

Loblaw Companies Limited

NEWS RELEASE

Loblaw Reports 2020 First Quarter Results⁽¹⁾

BRAMPTON, ONTARIO April 29, 2020 Loblaw Companies Limited (TSX: L) (“Loblaw” or the “Company”) announced today its unaudited financial results for the first quarter ended March 21, 2020. The Company’s 2020 First Quarter Report to Shareholders will be available in the Investors section of the Company’s website at loblaw.ca and will be filed on SEDAR and available at sedar.com.

Late in the quarter the Company experienced unprecedented consumer demand and stockpiling relating to COVID-19, with sales surging in the final two weeks of March. The result was both a sharp increase in revenue and profit followed by ramp-up in spending to protect and benefit colleagues and customers.

The Company continues to invest in its strategic business initiatives and has accelerated some in response to the changing demands of customers. The Company’s COVID related investments fall into four areas:

- Enhancing customer convenience with increased store staff, expanded PC Express e-commerce services and eliminating fees and reducing prices associated with these online services;
- Supporting colleagues in stores and distribution centres with temporary pay premiums and pay protection safeguards;
- Securing operations by increasing store cleaning, hiring security and ambassadors to manage social distancing, introducing new customer protocols, and installing equipment like plexiglass barriers at checkouts and counters; and,
- Providing financial support to communities across the country through large-scale donations to food and wellness programs, and to President’s Choice Financial Mastercard[®] customers through new financial hardship programs.

Following the initial surge in March, demand has moderated, with continued strength in essential food categories and pressure on sales in pharmacy and some discretionary areas of the business. The Company’s response and costs related to COVID-19 have accelerated following the end of the quarter, putting pressure on the business. Uncertainty over the duration and severity of the pandemic make reliable estimates of the second quarter and full-year COVID-19 related impacts on the financial results and operations of the Company impossible.

“These are unprecedented times and I am incredibly proud of how our colleagues have risen to the challenge of ensuring that Canadians have access to the food and health essentials they need. And we will continue to make significant investments to keep our colleagues and customers safe through the pandemic” said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. “As we remain focused on long term value creation, and we see signs of fundamental change in consumer behaviour, our conviction around the strategic importance of our leading positions in loyalty, digital retail, and connected healthcare is stronger than ever.”

2020 FIRST QUARTER HIGHLIGHTS

Unless otherwise indicated, the following highlights include the impacts of the consolidation of franchises and COVID-19.

- Revenue was \$11,800 million. When compared to the first quarter of 2019, this represented an increase of \$1,141 million, or 10.7%.
- Retail segment sales were \$11,584 million. When compared to the first quarter of 2019, this represented an increase of \$1,132 million, or 10.8%.
 - Food retail (Loblaw) same-stores sales growth was 9.6%.
 - Drug retail (Shoppers Drug Mart) same-store sales growth was 10.7%, with pharmacy same-store sales growth of 10.6% and front store same-store sales growth of 10.7%.
- Operating income was \$541 million. When compared to the first quarter of 2019, this represented an increase of \$90 million, or 20.0%.
- Adjusted EBITDA⁽²⁾ was \$1,169 million. When compared to the first quarter of 2019, this represented an increase of \$129 million, or 12.4%.

- Net earnings available to common shareholders of the Company were \$240 million. When compared to the first quarter of 2019, this represented an increase of \$42 million, or 21.2%. Diluted net earnings per common share were \$0.66. When compared to the first quarter of 2019, this represented an increase of \$0.13, or 24.5%.
- Adjusted net earnings available to common shareholders of the Company⁽²⁾ were \$352 million. When compared to the first quarter of 2019, this represented an increase of \$62 million, or 21.4%.
- Adjusted diluted net earnings per common share⁽²⁾ were \$0.97. When compared to the first quarter of 2019, this represented an increase of \$0.19, or 24.4%.
- First quarter financial results reflect an estimated increase in sales of approximately \$751 million and diluted net earnings per common share of \$0.14 related to the significant increase in initial demand for grocery and pharmacy products in March following the onset of the COVID-19 pandemic in Canada.
- In the first quarter of 2020, the Company repurchased 2.8 million common shares for cancellation at a cost of \$188 million.
- In the first quarter of 2020, the Company invested \$211 million in capital expenditures and generated \$1,186 million of free cash flow⁽²⁾.
- In the first quarter of 2020, the Company recorded approximately \$19 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the restructuring charges is \$15 million related to the closure of the two distribution centres in Laval and Ottawa, that were previously announced in the first quarter of 2020. The Company is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Over the next two years, the distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall. The Company expects to incur additional restructuring costs in 2020 and 2021 related to these closures.

See "News Release Endnotes" at the end of this News Release.

CONSOLIDATED RESULTS OF OPERATIONS

Unless otherwise indicated, all financial information includes the impacts of the consolidation of franchises and COVID-19.

For the periods ended March 21, 2020 and March 23, 2019 (millions of Canadian dollars except where otherwise indicated)	2020 (12 weeks)	2019 (12 weeks)	\$ Change	% Change
Revenue	\$ 11,800	\$ 10,659	\$ 1,141	10.7 %
Operating income	541	451	90	20.0 %
Adjusted EBITDA ⁽²⁾	1,169	1,040	129	12.4 %
Adjusted EBITDA margin ⁽²⁾	9.9%	9.8%		
Net earnings attributable to shareholders of the Company	\$ 243	\$ 201	\$ 42	20.9 %
Net earnings available to common shareholders of the Company⁽ⁱ⁾	240	198	42	21.2 %
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	352	290	62	21.4 %
Diluted net earnings per common share (\$)	\$ 0.66	\$ 0.53	\$ 0.13	24.5 %
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 0.97	\$ 0.78	\$ 0.19	24.4 %
Diluted weighted average common shares outstanding (in millions)	361.2	371.4		

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

REPORTABLE OPERATING SEGMENTS

The Company has two reportable operating segments (with all material operations carried out in Canada):

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

For the periods ended March 21, 2020 and March 23, 2019 (millions of Canadian dollars)	2020 (12 weeks)				2019 (12 weeks)			
	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total
Revenue	\$ 11,584	\$ 266	\$ (50)	\$ 11,800	\$ 10,452	\$ 266	\$ (59)	\$ 10,659
Adjusted gross profit ⁽²⁾	\$ 3,450	\$ 241	\$ (50)	\$ 3,641	\$ 3,097	\$ 234	\$ (59)	\$ 3,272
Adjusted gross profit % ⁽²⁾	29.8%	90.6%	—%	30.9%	29.6%	88.0%	—%	30.7%
Operating income	\$ 538	\$ 3	\$ —	\$ 541	\$ 401	\$ 50	\$ —	\$ 451
Net interest expense and other financing charges	150	22	—	172	154	19	—	173
Earnings (loss) before income taxes	\$ 388	\$ (19)	\$ —	\$ 369	\$ 247	\$ 31	\$ —	\$ 278
Depreciation and amortization	\$ 589	\$ 5	\$ —	\$ 594	\$ 575	\$ 5	\$ —	\$ 580
Adjusted EBITDA ⁽²⁾	1,161	8	—	1,169	985	55	—	1,040
Adjusted EBITDA margin ⁽²⁾	10.0%	N/A	—%	9.9%	9.4%	N/A	—%	9.8%

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

RETAIL SEGMENT

Unless otherwise indicated, the following financial information includes the impacts of the consolidation of franchises and COVID-19.

- Retail segment sales were \$11,584 million. When compared to the first quarter of 2019, this represented an increase of \$1,132 million, or 10.8%. After excluding the consolidation of franchises, Retail segment sales increased by \$946 million or 9.3%.
 - The increase in Retail sales included the impact of COVID-19, estimated at approximately \$768 million, which included the favourable impact of the consolidation of franchises of \$91 million.
 - Food retail (Loblaws) sales were \$8,332 million and Food retail same-store sales growth was 9.6% (2019 – 2.0%). Food same-store sales growth was positively impacted by COVID-19.
 - The Company's Food retail average article price was 1.5% (2019 – 3.8%), which reflects the impact of inflation on the specific mix of goods sold in the Company's stores in the quarter. The average quarterly national food price inflation was 2.8% (2019 – inflation 3.3%), as measured by The Consumer Price Index for Food Purchased from Stores ("CPI"). CPI does not necessarily reflect the effect of inflation on the specific mix of goods sold in the Company's stores.
 - Food retail basket size increased and traffic increased in the quarter.
 - Drug retail (Shoppers Drug Mart) sales were \$3,252 million, and Drug retail same-store sales growth was 10.7% (2019 – 2.2%), with pharmacy same-store sales growth of 10.6% (2019 – 1.2%) and front store same-store sales growth of 10.7% (2019 – 3.1%). Drug same-store sales growth was positively impacted by COVID-19.
 - On a same-store basis, the number of prescriptions dispensed increased by 5.5% (2019 – 2.6%) and the average prescription value increased by 4.8% (2019 – decreased by 2.1%).
- Operating income in the first quarter of 2020 was \$538 million. When compared to the first quarter of 2019, this represented an increase of \$137 million, or 34.2%.
- Adjusted gross profit⁽²⁾ in the first quarter of 2020 was \$3,450 million. When compared to the first quarter of 2019, this represented an increase of \$353 million. Excluding the consolidation of franchises, adjusted gross profit⁽²⁾ increased by \$228 million. Adjusted gross profit percentage⁽²⁾ of 29.8% increased by 20 basis points compared to the first quarter of 2019. Adjusted gross profit percentage⁽²⁾, excluding the consolidation of franchises, was 27.3%. This represented a decrease of 30 basis points compared to the first quarter of 2019. Food retail margins were stable but were negatively impacted by product mix and Drug retail margins were negatively impacted, largely due to COVID-19.
- Adjusted EBITDA⁽²⁾ in the first quarter of 2020 was \$1,161 million. When compared to the first quarter of 2019, this represented an increase of \$176 million. The increase included the year-over-year favourable impact of the consolidation of franchises of \$36 million. Excluding the consolidation of franchises, the increase was driven by an increase in adjusted gross profit⁽²⁾ of \$228 million, partially offset by an increase in SG&A of \$88 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 17.5%, an improvement of 70 basis points compared to the first quarter of 2019. The improvement was primarily driven by COVID-19 sales leverage.
- Depreciation and amortization in the first quarter of 2020 was \$589 million, an increase of \$14 million compared to the first quarter of 2019, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart of \$119 million (2019 – \$119 million).
- As at the end of the first quarter of 2020, the Company consolidated all of its remaining franchisees. Consolidation of franchises in the first quarter of 2020 resulted in a year-over-year increase in revenue of \$186 million, an increase in adjusted EBITDA⁽²⁾ of \$36 million, an increase in depreciation and amortization of \$8 million and an increase in net earnings attributable to non-controlling interests of \$28 million.

FINANCIAL SERVICES SEGMENT

- Revenue was \$266 million, flat compared to the first quarter of 2019. Revenue increased, driven by higher interest and interchange income attributable to the growth in the credit card portfolio and higher sales attributable to *The Mobile Shop*. This increase was offset by the negative impact of COVID-19.
- Losses before income taxes were \$19 million. When compared to the first quarter of 2019, this represented a decrease in earnings of \$50 million. The decrease was primarily driven by higher expected credit losses and other negative impacts related to COVID-19.

COVID-19 UPDATE AND OUTLOOK

General

The COVID-19 pandemic continues to have a dramatic impact on our colleagues, customers, suppliers and other stakeholders. While the duration and effects of the pandemic remain unknown, the Company has reacted quickly to changing circumstances by ramping up investments in four areas: enhancing customer convenience by expanding on-line capabilities and increasing staffing in our stores; supporting our colleagues in our stores and distribution centres with temporary pay premiums and pay protection safeguards; securing operations, with more in-store cleaning and in-store security, introducing new ways to shop stores to promote social distancing, and installing plexiglass barriers at check outs; and providing financial support to our communities and customers by pledging financial support to food banks and community charities and offering personalized solutions for President's Choice Financial Mastercard[®] customers who are experiencing financial hardship.

The costs of the incremental investments ramped up towards the end of the first quarter of 2020 and continued into the second quarter. Given the unprecedented nature of the pandemic and its impact on the country, we expect that consumer behavior and the resulting impact on sales and product mix, as well as the cost of operating the business, will continue to be volatile. In the five weeks following the end of the first quarter, sales mix continued to evolve as customers spent less on discretionary items. On a same store sales basis, Food retail was up by approximately 10% and Drug retail down by approximately 6%, in each case compared to the same period in the prior year. The Company currently estimates that additional investments are running at approximately \$90 million per period.

In light of the uncertainty surrounding the duration and severity of the pandemic, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. As announced on April 9, 2020, the Company has withdrawn its 2020 Outlook that is contained in its Management's Discussion and Analysis ("MD&A") for the year ended December 28, 2019.

Liquidity

The Company's liquidity position is supported by a strong balance sheet and the ability to generate significant cash flow from its operations. As at the end of the first quarter of 2020, the Company's consolidated cash and short-term investments balance was \$2.2 billion. The aggregate available liquidity is approximately \$3.9 billion including undrawn amounts under committed credit facilities. PC Bank continues to maintain a level of liquidity well in excess of required regulatory minimums.

Risk Factor

For more information on the risks presented to the Company by the COVID-19 pandemic, please see Section 9, "Enterprise Risks and Risk Management" of the Company's MD&A for the quarter ended March 21, 2020.

DECLARATION OF DIVIDENDS

Subsequent to the end of the first quarter of 2020, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	\$0.315 per common share, payable on July 1, 2020 to shareholders of record on June 15, 2020
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Second Preferred Shares, Series B	\$0.33125 per share, payable on June 30, 2020 to shareholders of record on June 15, 2020
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NON-GAAP FINANCIAL MEASURES

The Company uses non-GAAP financial measures as it believes these measures provide useful information to both management and investors with regard to accurately assessing the Company's financial performance and financial condition.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying consolidated and segment operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

These measures do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

For reconciliation to, and description of, the Company's non-GAAP financial measures and financial metrics, please refer to Section 10 "Non-GAAP Financial Measures" of the Company's 2020 First Quarter Report to Shareholders.

FORWARD-LOOKING STATEMENTS

This News Release contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this News Release include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of Information Technology systems implementations. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Consolidated Results of Operations" Other Business Matters section and "COVID-19 Update" section of this News Release. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's expectation of operating and financial performance in 2020 is based on certain assumptions including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 "Enterprise Risks and Risk Management" of the MD&A in the 2019 Annual Report and the Company's 2019 Annual Information Form (for the year ended December 28, 2019) as well as COVID-19 related risks that have been added to Section 9 "Enterprise Risks and Risk Management" of the Company's MD&A for the three periods ended March 21, 2020.

Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this News Release. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CORPORATE PROFILE

2019 Annual Report and 2020 First Quarter Report to Shareholders

The Company's 2019 Annual Report and 2020 First Quarter Report to Shareholders are available in the "Investors" section of the Company's website at loblaw.ca and on sedar.com.

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Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the "Investors" section of the Company's website at loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on April 29, 2020 at 10:00 a.m. (ET).

To access via tele-conference, please dial (647) 427-7450 or (888) 231-8191. The playback will be made available approximately two hours after the event at (416) 849-0833 or (855) 859-2056, access code: 9252547. To access via audio webcast, please go to the "Investors" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

Annual Meeting of Shareholders

The 2020 Annual Meeting of Shareholders of Loblaw Companies Limited will take place on April 30, 2020 at 11:00 a.m. (ET). Due to the public impact of the COVID-19 pandemic and in consideration of the health and safety of our shareholders, colleagues and the broader community, this year's meeting will be held in a virtual meeting format only, by way of a live webcast. Shareholders will be able to listen, participate and vote at the meeting in real time through a live webcast online at <http://web.lumiagm.com/235646106>. See "How do I attend and participate at the virtual Meeting?" in the Management Proxy Circular dated March 13, 2020, which can be viewed online at www.loblaw.ca or under Loblaw's SEDAR profile at www.sedar.com, for detailed instructions on how to attend and vote at the meeting. Please refer to the "Events and Presentations" page at loblaw.ca for additional details on the virtual meeting.

News Release Endnotes

- (1) This News Release contains forward-looking information. See "Forward-Looking Statements" section of this News Release and the Company's 2020 First Quarter Report to Shareholders for a discussion of material factors that could cause actual results to differ materially from the forecasts and projections herein and of the material factors and assumptions that were used when making these statements. This News Release should be read in conjunction with Loblaw Companies Limited's filings with securities regulators made from time to time, all of which can be found at sedar.com and at loblaw.ca.
 - (2) See Section 10 "Non-GAAP Financial Measures" of the Company's 2020 First Quarter Report to Shareholders, which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.
 - (3) To be read in conjunction with the "Forward-Looking Statements" section of this News Release and the Company's 2020 First Quarter Report to Shareholders.
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