

## **LOBLAW COMPANIES LIMITED**

**Moderator: Janet Craig**  
**July 17, 2014**  
**8:00 am CT**

Operator: Good morning. My name is (Michelle) and I will be your conference operator today. At this time, I would like to welcome everyone to the Loblaw Companies Limited conference call. All lines are being placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session.

At that time, if you have a question, please press star 1 on your touch-tone phone. As a reminder, this call is being recorded. I will now turn the call over to (Janet Craig). You may begin your conference.

Janet Craig: Thanks (Michelle) and good morning everyone and thank you for joining us on such short notice. Before I turn the call over to Galen, let me start with our cautionary language around the use of forward looking statements. I want to remind you that today's discussion on management changes will improve forward looking statements such as the company's ((inaudible)) and expectations regarding the state of the company's business through an aspect of the company's second quarter financial reports, the outlook for the balance of the year and anticipated synergy to an acquisition of ((inaudible)).

These statements are based on certain assumptions and reflect management's current expectations and they are subject to a number of risks and uncertainties that could cause actual

results or events to differ materially from current expectations. These risks and uncertainties are discussed in the company's materials followed with the Canadian ((inaudible)) regulators from time to time and may be accessed through the ((inaudible)) website. Any forward looking statements speak only as of the date they are made.

The company disclaims any in pension or obligation to update or revise any forward looking statements whether as a result of new information, future events or otherwise other than as required by law. An archive of this conference call will be available on our website as per our usual procedure. We will be sending a transcript out to our list as soon as it's available.

And I just wanted to remind you before I call - I pass this call over to Galen that the subject to be discussed in today's call are the management changes. We won't be discussing our overall business or our second quarter results which we'll be discussing next week. And with that, I'll hand it over to Galen.

Galen G. Weston: Thank you, Janet. Good morning everyone and thank you all for joining us on such short notice. With me on the call this morning are (Richard Dufresne) - the CFO of Loblaw and (Sarah Davis) - the CAO of Loblaw. This morning we announced that I have assumed the role of President at Loblaw in addition to my role as executive Chairman. I'm very much looking forward to the opportunity to execute on the strategic vision that we've built for this company.

Over the last three years, a great deal has changed at Loblaw. During that time, we fundamentally improved our customer proposition, lowering prices, transforming our special offer and improving our stores. The company has substantially reduced admin expenses as well on the way to completing implementation of SAP. Over the same period, Loblaw has fundamentally changed its strategic footprint, evolving from a traditional grosser to the establishment of the - the acquisition of Shopper's Drugmart into a diverse portfolio of related but distinct businesses.

As the operating and strategic platforms have strengthened and evolved, there's a good time for our management approach to do so as well. The changes announced today are based around two themes. First, a core senior leadership with an increased focus on strategy, capital allocation, the drivers of value creation, and talent development. And second, an increasing independence and accountability at the individual business level as already exists with choice properties, President's Choice Financial and Shopper's Drugmart.

Through the new structure, we will establish it more fully in the key food divisions of market, discount, and emerging business. As part of the leadership changes, I wanted to highlight members of our leadership team with key, new responsibilities under the new structure. (Richard DeFrang) assumes the role of Chief Financial Officer of Loblaw. As CFO, (Richard's) key responsibilities will be delivering the financial plan of the organization, achieving the target synergies related to the Shopper's Drugmart acquisition as well as deleveraging the balance sheet.

(Richard) will also remain CFO of (George Weston Limited). (Sarah Davis) - previously Chief Financial Officer, will become Chief Administrative Officer, responsible for supply chain, IT, including SAP implementation, goods not for resale, Loblaw properties and strategy. Her key objective will be to deliver efficiencies across the organization including those resulting from the implementation of SAP.

(Sarah), who was appointed CFO in 2010 has an exceptional understanding of the company. This, in combination with her strong financial background - particularly in operational roles - will be instrumental in driving Loblaw to achieve those additional operational efficiencies. Grant Froese - previously the Chief Administrative Officer becomes Chief Operating Officer of the company. In this new role, Grant will be responsible for the operating performance of the market, discounts, and emerging business gross reoperations as well as the division support functions of Control Brands, E-Commerce, and offshore procurement.

Grant is a strong merchant with over 30 years of food retail experience and a strong record of delivering results. Garry Senecal, Andrew Iacobucci, and Peter McGlaughlin respectively will become president of the market, discount and emerging business divisions. (Mike Motz) - currently EVP and Chief Merchandising Officer at Shopper's Drugmart will become the President of Shopper's Drugmart upon Domenic's departure and will be responsible for delivering the strategic and operational plan for Shopper's Drugmart continuing on the strong foundation that Domenic's has built.

(Mike) - an 11-year veteran of the business - was instrumental with Domenic in increasing Shopper's Drugmart competitiveness, customer offer, and loyalty program. The rest of the management team remains unchanged. I also wanted to speak to the two executive departures that we announced today. ((Inaudible)) president since 2001 is leaving the business for family reasons and returning to Brazil.

((Inaudible)) has made an enormous impact on virtually every aspect of our business in the time that he's been with the company. We are stronger, our customer proposition is more compelling, and our operating effectiveness much improved. He set a strong foundation for the future and I thank him for his many contributions. (Domenic Pilla) - President of Shopper's Drugmart - is leaving the company at the end of 2014.

(Domenic) has done an outstanding job at Shopper's Drugmart since he joined the business almost three years ago. He played a pivotal role in negotiation of the agreement to acquire Shopper's Drugmart last year. And since then, (Domenic) has been actively engaged in driving his business to deliver on its plan. As well, (Domenic) has been focused on working with the team to ensure we realize the synergies identified for the combined businesses as a result of the acquisition.

(Domenic) is committed to the business and remains as President of Shopper's Drugmart until his departure. On top of his day-to-day responsibilities, (Domenic) will also work very closely with me to deliver on several important initiatives including a successful transition of (Mike Motz) into the role of President. (Domenic) aspiration is to continue in his career by leading a widely-held public company and I respect this decision and thank him for his contribution both in the past and his continuing contribution through the balance of the year.

Today we also provided some color on our financial and operational performance. Against the backdrop of an extremely competitive supermarket environment and the inflationary pressure of regulatory drug reform, we continue to perform well. And in the second quarter, had strong same-store sales growth in our supermarket and pharmacy businesses. We expect to continue to advance our business in the second half of the year as well as to make material progress on our synergy targets.

We are confident that we will achieve 100 million in synergies by the end of the first quarter of 2015 as committed. This is truly an exciting time at Loblaw. Over the last several years, we have built a firm foundation upon which to grow and evolve and we have opportunities on many fronts. I believe that the management changes announced today reflect the strength of the company, our operating divisions, our leadership and talent within the organization.

And most importantly, they are the team that will deliver long-term shareholder value creation over the next number of years. Thank you very much.

Janet Craig: Thank you, (Galen). And with that, (Michelle), we're ready to take questions.

Operator: Thank you. If you would like to ask a question, please signal by pressing the star 1 on your telephone keypad. If you are using a speakerphone, please make sure your mute function is

turned off to allow your signal to reach our equipment. Again, press star 1 to ask a question. We'll pause for just a moment to allow everyone the opportunity to signal for questions.

Our first question comes from Jim Durran of Barclay's. Please go ahead.

Female: Jim.

Jim Durran: ...anything different than what it was before. And, you know, if you got sort of key initiatives that you're going to take primary responsibility and ownership of?

Galen G. Weston: Sorry, Jim. We didn't hear that.

Janet Craig: We didn't hear the first part - it was very low.

Jim Durran: I'll try it again.

Janet Craig: Okay.

Jim Durran: So, like, in your new role, how different do you see this new role from your previous responsibilities? And do you have specific projects or initiatives that you're going to view as the primary responsibility person on that? And how are you going to sort of handle that?

Galen G. Weston: Yes, I mean, certainly my - I expect my role to change quite substantially. You know, I've been intimately involved in the strategy of the business for many, many years. But this is a - is very much an operational and a day job. Really the way that I think about the business now, Jim, is it's all about execution. We have a strategy. We have a platform to build on.

Now we have to make sure that we get it done. I also believe that having a core team around me with the kind of experience that we have assembled here today is ultimately what's going to make the difference. And that's why I've been so explicit about identifying the initiatives over the next two or three years that need to be delivered in order to deliver our five-year financial plan and it's created specific accountabilities for those team members - against those priorities.

Having said that, you can count on the fact that I'll be closely involved with all of them to make sure that they get done.

Jim Durran: From a shareholder's standpoint - you know, (Hank) from an investor relations' perspective - you know - well, you're readily available in contact. There has not been a really active role on your part in being out and meeting with investors in all regions. Are you sort of going to view a change in terms of your degree of proactive going out and providing access to investors under the new structure?

Galen G. Weston: I'll be very busy, you know, working on my day job to make sure we deliver these financial priorities. But yes, I mean, I hope that you've found over the last 12 to 18 months and the fly body of the street would agree, you know, that our willingness to engage as a company in the investment community has increased substantially, work hard to improve the transparency of what we talk about and what we disclose. And you should expect that to continue.

And you should expect it to continue with (Richard) and specifically with me too.

Jim Durran: If I may, just one last question - sort of the obvious one. You know, can you give us any additional color around the ((inaudible)) departure? Obviously the timing from the company's perspective while maybe not bad in terms of all the initiatives that are now well in place, is obviously a critical time in terms of, you know, the integration of shoppers. So I don't know if you can provide us any additional color, but it'd be appreciated.

Galen G. Weston: Yes, look. I mean, you're absolutely right. I mean, management change in general is - has the potential to be a little bit destabilizing. And the truth is, there's never a good time, you know, for a major management change. Having said that, if you had to pick a time, you know, this is a pretty good one given the strength of the business, the consistency of the way the business has performed, and the shift in the strategy and the priorities that need to be executed going forward. I don't want to reach too far into, you know, the personal matters that are specific to ((inaudible)).

But, you know, there are pressures - both, you know, recent losses in his direct family over the last number of months and, you know, other concerns that are drawing him back to Brazil. So, you know, these are - it's some personal motivation for him, where, you know, we're sad to lose him. Having said that, you know, this is quite a good time in many respects to change the approach to running the business as I said.

Jim Durran: Great. Thanks, Galen.

Janet Craig: Thank you; and our next caller please.

Operator: Thank you. The next question comes from Peter Sklar from BMO Capital Markets. Please go ahead.

Peter Sklar: Good morning; thanks. What's the - you know, the scope of the management changes? And in particular, what's the CFO shuffle? I think it raises a bit of concern that, you know, the synergies are perhaps not unfolding as you anticipated. Now, I noted in the ((inaudible)) comments you seem highly confident about achieving the - you know, the first 100 million by Q1 of next year.

But, you know, I'm just wondering if now in retrospect that now these kind of been added for a quarter if the synergies were unfolding in a different way than you anticipated.

Galen G. Weston: No they're - unfolding exactly as we anticipated, you know, by and large. And you know, as we said in the last quarter, we feel optimistic about our ability to deliver and, you know, to the extent that we may be able to do a little bit better. We'll certainly make every effort to do so. So there should be no concern in people's minds on that front.

In terms of the change in CFO, you know, (Sarah's) done an absolutely terrific job over the last four years. And she's a critical part of this management team. And, you know, as we talked about the change in her role, you know, we're putting her against, you know, the single largest financial opportunity for this business, you know, over the next three or four years. And we're putting one of our best executives against it.

The fact that we have (Richard), you know, given his experience with M&A transactions, his close proximity to the balance sheet of Loblaw which is - you can imagine - a pretty significant importance to us given our debt levels over the next few years. I actually see it as a fundamental strengthening, you know, of the team when it comes to the financial aspects of the organization. So look forward to it very positively.

Peter Sklar: Right. And what about is there any change in view of how much of the synergies will have to be invested back into the business through price or otherwise? Has that changed at all?

Galen G. Weston: No. I mean, again, I just would add that there are - you know, this is a significant change. Having said that, you know, I've been closely involved with the business for many years and intimately involved with the strategy and Vicente has been very transparent in terms of sharing the progress that is underway with the plan.

So this is not somebody who has to learn the business. This is not somebody who has to get into the details. This is someone who is already very close to it in many respects and it is business as usual in terms of our outlook for the next 12 to 18 months.

Peter Sklar: Okay, than you.

Female: Thank you, next caller please?

Operator: Thank you. Our next caller comes from Irene Nattel with RBC Capital Markets. Please go ahead.

Irene Nattel: Thanks and good morning everyone. I think really what everyone would like reassurance on this morning is the changes that you've announced are a reflection of the shift in strategy and direction over the next five years relative to the past five years as distinct (from) perhaps any indication of anything not quite going right in the core business.

So, wondering what color on that you could provide?

Galen G. Weston: Well listen, I think you've described the circumstances exactly right and I'll try to provide as much color as I possibly can but the progress that the business has made, I'm sure you see in the sales results you've seen it in the store experience and you're beginning to see it through the stability and consistency of our bottom line performance. None of that has changed. In fact, it continues to strengthen and improve. And as I said before, management changes like this, it's very, very difficult to get the timing exactly right but it is certainly not an indication of a lack of optimism or stability in the organization as we move forward.

Now, there has been a shift. We are a different organization. I don't want to repeat myself but we're a diversified portfolio of businesses and when execution and delivery of a customer

proposition is critical in four or five different groups, pushing the accountability, supporting those new presidents to deliver against their own plans is absolutely critical and that means that you need to give them a little bit of freedom, you need to give them support and you need to challenge them to rise to the occasion.

That's what's happening here and we believe that it's going to lift performance over time as opposed to increase risk in any meaningful way. And when you look around the table at that close senior team that we've announced today you see the same kind of knowledge, you see the same kind of passion and you see the same kind of focus. So it is - it's a bit of a shock in some respects, certainly in my conversations with members of the organization over the last few days but I think universally people in this business feel the momentum and have continued confidence in our ability to push the organization forward.

Irene Nattel: That's very helpful, than you Galen.

Female: Thanks Irene. Next caller please?

Operator: Thank you, the next question comes from Vishal Schreedhar. Please go ahead.

Vishal Schreedhar: Thanks very much for taking my question, best of luck to those who have assumed new roles. Galen, you've had several opportunities to assume the president role, why now?

Galen G. Weston: Well, that's a good question. I think the time feels right for me. You know, if you think about the Weston family, you think about George Weston Limited and the transactions that have taken place over the last 12 months. What we've effectively done is double down on the Loblaw, you know, retail and real estate business; we've added significant debt and our outlook is extremely positive. So it shouldn't surprise anyone that the family, through me, are getting closer

to the business to make sure that the vision that we've established that supported the investment actually gets delivered and executed.

So it, I think intuitively, should make sense to everyone.

Vishal Schreedhar: Okay and you might have touched on this already but just talking about the strategic change under your leadership, how should investors think about what will change maybe two to three years down the road at this organization versus what is today beyond the obvious SAP and Shoppers integration?

Galen G. Weston: Yeah, I'll go back to my original comment which is enormous strategic change has happened over the last three years as well as enormous improvement in the basic operating platform of the organization. So two to three years, execution, execution, execution! We have to make those strategic decisions pay and they have to translate into value for shareholders and cash flow for the organization. So that's the priority. Is it going to look different five to ten years from now? It could very well look different but we're certainly not in a position to comment on it and it's really not the focus of the organization at this time.

Vishal Schreedhar: Okay. Galen, will you have dual responsibilities at Weston/Loblaw?

Galen G. Weston: I'll have dual responsibilities in so far as that I'm connected very closely to the family and Weston is very closely connected to the family but my time, my executive management capacity will be focused exclusively on Loblaw.

Vishal Schreedhar: Okay, and just for the devil's advocate view there, some might be saying there's been too much management change at Loblaw. I'm just wondering if you have any perspective on that and what that could mean?

Galen G. Weston: Yeah, look, it's an entirely fair question. There has been a lot of management change at Loblaw certainly over the last eight or nine years and that's never a good thing. So all I can really say is there's also been a tremendous amount of change in Loblaw over the last seven or eight years and when things change your management approach needs to change and when the management approach needs to change that means people change.

But do keep in mind that, and I don't say this in any sort of arrogant sense, but I have been sitting in the executive chair position for all of that time. Sarah has been in the senior financial role for the Loblaw organization for four years as CFO and six years in the company; close to all of the changes that have happened and we've managed, and I think with ups and downs, but ultimately quite successfully.

And (Richard) has been close to the business in the couple of years that he's been here but has tremendous experience in the industry. And then I go back to Grant, again, and his well over 30 years in this organization doing exactly what we're asking him to do in this new role and that's to say nothing about the depth and tenor of the organization one step below.

So if you compare today, even the last two or three years in terms of turnover in the organization, in terms of instability around people versus where we were five or six years ago, it is a fundamentally different place and I think everybody we talk to in this business would largely agree with you.

Vishal Schreedhar: Thank you for your time.

Female: Okay, great, thank you Vishal. Next caller please?

Operator: Thank you, the next question comes from Patricia Baker of Scotiabank. Please go ahead.

Patricia Baker: I'm good thanks. My questions have been asked.

Female: Thank you.

Operator: Thank you, the next question comes from Chris Li of BOA. Please go ahead.

Chris Li: Hi, good morning. I think one of the things that Shoppers has done well in the last few years is to foster a good relationship with the government in terms of coming up with solutions to manage the rising healthcare costs and I was wondering, in light of the management changes, can you maybe share with us your longer term vision on how this relationship will be managed and involved over the longer-term?

Galen G. Weston: Yeah, absolutely. So first of all the Shoppers team has done an exceptional job on this front and we've been watching them closely over the last number of years as drug store retailers ourselves. Operating the drug store business successfully in the Canadian context over the next three years and the next decade will require a close and collaborative engagement with all of the provincial governments. We expect that will continue.

We've been embarking on precisely the same kind of strategy at Loblaw for the last three or four years. We have strong relationships and what we expect to do with Domenic and Mike over the next number of months is really cement the depth of knowledge that exists between two businesses on this front to make clear that they'll be one point of communication across the entire organization on public policy with regards to healthcare and make sure that we have people in the organizations with the depth of knowledge and understanding that we can actually move beyond the talk stage which is, in many respects, where we are now and really start to implement programs that benefit the government, reduce their cost and ultimately improve our own prospects looking out.

Chris Li: Okay, that's great. And with respect to Michael Motz, I'm just wondering, up until now what was his sort of primary focus, was it more in the front end or the pharmacy or a bit of both?

Galen G. Weston: Yeah, so Mike was the Chief Operating Officer at Shoppers Drug Mart for many years, terrifically experience store operations executive. He's been the chief merchandizing officer for a number of years as well, great natural merchant and operator. That has been a big focus on the front of store. There's lots of great work that's been done by him and his team over the last few years there but he also has a deep understanding of the pharmacy business he's been at Shoppers for 11 years and that is the core of what they do. So he is well suited for the position and I wouldn't expect any loss, significant loss, of capability by virtue of his appointment, the opposite in fact.

And also remember, really high quality talent on the pharmacy side in that business who I know and having spoken to him over the last few days he's really looking forward to working with.

Chris Li: Okay and my last question is just do your SAP rollout, that's still on track to be done by the end of this year with the corporate stores and the end of next year for the French (high) stores?

Galen G. Weston: It is, yeah.

Chris Li: Okay, thanks. Thanks very much.

Female: Thanks Chris.

Operator: Thank you. Ladies and gentlemen, if there are any additional questions, please press star 1 at this time.

My next question comes from Kenric Tyghe, Raymond James.

Kenric Tyghe: Thank you, good morning. Galen, if I can just follow-up with you on the (depths) of pharmacy management, you've highlighted obviously the team with respect to Mike and Mike's own capabilities. Could you just walk us through your confidence in the (depths) across your sort of combined businesses in pharmacy and the sort of takeaway, if any, from Domenic's departure strategically with respect to your pharmacy management going forward?

Galen G. Weston: Yeah, absolutely. Look, Domenic has been a terrific - the driver of the new strategic approach that Shoppers Drug Mart has taken over the last couple of years. They have a comprehensive strategic plan but you should also know that that strategic plan has been built from the ground up, from the middle of the organization up to management. So there's deep understanding in the organization about what needs to be done, why it needs to be done and how it needs to be done and I think that's a great indication and that's really how strategies should be built. And so if you sit down and you talk to Dorian Lo or you talk to Jeff Leger and his people or their people, there's lots of confidence. It's still tough. I mean, the regulatory environment is by no means rosy but they have a very firm grip on it and that knowledge is being deployed today against both the Loblaw drug store businesses and the Shoppers drug store business.

Kenric Tyghe: And Galen, would it be fair to characterize your confidence level and sort of leverage the Shopper's expertise in pharmacy across the Loblaw stores as being unchanged or perhaps even have improved with the couple of months you've had here to take some of the (key) learning's from the Shoppers team?

Galen G. Weston: Yeah, look. I mean, I think you're starting to drift into conversations about how the business is performing as opposed to the management changes. So at this point I think there's no change but certainly we'd be delighted to answer some of those questions in more detail when we report the results next week.

Kenric Tyghe: Great, thanks Galen.

Female: Great, thanks Kenric. At this time there are no callers, additional callers, so we wanted to thank everybody for joining us today. We are reporting a week today and we'll be back here again and I look forward to speaking to you then. Thank you.

Operator: Ladies and gentlemen, this does conclude the conference call for today, you may now disconnect your line and have a great day.

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