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CORPORATE PARTICIPANTS

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PRESENTATION

Unidentified Participant

Okay. We're going to get -- we're going to get rolling. All right. No, it's okay. We have to wait until the -- we got -- oh, jeez -- lots going on here. Okay.

Okay. Next company up, Loblaw Companies. And we haven't heard a lot about the L word today. We got a lot of T words, but not a lot of L worlds. And quietly humming in the background is, you know, Canada's largest retailer, and so here to present on behalf of Loblaw is chief financial officer Sarah Davis.

Sarah Davis - Loblaw Companies Ltd. - CFO

Okay, thanks. Okay, so good afternoon, everybody. Some of you might have -- might have noticed that I'm actually hobbling up to stage, so I've got kind of a big brace on here. It's not a new fashion statement [come out of Joe]. It's -- I did actually have an accident, and so apparently a long recovery, ACL and MCL, so I think I'll be getting used to this brace.

But today I'm here to talk to you about Loblaw. So what I'd like to do is talk a little bit about 2012, sort of how we work through and set the stage for 2013, a little bit about what you should expect for 2013, and then -- but the bulk of what I would like to talk to you about is some of the key questions that are always asked of us. And I just thought I'd address them all here, not all of them. Hopefully you'll have others that come up. But the key ones that are pretty common as we go -- go through that.

So, first off, we've got 2012 results. So when we look at 2012, our quarterly spread of our -- certainly when we start with revenue, pretty flat. This is our absolute, so not our comps, but pretty close to 1% in every quarter, 1.1% for the full year, fairly stable from a revenue perspective. We ended the year with our comps a little bit better than we had seen certainly in Q3, with flat comps, but our food and drug comps were positive 0.4.

We had a reduction in our general merchandise. We have been over the past few years reducing our general merchandise coming out of a few of the unprofitable ones. But what we have had is a higher improvement in our contribution from our G.M., so lower sales, but better -- better profit there.

When we look at our earnings -- and I'll look at EBITDA here, and excluding the restructuring charge we took in Q4, we did at the beginning of last year announce to the market that we were going to bring down our earnings and we were going to invest in this thing called the customer proposition, which for us meant our -- what we were going to -- our price, first of all, our offering, so our product assortment, and, of course, our labor in our stores to offer better service.

And so what you do see is that we did end up with a very large decrease of 10% in EBITDA in Q1, decreasing to a 7% decrease in Q2. We're actually positive in Q3 at 1.1% and 5%, 0.2% from an EBITDA perspective in Q4.

And so we like the trajectory. We did get the bad news out at the beginning of the year, and we do feel that it sort of set the stage for what we look forward to doing in -- in 2013. We did end the year, as I said, on better comps, also with positive tonnage, so we felt that the investment was setting the stage for 2013.

And with that, I'm going to talk about some of the key questions. So first up is, what about this Canadian dollar? It's been dropping. How does that impact you, would be our first question. Second up would be, are you concerned about the prescription drug regulation, all the reform that's coming in? How is that impacting Loblaws and are you worried about it? Third, do you really intend to continue investing in PC Financial? You put a lot of investments in, especially in 2010 and 2011. What are you going to do with that?

Can you give us an update on Joe Fresh and certainly on the JCPenney deal that has been in the news quite a bit lately? Will you ever complete your IT project? And if you do, are there going to be any benefits that come from that?



And then the last one -- and, of course, I'm going to open it up to other ones that you have -- but these are the ones that everybody always asks us. How do you feel about Wal-Mart and Target and what's happening in 2013? Will there be any reaction from Wal-Mart that will impact you secondarily? And of course, will there be any impact from target on you, as well?

So, first up, the Canadian dollar. So, yes, I think the past few years it's fair to say that we have benefited from a Canadian dollar that was strong and rising. For our business, we spend -- we buy in US dollars the major portion of our business that we would pay in US dollars would be our G.M. business. It's still a very small -- about 5% of our business is the general merchandise business, and that is purchased in US dollars.

In that case, we generally -- because of the long lead times and the prepricing, so, for example, on a T-shirt, it comes prepriced from the manufacturer with an \$8 price. Certainly if you have any fluctuations in the dollar, you can't say now \$10. So we really would at that point -- we would hedge it. So we hedge it on the purchase orders that we do. About six months is our buying cycle there. In some cases, on G.M. products, we would hedge, as well. So not a -- in the short term, over six months, there's not really a big impact in our G.M. business.

The other piece of our business that we primarily would buy in US dollars would be produce, particularly in the winter months. Certainly, in the summer months, we like to spend as much as we can in Canada and with our Grown Close to Home campaign. We certainly do emphasize on buying in Canadian dollars, but in the US, when the product's not available, we do pay in US dollars.

We don't hedge on a produce side. And basically, the way that it is, we're on par with our competitors and with the market, and it rise -- the prices will rise and fall with the market on the US dollar, so not a huge impact to us, but there is an impact over time, and we definitely did see some benefits in the previous years related to that.

The next question, what's happening with all this drug reform? So drug reform is a worry for us, and we know that the government is just beginning a lot of its pieces, its initiatives. They've announced all of the provinces. Their intentions are to reduce their costs, a big -- a big issue for them, the cost of health care, and so we understand that, but it does have a negative impact on our business.

So over the past few years, what we have done is we still love pharmacy and we love health care. It's a big piece of when we look at the demographics of the Canadian people. We see them getting older, and so it is definitely part of our strategy. We still make a lot of money in our pharmacy business, not a huge piece of our business, still less than 5% of our business would be pharmacy, but does have an impact, and, of course, these changes in prices and the generic impact will deflate our revenue as it will others in this industry.

But what we have done -- and we feel that we've been quite successful in that -- is, one, demographics are on our side, but in addition to that, we would say that script gross has been positive for us, and we have actively been out purchasing scripts in order to increase this part of the business. We did the Zellers acquisition last year, that was quite positive for us, came in better than the business case that we had planned from a retention perspective. Of course, this year with Target coming in, our job will be to keep all of those customers, as well.

And the other piece that we have been doing is focusing on adding -- so we do have 500, about 500 pharmacies across our -- across Canada. We have about -- over 100 medical centers now in our stores. And what this does is it, in some cases, takes some space from some of our stores that we feel are a little bit too large and puts in some medical practitioners and also drives -- so it has a positive impact there. We lease the space to them. And that, of course, drives traffic into our pharmacy, as well, so a nice -- so we've been on that. Wherever we can do it, we will be adding some medical centers into the space within our store.

So those would be the sort of key pieces for us. And, as well, we've been, you know, trying to grow through our organic growth in -- in pharmacy, as well, but certainly still part of a business that's very important to us.

So PC Financial, what's happening there? So I remember back in 2010, when we did bring down the earnings of PC Financial, there was a lot of questions back then. What are you doing? Why are you investing in this business? Do you really want to even own it?

And certainly for us, we see it as very key to us. At the time that -- right now, it's a really critical piece from our loyalty perspective. Some of our most loyal customers are PC Financial credit card holders, as well as with the bank, as well. And so we -- our initiatives over 2010, 2011, and even 2012 was to try to increase the net penetration of MasterCard subscribers.

And we've been pretty successful in that, over a million applicants in 2011 and 2012, as well, and so it -- we have been increasing the penetration, growing our credit card faster than the industry average, and it has resulted in a pretty nice profit to us, as well, so this is just the PC Financial. This is Q4 numbers, up 20%, up 229 from an earnings before tax basis, but -- so we won't expect to continue with that, but we should expect to continue with double-digit growth from the PC Financial segment.



Another key part of PC Financial that we just launched in 2012 was the mobile shop. And so it does roll up into our PC Financial. It's managed by the PC Financial team. And what we offer -- and we've got about 165 mobile shops today. And what it does offer is a nice spot for you to come and buy your wireless products, right in store. We offer all of the networks, so we have Rogers, Bell and TELUS. We are the only retailer that offers all of them in our stores, so really focused on whatever is the best product for our customers.

From a telecom basis, they quite like the quality of the customers that are in our stores. So from their perspective, a very nice place for them to get their net additions, as well. And when you think about it, often our customers are women in their 40s, often with young children, and -- and when you think about the number of children even at 10, 12, who are getting wireless phones today, it is a good place for them to go in and get them, and that is a large portion of the growth that we've seen, is in that demographic.

They're also more comfortable. They know they're going to come back next week when they're doing their grocery shop. They can then -- if they have any issues, any problems, they'll know that they'll be able to just drop in when they're doing their shop, so pretty successful. And so we'll continue with that, as well, and that should drive some of the growth.

Next up, we've got Joe Fresh. And certainly -- and the JCPenney deal. So how are we feeling about it? We did launch JCPenney.com -- or they did, on our behalf -- in February of this year. It is -- we don't have an offering online in Canada today. We do intend to offer by the end of this year with our own e-commerce platform in Canada, but it did allow us to get into the dot-com market.

And we also -- a lot of our customers, that is one of the questions that they ask. You know, you didn't have the right size for me, I'm not necessarily the color, can I go online and find it? I'm not sure that I want to go into the stores. And so different things there that we'll be able to offer online, so by the end, this does allow us to do that.

The other piece is that it allowed us to get into 680 stores across the United States, and that pretty much doubled the volume of our ladies apparel business just with that one deal. And so we're happy with it so far. It's early days. It's only been a few weeks so far, but the sales are coming in stronger than what we had predicted, and certainly what JCPenney had predicted, as well.

From our own perspective, there's been lots of speculation about JCPenney and what's going to happen with them, but from our own financial risk perspective, it's a fairly low-risk deal for us. We are basically wholesaling the product to JCPenney. The product becomes -- they're the owners, as soon as it hits the United States, and they're responsible for the product from that perspective. But we still believe in JCPenney. That's why we did the deal. We believe in what they're planning to do. And so we're still optimistic about that.

The other part would be that a lot of the capital investment was on the part of JCPenney, so for us, it's income-producing right from day one. It's not as high as you would have if you weren't the wholesaler, but it is -- but it's a good business for us to be in, as well.

And the other thing that -- the other ancillary impact would be that, because of the larger volumes, you get some buying synergies. It's doubled our business. So we have -- it enables us to have better costs for the -- across the whole business and through Canada, as well.

Next up, our fabulous IT projects. So where are we? So we're basically pretty much on track to what we've told everybody. Certainly most recently on our calls, we said that we were doing our pilot, which we did do in December. We launched in one store [One DC] in December of 2012. I would give it a fair rating on how it went. Certainly, no customers were impacted by it, but it did mean that we had a little bit of workaround happening in the stores, a little more labor than perhaps we would have liked, a little -- few more corporate office people there than maybe it would be what we would like over time.

But I would say we are modestly happy with it, and it led us to do two more, so we've now got three stores up on SAP. Each conversion went a little smoother than the first. We're now working through any of the receiving issues or anything through the whole line in order to be able to start the more extensive rollout, where we're doing more than one store at a time, up to even 10 and 12 stores that -- within a week of each other, and that should -- we're planning to have the rollout start in April.

So I know -- I think in the last year sometime, we said, when are you going to -- people were asking, when are you going to talk a bit about the benefits? And we certainly did -- have talked about from a qualitative basis, where do we think benefits will come from? And we're hoping that once we've got a pretty good mass of stores done, we'll be able to give you a little more information about the -- qualitatively, how much are we going to have in our savings?

So what we have said -- and we're sticking with that -- is that you can pretty -- we're pretty confident that we will reduce the spending. So in 2012, we spent about 1.8% of revenue on our IT project. And at a run rate basis in 2016, when the depreciation starts to fall off, we are saying we'll be at about 1.2%, which is an industry. We think we'll be able to do that, so that 60 basis points should fall to the bottom line.



From a benefits -- and in 2013, we did talk about having pretty flat -- the costs are pretty flat. Cash is starting to come down. But the depreciation is heavy in 2013, as well.

We also have mentioned -- our capital spend, we're reducing the capital spend in our spending in 2013, same level of overall spend at about \$1 billion, but the spend on retail will be about 65% versus about 50% in 2012, so we're reducing the spend on IT and supply chain and increasing our retail spend, as well, as the project comes to an end.

And so as far as benefits, what type of benefits are we really going to have? The key ones would be -- in my view, would be perpetual inventory in the stores. We have perpetual inventory in our distribution centers today, but we don't have it in store. So what does that mean? It means that you don't know the exact items that you have in your store, so very -- so when we are able to have that, it will allow us to have fewer markdowns. You won't be marking down product that you can't sell. You will allow you to improve your strength. You won't be throwing out products that you can't sell.

It'll improve your labor, because you won't have as much inventory in the backrooms, and you'll have a nice -- and you'll also be able to improve the inventory even in the supply chain, not having to hold on to quite so much just in case.

So those would be some of the key benefits that would be coming out, and as I said, as we get a few more stores done, we'll be able to quantify that a little better for you.

And then we've got the question on Wal-Mart and Target. So in 2013, as we all know, that, you know, we've got target coming in, already here in -- in many cases. We've known about it, as has everybody, for the last few years, and we have done some preparation. As soon as we heard the news about Target coming, we did do a lot of category work to look at what are their categories where -- you know, where do we think that we need to do some additional work? And we went category by category in order to prepare.

In many of our stores, the ones with what we call the right-hand side or the G.M. offering, we did change that offering over the past few years, as we renovated stores, we reduced our electronics, and we basically focused on the areas where we thought were key to our customer, those being apparel, home, HABA, and beauty, so health and beauty, and then those pieces would be the key ones that we were focusing on. And as we've renovated, we haven't completed all of them yet, but we're well on our way to changing our product offering to focus on those areas.

Of course, the core of our business is still food. Eighty-five% of our revenue still comes from food. And so when we do look at what the target offer -- and some of the stores that have opened -- we do recognize that there is some grocery items in that item, but not a lot on fresh. It wouldn't replace your entire grocery shop, but it might have some impact on what -- what you -- when you're going into buy other items, you might buy some grocery items, as well. So we're aware of that.

We do think that there might be a bigger impact on Wal-Mart, just because of the similarity of the offerings between the two stores, and there's been some question about, well, will that have a secondary impact on you? So far, I would say we haven't seen that from a pricing perspective. Target has openly said that they're coming with Canadian prices. And from what we've seen and the price checks we've done, that is what they've come in with. It does mean that, you know, it's -- on par or close to what Target -- what Wal-Mart has today, and so we haven't seen a huge reduction in prices as a result of it.

From our own perspective on pricing, we have been pretty focused, as part of the bringing down our earnings in 2012, was to focus on price, make sure that we were in a very good competitive position both against Wal-Mart and Target, so we do feel well positioned as we go into 2013.

And so from that perspective -- so when we look out for 2013, and some of this we did -- have talked about, what you should expect from Loblaw in 2013 is some sales growth, but it will be moderated by the fact that we've got an environment of deflation, as well as very competitive from the number of square feet that are coming into the market, both from Wal-Mart and Target.

From -- we are continuing to do our investments. We've said that we're not going to -- we expect to cover any investments that we continue to do in price and assortment and in labor, to be -- to be offset by other operating efficiencies, so we should be able to do that, but we are -- we do intend to improve on all of those areas we go through 2013.

As I mentioned, our IT implementation costs we're expecting to be relatively flat in 2013 with 2012, with a reduction in cash expenses, but an increase in depreciation. We are expecting some modest growth as a result in operating income, excluding the impact of the restructuring charge that we took last year, and the impact of the REIT that we expect to have the IPO done in Q2 of this year, and so excluding those pieces, moderate growth, the -- and what does modest mean? I think I've already



said to people, so I'll say it here, too, that modest to me means low-single-digit from an operating income perspective. If we -- if it can be better than that, we certainly would welcome it, but for now, that's where we're predicting.

Our tax rate, a little higher than last year, and we do have a few couple -- we are restating 2012 for a new accounting standard, so that should be factored in to things, as well. And our CAPEX -- our capital expenditures, about \$1 billion is what we're expecting to spend, and we're expecting to have about 1% from a new square footage perspective, which is our -- basically our annual target for the next few years, about 1%.

And with that, I'm going to open it to questions.

QUESTION AND ANSWER

Unidentified Participant

All right. Thank you, Sarah. Just -- actually, just (inaudible) outlook before we start, the investments in price and, really, you know, kind of making sure you're competitive in the marketplace, offset by operating efficiencies, what sort of operating efficiencies are you considering?

Sarah Davis - Loblaw Companies Ltd. - CFO

Part of it would be some cost savings that we did take, so we did take a restructuring charge in Q4 of 2012. That did reduce the number of administrative positions that we had by about 700. So we will have that coming into 2013, the full-year impact of that.

And then I would say, as we finish, so when we talk about IT, people feel that all the projects continue to go on, but, really, we have finished the supply chain. We've changed all the systems in supply chain. We've put in a new transport management system, as well, so there are efficiencies coming out of that, as well. So from supply chain, so we expect the costs there to come down.

I would say we continue always to look at labor efficiencies and productivity in our store. Some of that will be reinvested into service, but if we can have the right people at the right time, the flexibility of some of the contracts that we've been working on changing, that would be part of it, as well.

So those would be the key lines on -- from an operating -- the big lines of our business shrank a little bit. I would say we invested in shrink, which people find as an interesting thing. How do you invest in shrink? But what we did is we -- by increasing your assortment, just particularly in fresh, it does result in higher shrink from that perspective.

So we've set that in 2012. We did do a lot of that. But in 2013, we do have a plan to reduce our dry shrink, so it's certainly on the dry grocery, as well as HABA would be a focus area, as well.

Unidentified Participant

And just -- just on the point on store labor efficiencies, I know you've got obviously contract changes, which help that a bit. Is there any -- is there any benefit from any of your assistance projects to help you manage store labor better at this point? Or is that coming down the road?

Sarah Davis - Loblaw Companies Ltd. - CFO

Well, we finished a system called -- what we call [STAAS], which is store time and attendance system, and that was done in -- I think we finished in 2011, so we have got that work done, which has had improvements, as well, and as we fine-tune it, to make sure, like any system, it's working pretty well, we were pretty happy with the savings that came out, but you can always make it a little bit better. So there is some from that, but I would say the bigger savings will come when we finish the rollout of SAP for sure.



Unidentified Participant

All right. And now that you've had a -- we'll talk about Target for a bit. You've had a few Targets open now, and you've seen, you know, the impact on traffic and traffic flow. Talk about the first few weeks with Target in the market around your stores.

Sarah Davis - Loblaw Companies Ltd. - CFO

So I would say -- it's interesting, because as a management team, we actually went out to the first one. We went to Milton, and -- along with every other retailer, I would say, who were there that day. And it's interesting, because we've got the store, the Target store and the super-store here and the Wal-Mart across the highway, so it was quite an interesting study of what the impact was.

I would all stores looked quite nice, because -- as they prepared for this. And I would say, from that day, if you base it on a day, the Target was packed with lots of people, you know, other people looking at from retail. And I would say the super-store for us on that day was a regular Tuesday. It was a pretty regular day. We didn't see -- it looked beautiful. It was, you know, the best we'd ever seen. Fresh was fantastic. But a pretty regular day.

The Wal-Mart, on the other hand, did have an impact. They really -- you could see that -- it looked really good, too. I have to say the Wal-Mart looked very nice, too, but not tons of customers. So I would say from our early days, that's the way it does seem to be in those, where you've got all of them.

In other markets like for us, a Zehrs market, where you've had a Target open, and if you are really the only store in it, there is a more -- a bigger impact on us. So it'll vary by region and by banner, I think, on us. But so far, it hasn't, but it's still early. That hasn't had a huge impact on our business so far.

Unidentified Participant

And would you -- and when you did your category analysis on Target and had a look at the -- you know, the categories that they present versus what you present, did you come up with any concerns about Joe Fresh up against Target's apparel assortment?

Sarah Davis - Loblaw Companies Ltd. - CFO

I mean, that would be the one that is the most obvious. I would say home was probably the other one, as well. I think it's differentiated. In my opinion, it's quite a different product. Yes, it's a ladies apparel, but I think the -- you know, the styles are different. What you're getting is different. The price points are different. We do believe that Joe is better priced for the quality of the product.

I would say -- we still, obviously, have the tremendous traffic coming into our stores, so we didn't feel particularly threatened by apparel, but there's only so much money to go around, so there might be some impact there.

Unidentified Participant

All right. Maybe we'll talk a little bit about the REIT. Remind us of the timing on that. Obviously, you've got, you know, several balls in the air there, trying to figure out what properties go in the REIT, and then trying to sort of form a management team. So tell us about where you are in that evolution and what we can expect to see and when.

Sarah Davis - Loblaw Companies Ltd. - CFO

Okay. So I would say we're on track to have an IPO ready in Q2, so that's coming up. And -- and we feel -- we feel good about the progress that we've been made. It has been a massive amount of work when you consider we've been put up -- you know, we will have over 400 properties up for sale, and what that means is there's environmental assessments being done on them, there's appraisals being done on every one of them, and it's across the country. And, of course, a lot of this work is happening in the winter, when some of those stores are under snow.



So it has been a challenge from that perspective, getting all of the work done. We are assembling a management team, so I think we did mention that we were doing the search for a CEO and a CFO, so that work is being done now.

We've also been picking the properties, so we had always said at the time that we thought we'd put in about \$36 million of \$47 million that we owned, in that range, so we're still on track for that, putting in a combination, and it will be right across the country, so every region will be represented in the REIT. We will also have office buildings, as well as distribution centers will be in the REIT and, of course, a large proportion of our stores. So that work's going on.

We also have to determine rent. We will have to have a lease agreement between the REIT and the two public companies, so we've got all of that work to do, as well, so making sure that the appraisals all come in and that we settle up that and we have lease terms. So there is a large amount of work being done in that area, but we feel pretty good about the progress, and we're still on track for Q2.

Unidentified Participant

And over the course of time, how will you balance the REIT's need to build out these properties and put more on them over the course of time and your need to make sure that the store that's the centerpiece of the property stays vibrant.

Sarah Davis - Loblaw Companies Ltd. - CFO

Well, I would say it will become a little different. Like it's obviously simpler if you own 100% of the real estate and you make all of those decisions related to what is best for the retail business, so there will be a balance. We're working through it now, because even picking properties, even choosing, you know, exactly what the rent should be between the two companies, as well, there will be some balance.

But we -- as the majority owner of the REIT -- our interests will always be -- and, of course, the owner of the retail business, as well -- our interest will always be to do what's best for both businesses, make sure that the REIT is able to grow in the way that it needs to, so it will not be solely dependent on Loblaw's for its growth, but at the same time, not to the detriment of the retail business.

And, of course, everybody knows the REIT will not be terribly valuable if the retail business is not successful, so we all understand that, and everybody who's involved in it knows that, so it's finding the balance between the two. But over time, there may be some.

But I actually see it mostly as positive. And I'm not allowed to be out selling, so I can't say anything too positive. But I think the good part is that you will be able to -- the REIT will have a different focus. There are situations today where there might be a great opportunity, because we own, you know, quite a bit of land, with the opportunity to add another type of retail space, but as CFO, I would always turn that one down in favor of adding another store, this limited capital.

And so I do think that it allows both businesses to grow, and there's lots of opportunities for both companies within that. But it will -- I mean, and I think a lot of people will be interested to see, well, what it will show, because we will have three segments. We will have a retail segment, a real estate segment, and our bank segment. So you will be able to see the profitability of the retail business with rents in. So people will be able to look at that, so there will be a little bit more, but I actually think it'll provide good clarity on where the growth from the businesses will be coming from, too.

Unidentified Participant

And the company's talk over the last couple of years about their interest in establishing a loyalty program of some kind. Can you update us on where that's at?

Sarah Davis - Loblaw Companies Ltd. - CFO

Yes. So we were -- and we would say that we always had a loyalty program with our MasterCard program, and that is a lot of our most loyal customers, would be those who -- who have the card and enjoy getting their free groceries.

But because not every one of our shoppers wants to have a credit card with PC, we are launching our loyalty program. We're on target to launch it in Q2, as well. I know on the Q4 call, Vicente said that he would talk more about it on Q1, and so definitely on the Q1 call, we will have a bit more of an update on that, but we are on track to launch in this year and to go out to all banners, except for No Frills and Maxi this year.

Unidentified Participant

A couple years ago, a previous leader at our conference actually kind of railed against the low profits of the store brand program versus national brand and said, you know, we really have to get control of store brands and really, you know, make sure that we're making money on those. Tell us about the state of the store brand program now. Is it still -- obviously, it's a cornerstone, still, but, you know, is there more growth there? Is it as profitable as it needs to be? And, you know, how do you see that as a competitive differentiator going forward?

Sarah Davis - Loblaw Companies Ltd. - CFO

So I would say, from our control brands, we still have the number-one and number-two brands in Canada with President's Choice and No Name, so it's definitely core to our business and the opportunities that we have, you know, within that. We think it's a differentiator. A lot of people come to our stores, of course, because of that.

Yes, we did go on quite a bit project to improve the profitability, because at that time, the profitability of national brands and controlled brands were pretty equal, and we did think that that didn't -- there wasn't really -- that didn't make sense. We needed to improve the profitability.

So there was quite a bit -- a lot of work that went into that program, a lot of it really positive, in the sense of improving packaging, combining, things like that that had a positive impact on costs, also environmentally very positive, as well. So we did a lot of that. We did a bunch of different pieces that did improve the profitability of the control label brand.

I would say we are -- we're not done. I would say -- I don't know if you're ever done, but I would say we're about 70% complete on that -- on that initiative. I would say that we are still looking for innovative products, as well. We want to make sure that we don't lose the innovative part of it, so we're pretty pleased with the results of some of the products we have launched. We launched, well, Black Label, of course, a year or so ago, but also this year, we launched gluten-free, and that has been a really phenomenally successful set of products for us, more successful than we had predicted.

So there's a few good places that -- where we can add -- and grow that business, as well. But definitely from a margin and from a business perspective, it's key for us.

Unidentified Participant

You mentioned of the -- of the billion dollars in CapEx, \$650 million on stores, I think that's about right --

Sarah Davis - Loblaw Companies Ltd. - CFO

Yes.

Unidentified Participant

-- 60% on stores and 1% square footage growth. So just square up the, you know, the amount of spending on stores with 1% square footage growth. I mean, how -- where's the money going? And what are the sort of projects that you'd be pursuing with the capital this year?

Sarah Davis - Loblaw Companies Ltd. - CFO

Okay. So I would say, from a new store square footage, our focus is more in small stores, I would say, than on the larger stores. We're not -- we don't have plans for a lot of large super-stores, and we are going for more smaller formats, and we're following demographics.

So where you look at where the population is growing, there is the urbanization, so there are more people moving into the cities, so we are looking -- which generally means that you get a smaller box in that case, so there is some work going on there. Certainly, there's areas such as Calgary and north of Calgary where there's a lot of population, so we're adding stores in those areas, as well. It's -- and across the country, so we would be adding stores where there is population growth from that perspective and any new format that we might come up with from a smaller box, as well, we'll do that.



As far as the rest of the large amount on renovations, there's spread. So I would say we've got quite a few west super-stores to finish off. A lot of those are -- haven't been, you know, touched in a lot of years, so they are quite expensive to do. In a lot of cases, we do what we call produce first in flow, so we actually move the produce section to be the first thing that you see when you go into the stores.

We found that to be very effective in improving the amount of produce that's sold, which comes with a higher margin, so very -- we're happy with those projects, so we've got a lot of those still left to do, which will also finish off the right-hand sides with the new G.M. offering, so we've got those to do.

I would say we've got a few No Frills that we'll be renovating. We've got some work going on in Quebec, in the Provigos and in Loblaws Quebec, as well, a little bit on Maxi, but Maxi we have spent some money over the past few years, so more on the conventional side, and in the Atlantic, so, really across the country. No -- a few projects that we'll be doing, mostly on renovations.

Unidentified Participant

And would the split be relatively even between discount and conventional, in terms of the spending, or would it be a little more on the discount sector?

Sarah Davis - Loblaw Companies Ltd. - CFO

Well, I would say -- what would I say? I would say, I think it's probably more -- just by the nature of the spend, it will be heavier on discount, partially because our business is heavier on discount. We're about 60% discount, and the cost of the renovations in the west is just that much higher because of the size of the store, so I would say probably more weighted to -- approximately to the size of the revenue on the split, as well.

Unidentified Participant

And there was some recent talk about potentially reducing the number of banners in the marketplace, but also you're looking at new store formats. Can you just square those two for me?

Sarah Davis - Loblaw Companies Ltd. - CFO

Sure. So I would say -- people always like to ask us that one, too, on, do you -- do you not think that you have too many banners? Could you not get rid of a few?

We looked at it a lot of times, quite a few times, just even in the time that I've been there, looking at which one could we -- because from a marketing perspective, a flyer perspective, that would have some cost savings associated with it, but we actually see it as a differentiator. There might be a few that it wouldn't -- you know, you could probably reduce, but our plan is not to heavily reduce the number of banners that we have. We do think that a lot of them have a neighborhood feel to them, and really, we think it's a differentiator in appealing to the different customers across the country.

So we really -- and what we are working on quite a bit in our stores is trying to put them into clusters by certainly the demographics of the customers who are in that store, whether it be a different ethnic offering or just a different type of, you know, whether it's income level or any type of demographic, you know, age, all of those to make sure that our stores are very -- are more clustered to be, so it's not a mass piece.

So, really, with that, it -- we like the different formats, so there might be a few. And if we add one -- we might -- I would say at the moment we don't have a plan to have a new format. What we might -- sometimes we're just reducing the size of our stores, so we really like some of the new ones that we've had with Queen and Portland, you know, [MLG], smaller than some of our traditional, conventional businesses, so we've -- we've got some reductions there.

From a No Frills perspective, there are some -- some that are coming in smaller. We like the 27,000 square foot. But depending on what, you know, is available from a real estate perspective, that we could go smaller on that, as well.

Unidentified Participant



And you've rolled No Frills West and East. How do -- how do you see the No Frills business over the next five or six years? Is that -- is that going to continue to be kind of a growth engine for the company?

Sarah Davis - Loblaw Companies Ltd. - CFO

I would say from a -- we like the No Frills business, so it has been in Ontario for a very long time and a very successful business there. We do have what we call sort of the No Frills version of Maxi in Quebec, which is -- has become a little bit more like No Frills, definitely a discount business, and we're happy with the performance of that business, as well.

What we did do as -- partially as -- in relation to some of the Wal-Mart openings out west, where in our view we didn't think that either because it was a small town, that we didn't see would be able to handle a super-store, we thought a good business to put in there would be a No Frills. And so we did map that out and, in comparison to where the super-centers, the Wal-Mart super-centers were coming in, as a way to defend against Wal-Mart in those areas.

So we like it. We wouldn't probably put a No Frills right next door to a super-store, but in every store that we would add, we always do a business case. We always look at, where are you going to hit, which stores you're going to hit as the majority share -- with the largest market share, there are always cases that you have to hit yourself by opening a store, but that would always be a factor.

We always would plan to hit our competitors more than ourselves, and so in that case, we wouldn't put a No Frills right next to a super-store, but we like the -- we think they can live together. They live together in Ontario, and so far, they've been able to live together in the West and in the Atlantic. As well, we've got a few -- it's not a huge business there, but they've been able to live together, and there's certainly a customer in every part of the country that likes the No Frills and the hard discount format.

Unidentified Participant

And every grocer for five or 10 years now has been talking about improvements to their fresh program and the importance of fresh and the growth of fresh. Tell us where you are in that. Benchmark yourself in fresh departments, perhaps discount in conventional versus your competitors. How do you feel about your competitive position?

Sarah Davis - Loblaw Companies Ltd. - CFO

We think we're doing a great job in fresh, I would say. We -- we love our fresh. It's core, absolutely core to what we do. It's obviously a differentiator from some of our competitors, as well. It's a different offering, depending on whether you are in the discount side or in the conventional. 2012, we spent quite a lot of time in the conventional business on assortment, improving the assortment, which did result in some increases in shrink, but definitely improving the assortment of the products, the freshness, the quality of the products, so quite a lot of work on there.

Also, on the discount side, we would -- I would say the focus on discount is not as much on assortment, but definitely still on good, quality, fresh products at a great price. And so in those pieces, I would say that we've been -- we've had pretty good success. We feel good about our produce and our fresh business.

When we look at -- I think it's a real focus of Vicente, as our leader, very focused on fresh, very important part, and we have gone back to look at a lot of the procurement, so it's not just the handling in the store or at the DC. We've gone right back to the procurement of our products, both on product -- on produce and on meat, in order to prove the quality of what we get coming in.

So there's been a lot of work done in that area, and we feel that we're in a pretty good position. Can you always be better? Of course, and we'll continue in that area, and we've got plans for 2013 to improve there, but we think we're pretty -- in a good spot from a competitive position.

Unidentified Participant

And the growth prospects for T&T going forward? I know you've done some work to begin to bring some of the merchandise and some of the programs that T&T does well into some of your discounts and conventional stores. Tell us a bit about the interplay between T&T and the core business and the prospects for T&T over the next few years.



Sarah Davis - Loblaw Companies Ltd. - CFO

Okay, so T&T -- I was on at T&T board meeting today, so pretty fresh, actually. So we like the T&T business. We're happy with the acquisition that we did. We have opened, you know, quite a few stores since we did purchase them, and -- but we don't see it as being a mass business, obviously. It has to have the certain demographics in order to substantiate the -- you know, the store.

But what we have -- and we do -- really do fundamentally believe that the larger opportunity from an ethnic or an international foods perspective is what we can do in our own stores. We have over 1,000 stores, and so really what we have been doing is working with T&T. They give us great advice. They tell us when the products in our stores are not the right ones, whether it's the right soy sauce or anything like that, that it will be helpful in that way.

I would say the relationship's very strong between the two companies. We have -- as we said right from the time of the acquisition, we have essentially left them alone to operate. We didn't want to have -- to wreck the business that they had built in making it, you know, a large corporate like the rest of Loblaw, so they have been on their own. It's still run by Cindy Lee and her daughter, and her husband is involved a little bit, as well, so the business is still run separately from the rest.

But I would say the collaboration between the teams has been very good in making sure that we have the right products, we understand the different demographics, and so we have -- and we've got a few new things happening, so we do offer No Name in the T&T stores as they're opening price point, so we have done a little bit of cross-merchandization.

Of course, we didn't want to go big with President's Choice in every T&T store, you know, to make sure that we didn't scare away any of the customers, but we did -- but we think No Name is actually a good opening price point, especially in some of the products like paper towels, all those types of products. It's been good.

And then we've also, on the other hand, put T&T control label in our Loblaw stores in some of the other stores, as well, and that's actually turning out to be quite successful, as well. So we do think there's an opportunity to cross-merchandise between the two stores and to come up with other products that will suit both stores.

And the other piece that maybe not everybody knows is we do own an Asian wholesaler and an Indian wholesaler, as well. So we have -- the Asian one came with the T&T deal. The Indian one we did purchase separately. And so we do have the opportunity to have a lot of control label products in those demographics, as well, so we've been working on putting those products into our stores, as well.

Unidentified Participant

Great. Sarah, that's very helpful. Thank you very much today.

Sarah Davis - Loblaw Companies Ltd. - CFO

Okay. Thanks. Thanks.

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