insiders program and therefore get free click-and-collect for the year?

Sarah Davis – President

We would have—I don't know the percentage, and I'm not sure I would be prepared to tell you anyways. But it would be a small percentage, and I would say that our click-and-collect customers would be a much bigger number than our PC Insiders customers at this point in time.

Chris Li – Desjardins Securities Research

I see, okay. My last question is, I know I ask you guys this every call, just in terms of the drug reforms, anything out of the ordinary that we should be aware of for 2020 that's reflected in your guidance?

Darren Myers – Chief Financial Officer

I don't know if there’s anything out of the ordinary, Chris, I mean, as we've always said in the past, we always expect ongoing drug reform; 2020 will be no different, we do—we will have headwinds from drug reform. They won't be the same extent that they were in 2019, but we will see some pressure from drug reform.

Chris Li – Desjardins Securities Research

Okay. Thank you. All the best in the year.

Darren Myers – Chief Financial Officer

Thanks, Chris.

Operator

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

Irene Nattel – RBC Capital Markets

Thanks. Just a follow-up question on the right hand side of the store, GM. It kind of seems as though we mostly talk about it because it's a headwind, and it's certainly a much smaller part of the business. Can you walk us through the thinking around that whole right hand side of the store, and is it really about needing to fill the real estate, or can you talk about some of the strategic rationale?

Sarah Davis – President

I would say that we like being in the GM and apparel business, but when you consider our suite of stores, we have over 2,000 stores and we would have GM and apparel in a very small proportion of those, so most of our stores are actually small when you consider the Shoppers stores and all of the regional small stores we would have across the country. It's not a huge base of stores. In those stores, it is a question of making sure that we have the most efficient turns of the products that we sell in those stores. We are looking at different things to do with the space, for example we are building that MSC in one of our stores, that will take some space. I think over time we will have to decide what it is that we put in the right hand side, as more of that business goes online.

Irene Nattel – RBC Capital Markets

That's very helpful. Thank you.

Sarah Davis – President

But as you say, I think it's a small piece of our business, and we generally haven't been talking that much about it. In this particular quarter, we're only talking about the tobacco piece. We don't actually think that the right hand side had a significant at 20 basis points, so it's not a significant impact on our sales. We would prefer not to talk about the right hand side. But when it has a big impact we will.

Irene Nattel – RBC Capital Markets

Thank you.

Operator

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

Patricia Baker – Scotia Bank

Yes, I just want to follow up on your earlier discussion, Sarah, where you indicated that, with respect to what's going on with the rail blockage and whatnot, that you switched from rail to road transport. Is there incremental costs associated with making that shift? Then as you look through 2020 and think of rising costs, is this an area where you think we're going to see certainly cost inflation on the transport, in the next year?

Sarah Davis – President

There is a cost to making changes, in terms of going rail versus road, but it's not a significant cost that we're highlighting as an issue. I guess depending on how long this goes on for, we're not highlighting it as something that we need to worry about for Q1. But I think in terms of the cost pressures on road and transport in general, they will continue in 2020, and it's our responsibility to make sure that we make our business more efficient and look for ways to offset those costs.

Patricia Baker – Scotia Bank

Okay, thanks.

Operator

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

Mark Petrie – CIBC World Markets

Hey, thanks. I just wanted to ask you about the strategy in terms of addressing urban markets. Obviously you guys have a vast network across formats. But in terms of both the in-store experience and capital investment, could you just talk about how you're evolving your approach to urban markets, and if this is an increasing area of focus, or how you're looking at it today?

Sarah Davis – President

Well, definitely the urban market would be a focus area for us. That is where the population growth is coming in. It would have been the strategy behind the Shoppers acquisition all those years ago. I would say yes, we are focused on the urban strategy, we are focused on providing food in the Shoppers stores in order to deal with that strategy, and we are looking at different opportunities to serve that market. We did open a click-and-collect offering in an urban market, in a bottom of a condo, in order to serve that. We are looking at different ways to serve the urban customer, whether it's through our traditional stores, whether it's through Shoppers, the new food offerings or through click-and-collect or delivery services. For sure we're focused on the urban area as well.

Mark Petrie – CIBC World Markets

I guess the question then is, is this more marginal tweaks, or do you see opportunities to do something more significant to capture a larger percentage of that population growth?

Sarah Davis – President

I would say that we're—from a new real estate perspective, it's not—we will have a new store in the urban area this year, but in Toronto, but I wouldn't say, from a real estate growth perspective, it's not huge. But I think what we are doing, in terms of changing our offering, so whether it's an offering through delivery or through click-and-collect, or the actual change of the offering by offering meal kits or meals in a variety of different ways, that would also be all aimed at the urban consumer.

When you think of what we're doing for meals, it would be anything from meal baskets, combining curated grocery items or fresh meal kits or quick meals or ready-to-eat meals, so we have a whole bunch of different offerings that are being tested in different stores in the Toronto market.

Mark Petrie – CIBC World Markets

Okay, thanks, and then just to follow up on the e-commerce topic, I don't think you mentioned it this quarter but you have in the past. Are you still seeing increasing growth, and are you still increasing your offer in terms of shorter delivery windows for the click-and-collect channel?

Sarah Davis – President

Yes, so I would say that our customers are highlighting that they do like the convenience of a quick turnaround, so that would be the one- and two-hour time slots for pick up would be the most popular. We are still seeing that, and seeing growth in those areas.

Mark Petrie – CIBC World Markets

Okay. Thanks.

Operator

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

Roy MacDonald – Vice President, Investor Relations

Great, thanks, everybody, for your time today. Mark your calendars for April 29, when we will be here to discuss our Q1 ’20 results. Have a great day.

Operator

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