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# EDITED TRANSCRIPT

L.TO - Loblaw Companies Ltd to Host an Investor Teach-In  
Event Focused on the PC Plus Program - Conference Call

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**MAY 06, 2013 / 06:30PM GMT, L.TO - Loblaw Companies Ltd to Host an Investor Teach-In Event Focused on the PC Plus Program - Conference Call**

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**CONFERENCE CALL PARTICIPANTS**

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**Irene Nattel** *RBC Capital Markets - Analyst*

**Michael Van Aelst** *TD Newcrest/Waterhouse Securities - Analyst*

**Perry Caicco** *CIBC World Markets - Analyst*

**Vishal Shreedhar** *National Bank - Analyst*

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**PRESENTATION**

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**Operator**

Good afternoon. My name is Lisa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Loblaw Companies, Ltd., PC Plus Investor Teach-In Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer.

(Operator Instructions)

Ms. Janet Craig, you may begin your conference.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Lisa, and good afternoon, everyone. Welcome to Loblaw's Inaugural Teach-In Conference Call. As you know, today we're actually going to be speaking about the new PC Plus program. Before I turn the call over to Vicente, I wanted to speak about a few things.

First, the focus of today's call is on PC Plus and not our overall business, so I'd appreciate if you would be able to keep the questions focused on that. Second, we're always looking to improve our communications to the investment community, so we welcome feedback; and particularly feedback on this teach-in so we can incrementally improve things as we go along. Third, I want to remind everyone to limit your questions to one and a follow-up. We're happy to take all of your questions, and we've scheduled an hour today for today's conference call. You're welcome to go back into the queue for your question and follow-up. Thanks for your understanding on that matter. With that, I'll turn the call over to Vicente.

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**Vicente Trius - Loblaw Companies Ltd - President**



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Good afternoon. Thank you so much for taking the time to join us, this first PC Plus conference. Before I start, what I would like you to do is introduce you to some of the executives we have around the table. We have with us Garry Senecal, who is our Executive Vice President for Division Support and Brands. We have Uwe Stueckmann, who is our Senior Vice President for Marketing. We have Peter Lewis, who is our Senior Director, Customer Analytics and Loyalty; and we have Andy MacPherson, who is our Vice President of Sales and Marketing for PC Financial.

Before I pass on the presentation to Andy and Uwe, what I would like to do is give you a little bit of history behind loyalty card. One of the things that we're going to be presenting to you today is what I believe is a best-in-class and innovative new loyalty card for this market. But if you go back in history, I mean, who started loyalty cards was Tesco, 20 years ago. Since then there has not been really dramatic changes. For the most part, it has remained paper-based and on digital. It would be a loyalty card that basically earns you points through your transactions. So, one size fits all, all customers are treated the same.

What the team will present you today is this next generation of loyalty, which is about how can we better leverage today's technology. It is about digitalization. It is about being able to use your smartphone. We believe that we should have a penetration in smartphone of about 98%. It's more than just rewards, and the team will talk to you on the other sort of services that we can offer. It's about being able to communicate one on one with our customers. It is also about being able to leverage in a much broader perspective what we call the Omni channel, which is about being able to have access to click and collect on your rewards. It's about being able to have a mobile wallet and it's about to be able in the future to eliminate all of our paper flyers, and be only digital. Now, what I would like to do is pass it on to Andy, who will talk a little bit about PC financial and how we build the foundation on the PC Points.

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### **Andy MacPherson - Loblaw Companies Ltd - VP, Sales and Marketing, PC Financial**

Thank you, Vicente. I just want to spend a moment on the history of PC Points as it's related to President's Choice Financial. We're marking our 15-year anniversary of the program. We launched in 1998 with the intent to serve Loblaw shoppers by designing our program that rewards them with free groceries. At this time, we have more than 2 million active members in the program, and we recently crossed the threshold of having redeemed over CAD1 billion in free groceries since the program's inception. With that, I will pass the call over to Uwe.

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### **Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Good afternoon, everybody. My name is Uwe Stueckmann, and I head up the marketing function at Loblaw. Quick introduction, I've been with the Company for just over three years, and I've spent pretty much my entire career in the loyalty marketing space. I started out early in my career at Petro-Canada, where as part of the team that ran the Petro Points program, spent some time with folks at Air Miles on the Air Miles reward program, and spent a good chunk of my career at Shoppers Drug Mart, where I looked after the Shoppers Optimum Program. So loyalty programs are definitely in my DNA, and I'm very pleased to tell you today about the launch of the PC Plus rewards program.

As Andy mentioned, PC Points is a very solid foundation for us. It is the core on which we have built the PC Plus program. We really believe that PC Plus is a really ground-breaking, new way to look at retail loyalty compared to all of the other programs out there. It's the very first all-digital intelligent retail loyalty program in the grocery retail space in Canada, and it allows us to focus our promotional investments on the right customer, to really tailor our investments on those customers that are our most important and most valuable customers, which then will result in driving incremental sales and comp growth one customer at a time and one transaction at a time. That's sort of the core of what that program is. If I were to contrast the program to traditional loyalty programs to start, it is quite different. Vicente talked earlier about the launch of the Tesco program some 20 years ago, and much has happened in those 20 years. Computing technology has come a long way over those 20 years.

Penetration of smartphones have come a long way over those 20 years. For us, it was important when we set out that we would launch something that was built not just for today, but also to last the test of time, and really reflect this new technology that is out there. At the core, our program is designed for a mobile phone. It's a smartphone program, whereas all these other programs that are out there are designed for a plastic card. We know -- we think that we can do a whole lot more with a smartphone than with an essentially dumb piece of plastic that really can't do much. Our program is designed at the core to work on a mobile phone. If a customer is not mobile-phone-enabled, if a customer doesn't have a smartphone yet, that's fine, we'll have a plastic card; but as a philosophy, it has been designed for a mobile experience.

It is entirely digital, so the whole program is digital. There is no coupons to clip, no junk mail, nothing coming in the mail, as these legacy programs would be. We have built this program to operate entirely in the digital realm. It is -- it allows us to strategically invest, and I'll show you that in a little bit more detail in a few slides on -- strategically, target our investments on those customers that are most valuable to us, rather than other loyalty currencies, who just spread the tiny little bit of investment across every customer and every transaction. That doesn't feel like a whole lot as a customer. We've also set out to make sure that our program is more than just rewards.



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All of these loyalty programs traditionally really have just taken discounts and passed them on in the form of either points or dollars. We have built a CLP, we've built a program, that has much more in it than just passing on rewards to customers. Then in terms of how we engage our vendor community, we've really taken a different approach to that, too. Historically, our peers in the grocery retail space would have set out joint ventures to go and work with the vendor community, to monetize the data, to sell customer information to the vendor community. We've taken a different tack. Our approach here is to partner with our vendor community, and together drive profitable sales -- sales that are profitable for our vendors and for us. Really at the core, PC Plus is a one-to-one engagement platform that allows us to deliver meaningful anticipated relevant offers to our customers, and really drive customer behavior that way.

Let me take you through some of the mechanics of the program. There are three ways that our customers can enroll in the program. They can either pick up a free PC Plus points card in our stores; and they pick up the plastic and start earning points right away. If they are a financial services customer of ours, so a President's Choice Financial card-holder, they can register their President's Choice Financial card, and then they continue to use their credit card or debit card as they've always been doing, and they simply earn more free rewards this way. Or, if they are smartphone-enabled, they simply download the PC Plus app for iPhone, Android or BlackBerry 10. You register right inside the application, and your phone acts as your card. We launched the program on Friday, and since Friday in our 44 Loblaw stores in Ontario, we've had tens of thousands of customers sign up and activate their membership and actively using the program right now.

Every week, then, our customers receive a series of offers, offers that are based and tailored entirely on what the customer buys most often. The more a customer engages with us, the more intelligent our offers can be, and the better we will be to anticipate our customer needs and offer the customer value in the products that mean most to her. There's more to the program than simply passing along discounts, as I mentioned earlier. One of the key differences would be our meal recommendation engine. By understanding what our customers buy, by understanding the kinds of things our customers buy in our store, and by understanding what's on sale in our store, we can make intelligent meal recommendations to the customer that really help answer the question of -- now what's for dinner, mom? -- that's being asked in so many homes in Canada every week.

Then we've built an intelligent shopping list. So if you have done your meal plan, if you planned your meals for the week using our meal planning and recipe application, it drives seamlessly into a shopping list application. That shopping list application can be shared across multiple users within the home, so my wife can be at home and adding items to our shopping list that then magically automatically appear in my smartphone app in the real time, so that when I come home, I never forget to bring home the things that she would like me to bring home, and it's all seamlessly integrated in the one application.

Now getting to the business behind this a bit more, traditionally, loyalty programs offer the same value, the same incentive, to every customer. We know that no two customers are alike, and what it's gooding to take to move one customer to buy a product is going to be different than another customer. So our program is very much designed to be able to vary the amount of incentive that we offer to the consumer. If a customer always purchases a product, of course we'll reward that customer with points for purchasing that product. If a customer sometimes buys a product, we may have to make that incentive a little richer and get that customer to the next purchase a little bit quicker. Both of those customers would feel very positive about their experience. The customer that gets a smaller reward for doing what they already were doing and the customer that gets a more significant reward to purchase something that otherwise they may not have purchased during that transaction. But that's very different from other programs out there, who tend to give the exact same reward to every customer out there, regardless of where the customer might be in their purchase cycle.

We also, by having this intimate flexibility built into the program, we also have the opportunity to really dial up our investment, or dial down our investment, depending on what customer we talk to. The program is designed to ensure that we drive more value out of our best customers. We drive more share of wallet out of our best customers. We can do that by taking the investment and directing that investment against our best customers, rather than spreading that investment against people that either aren't motivated by rewards -- because there will be a large segment of the population that isn't driven by a reward program. Or that investment directed against cherry-pickers that already are buying things at a discounts in our stores. So our program is designed to be able to take value away from people that don't want that value and give it to people that really are our best customers and rewards those people incrementally.

Another example might be the setting of thresholds. You see a lot of programs in this market place that will run promotions that say spend X dollars and get Y points, or spend Y dollars and get 10 times or 20 times your points. We have designed the program by being customer-specific, so that we can make sure that we set thresholds, earning thresholds for customers that are relevant to them. So if it's a single-person household, it is unreasonable to set a threshold that is too high for that customer; or if it's a large family, it is unprofitable for us to set the thresholds too low. Asking people to spend the same in a transaction doesn't make any sense. We've got this ultimate flexibility to really set the threshold where it's relevant, most relevant to the consumer -- to get a little bit of a stretch out of them, but not ask them to do things that they can't achieve, or otherwise already would be achieving.

What makes the program truly intelligent, I think, is that it allows us to promote any product in the store. Much of our current promotional program, as Vicente said earlier, is in the flyer. The flyer is part of our promotional program, and this allows us to take products that are not typically advertised in the flyer and get them in front of the customer, get the customer exposed to those programs, those products, in a meaningful way. As I mentioned, it offers the right stretch for every customer. This



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mixture of rewarding people for buying what they have always bought, but then stretching them to buy things that may not have been on their list otherwise. It's designed -- the flexibility in the program, is designed to work in both our discount businesses and in our conventional business. It also completely protects us against competitive price matching, and something that is entirely invisible to our competitors, because no two customers get the same set of offers, ever. You will have no possibility for our competitors to respond to this. Since it is entirely flexible, we can dial up or down the investment based on competitive activity right down to the local individual store.

It allows us to drive product elasticity across the full store by spreading the investment around many products in the store. By mixing up the investment among many customers in the store, we don't put supply-chain pressure on any one specific item. We spread that pressure around the entire store and lift the whole store up. In essence, it makes our program infinitely customizable. It allows us to invest by store, by banner, by life stage, by meal preference, by whatever we like, we can really dial up or down the investment, which makes, we think, makes PC Plus an intelligent program that really drives loyalty with our customers, resulting in same-store sales growth one transaction at a time, one customer at a time.

Now we have launched this program with our vendor community, now, probably about three months ago that we introduced it to our key vendors. We've invited our vendor community to participate. The response from our vendors has been very, very positive. This was a voluntary participation by our vendor community. We invited them to come in, and all of them have been very, very positive in participation -- very excited about partnering with us, because it's a program that is designed to drive sales for them, and it's very different from other programs. So we're not selling data to our vendor community in this, it's really designed to drive incremental sales.

To wrap it up, PC Plus is far more than just the currency. A rewards currency is a big part of our program, but there's far more to it. There's far more to PC Plus than just generating a rich set of data. That also is very important to us and will set us up for many things in the future, as we now get a deeper understanding as our customer shop. But at the essence, PC Plus is about us driving profitable sales with our foremost loyal customers, and that really is what PC Plus is all about. From a timing perspective, we launched the program on Friday in 44 Loblaw supermarkets in Ontario, and we are targeting a roll-out nationally ending in Q4 of this year. That is PC Plus, so I'll turn it over to Janet to moderate any questions you might have.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Uwe. Lisa, we're ready to take questions now.

### QUESTION AND ANSWER

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#### Operator

(Operator Instructions)

Your first question comes from the line of Kenric Tyghe. Your line is open.

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**Kenric Tyghe - Raymond James - Analyst**

First off, if I could, with respect to the breakage discussion, clearly, a very key part of the economics of any loyalty program. A number of your competitors have elected to manage that with life of mile being anywhere from 12 months to five years. Could you speak to how you are approaching that value perception versus breakage, and balancing the economics in this program going forward?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Sure. This program has been designed -- so this program, again, as we mention right out of the gate, Andy talked about it, is built on the PC Points platform and the PC Points currency. It's designed to minimize breakage. We would like to have every dollar that we issue redeemed. Success for us is to have the vast majority of dollars that we are issuing, the points that we're issuing to our customers, redeemed in value.

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**Kenric Tyghe - Raymond James - Analyst**



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Okay, and then if I could, on the technology base, you mentioned that it's BB-10 supported. As far as the mobile wallet discussion goes and my limited understanding of mobile wallets, it's all near field communication-based. Is there an ability to backwards integrate this into other BlackBerry platforms, because a number of the other platforms out there don't support near field or mobile wallet. Is that something that is evolving very quickly and will be integrated?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

On the second part of your question being the backward integration on older platforms from Research In Motion, the answer is, no, we're not going back to address the legacy operating systems that are out there. We have started with the Z-10, and we are moving forward from there with the new operating system.

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**Kenric Tyghe - Raymond James - Analyst**

All right. Thank you, I'll leave it there.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Kenric.

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**Operator**

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

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**Irene Nattel - RBC Capital Markets - Analyst**

Thanks, and good afternoon, everyone. Certainly looks very interesting. I have lots of questions about mechanics, but I'll hold on to those, and really turn it around a little bit. From an investor perspective, sitting where we are sitting, clearly the objective is to accelerate the sales and the same-store sales profile. I guess my question is on a go-forward basis, how should we be thinking about the way in which this -- the PC Plus -- layers into the top dollar, and any potential impact it might have on the cost line.

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**Vicente Trius - Loblaw Companies Ltd - President**

Irene, good afternoon. This is Vicente. No real impact to the cost line, because we said all along that it would be neutrally funded. So it means less promotion, let's say, in paper in exchange for more investment directly in PC Plus. From a sales perspective, obviously we believe that it's a dynamite program, and we believe this should have a positive impact to our sales. But I would like for everybody to keep in mind that obviously we need to roll it out across all of our network, and we will not be able to do that until Q4. So we're positive about it and we believe that it's going to be accretive, but still a few months to go.

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**Irene Nattel - RBC Capital Markets - Analyst**

Vicente, just to clarify, because you did say -- or someone said in the presentation that it would be offered in both discount and conventional. Yet you introduced it first in the Loblaw stores. Can you tell us what the phasing of the roll-out will be? When you said Q4 of this year, is that across the platform, or only in conventional?

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**Vicente Trius - Loblaw Companies Ltd - President**

It's across a platform that includes all of conventional and super stores at this stage.

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**Irene Nattel - RBC Capital Markets - Analyst**

That's great. Thank you, I'll get back in the queue.



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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Irene.

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**Operator**

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

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**Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst**

Thank you. On the roll-out, do you have to wait for your SAP systems to be in place at the store level in order for this to go out?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

No.

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**Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst**

Okay, all right. I didn't quite catch that part on the timing of the national roll-out. You said Q4, but is there going to be -- is it going to come in steps, or is it all going to turn on in Q4?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

There might be an additional banner before the start of Q4, so you have two large banners, and then in Q4, let's say, September, you should be able to have all of the other banners at the same time being rolled out. The reason behind that is that you want to have a decent sample to test the system, to make sure everything is okay, then obviously roll it out at a higher level.

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**Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst**

Okay, and I guess I'm curious on your thoughts of what kind of negative reaction you might get from people who realize that they are not getting the same points on a product that they are loyally buying from you on a regular basis, like the peanut butter, when the person they might be shopping with is getting twice as many points to get that, to buy that peanut butter and they are new to your store or they don't buy as much?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

It's definitely not because they are new to our stores. I mean, the value that the customer receives, the offer a customer will receive every week is going to vary week by week. Again, no two customers will get the same set of offers, so I don't think that people will be upset about that. Now, I certainly haven't had any of those instances over the last four days that we're in market with tens of thousands of consumers. We haven't heard any complaints to that effect.

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**Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst**

All right. Thank you.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**



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Thanks, Michael.

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**Operator**

Your next question comes from the line of Perry Caicco from CIBC World Markets. Your line is open.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Perry?

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**Perry Caicco - CIBC World Markets - Analyst**

Hello?

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Yes.

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**Perry Caicco - CIBC World Markets - Analyst**

Can you -- yes, thanks. I guess over time, customers try to figure out what the value is of a point. For instance, Target's pretty clear that it's 5% Red Card rewards. Uwe, over at Shoppers there is a general sense among customers that it was a low-single-digit discount, depending on how you applied it over the course of time. What sense should customers get from this program as to what it's actually worth to them over the course of time?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Well, I'll give you a long answer to this one. If that customer in fact has a PC World MasterCard, then they are already starting out with 2% value prop on that card right out of the gate. Then the incremental value received from the PC Plus program entirely depends on how the customer engages with us. I would say that we would be more than competitive with the offer that Target has in the market place, if the customer in fact engages with us.

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**Perry Caicco - CIBC World Markets - Analyst**

So at the upper end of the program, it should be in and around a 5% reward, but obviously, it's going to blend out over the course of time?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Yes, it certainly wouldn't be 5% across the total board. That would not be viable. But it certainly is possible for a customer to compete with what Target has out there.

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**Perry Caicco - CIBC World Markets - Analyst**

You mentioned that you would be launching it in the Real Canadian Superstore format. Typically, discount stores don't offer points. There's a feel that, I suppose the customers feel like they are paying for points. Do you have a fear there's potentially a disconnect between discount and points distribution?

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**Vicente Trius - Loblaw Companies Ltd - President**



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I'll take this one, Perry. I think the beauty of this program is actually it fits well with convention. It fits well with discount. Remember, we have a discount division that still has flyers that go out there every week and promote -- so as Uwe said, neutrally funded. The beauty is that I can transfer part of what you have on the paper flyers into a more customized version to those discount shoppers. I think it's spot-on actually. I think it's a competitive advantage, to be honest.

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**Perry Caicco - CIBC World Markets - Analyst**

Vicente, I don't want to make -- I just want to make sure that I get this right, and don't misconstrue what you said. You said over the back part of the year, in order to pay for this program, the idea is to cut back on flyers, on paper flyers, over the course of time, or on the level of promotions in flyers. Is that a fair assessment? Or is it the sort of thing that would happen more over time than it would be specifically this year?

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**Vicente Trius - Loblaw Companies Ltd - President**

Well, more over time than this year, because basically at the end of the day, I'm rolling it out on Q4. The impact in Q4 is not that large, right? So we take a bigger dimensional in say, 2014, obviously.

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**Perry Caicco - CIBC World Markets - Analyst**

But you need pay for it, so--

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**Vicente Trius - Loblaw Companies Ltd - President**

Well, it's -- it comes out of less promotions on flyers and that money, let's say you spent 100 on flyers, you might spend 80 and 20 goes into obviously these customized offers to our customers through PC Plus.

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**Perry Caicco - CIBC World Markets - Analyst**

Okay, thanks. I'll get back in queue.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Perry.

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**Operator**

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

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**Vishal Shreedhar - National Bank - Analyst**

Thank you very much. I'm curious about this program, and the relationship to the vendor community. Will you work together with vendors and obtain vendor rebates when you promote through this PC program -- PC Plus program?

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**Vicente Trius - Loblaw Companies Ltd - President**

Yes, we are. We will work together with the vendors. The reaction thus far has been -- like we said, it's completely voluntary, and it's been very positive, actually. They like it because they can target specific customers behind specific products that at the end of the day you mix better in that transaction as well.



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**Vishal Shreedhar - National Bank - Analyst**

Okay. While the vendor might not pay, they may give vendor rebates if you promote their product through this platform, is that correct?

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**Vicente Trius - Loblaw Companies Ltd - President**

Correct, yes.

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**Vishal Shreedhar - National Bank - Analyst**

Okay, and in terms of analyzing the store data -- or the customer data, sorry -- would you be able to use this data for adjacent -- and maybe adjacent isn't the best term -- but adjacent analysis, such as better store planogram design, or better identification of key customers?

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**Vicente Trius - Loblaw Companies Ltd - President**

Yes, no doubt about it.

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**Vishal Shreedhar - National Bank - Analyst**

Okay, and if that's the case, what would be the difference between the data gathered in this program and the data gathered in the PC points program, the traditional program, and why can't do you that now?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

We can and we are. What this will allow us to do is get bigger, better coverage. So greater penetration of our total customer base.

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**Vishal Shreedhar - National Bank - Analyst**

Okay, thanks very much.

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**Operator**

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

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**Irene Nattel - RBC Capital Markets - Analyst**

Thanks. Presumably there's been testing -- what I'm hearing, what I'm sure you're hearing is some level of, huh, so you're going to do things differently than the way everyone's been doing them, and we're quite sure that your competitors are not going to react and your customers are going to appreciate it. Presumably, you did a fair level of testing. Just wondering what the consumer response has been in terms of how they value these direct promotions, and how concerned are you that yes, they tell you they value these direct promotions, but they want these direct promotions, plus they want flyer promotions, too, at the same level.

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Yes, we've been working on this for some time, and we certainly went and spoke with a great number of customers coast to coast in Canada. There were three big underlying themes that we felt we could tackle differently. The first is that our customers all were looking for greater convenience in their shop, enabled through some tools that we could provide. That's a big part of this program. The second, particularly as it relates to loyalty programs, there was a feeling that loyalty programs out



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there make the promise of being personalized and make the promise of being targeted, but in fact aren't. Delivering against that is something that we felt very strongly about. The third one that we noticed is a big trend that helped us shape this program was the digital connectedness of customers. Vicente talked about smartphone penetration. It is something that using the phone as a smart way to shop is something that our customers really wanted. Only that really makes it possible. A digital enablement -- [ops] meeting consumers makes this program possible. Without that, we wouldn't have been able to do this.

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**Irene Nattel - RBC Capital Markets - Analyst**

For customers -- with PC Plus, you get offers weekly directly on your smartphone, based on what you have bought. For the customers that are not smartphone-enabled and just are using the card, how -- (technical difficulty)

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**Vicente Trius - Loblaw Companies Ltd - President**

Hello?

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Hello?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Should I try and answer that?

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**Vicente Trius - Loblaw Companies Ltd - President**

Try to answer.

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

If the customer doesn't have a smartphone, or for any other customer, we deliver these offers through an e-mail to the web, and internet household penetration is near-ubiquitous in Canada. To deliver those offers through e-mail, to get that customer to accept those offers on the web, is the way to do that if the customer in fact is not carrying a smartphone.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Okay, thanks, Uwe. Irene, I'm really sorry. I'm not sure if it's your phone or ours, but please feel free to get back on the call and we'll make sure you can ask any other questions you have. At that, can we take the next caller, please?

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**Operator**

Your next question comes from the line of Keith Howlett from Desjardins Capital Markets. Your line is open.

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**Keith Howlett - Desjardins Capital Markets - Analyst**

Yes, when you've got this rolled out at the end of the year, if I'm in Ontario and there's a Fortinos, a Zehrs, a Loblaws, a Real Canadian Superstore, they're all available to me, is your offer going to be specific to a store, or is it specific to me?



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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

The offers are generated specific to you, and they -- you are assigned to a home store, so your store is what is the base for the offers. But if you were to shop at a different Loblaw Companies' store, then those offers would also be redeemable there.

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**Keith Howlett - Desjardins Capital Markets - Analyst**

Thanks.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Keith.

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**Operator**

Your next question comes from the line of Perry Caicco from CIBC World Markets.

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**Perry Caicco - CIBC World Markets - Analyst**

Uwe, you have a lot of experience with redemption processes with shoppers. How will the redemption process work here? Will there be other ways to redeem other than straight dollars off grocery?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

We researched this extensively, Perry. The feeling is pretty strong that that's what our customers want. Our customers want free rewards right in our store. If you think, in essence, that our beautiful grocery store is the reward catalog for the consumer, that's what the consumer walks into, that's what people would want. Now we are in markets where we have gas bars. Gas will also be a reward option available.

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**Perry Caicco - CIBC World Markets - Analyst**

Would you plan to design redemption events?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Possibly. We haven't really thought about that yet.

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**Perry Caicco - CIBC World Markets - Analyst**

What about the roll-out? Obviously, turning back to shoppers, they use the points a lot for special days, for seniors, that sort of thing. Is that sort of broad effort a probability here, or is, or are you focusing on being much more targeted?

---

**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

At the core of it, we are focusing to be far more targeted. That is a far more environment -- economically sustainable path forward for us. We will occasionally sprinkle in some big mass events. You would have seen one this weekend for our launch, for instance. But that isn't the core focus of the program.



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**Perry Caicco - CIBC World Markets - Analyst**

Lastly, is it possible to use this program to assist stores, individual stores, that might be struggling with their sales?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Absolutely.

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**Perry Caicco - CIBC World Markets - Analyst**

Okay, thanks.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Perry.

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**Operator**

Your next question comes from the line of Keith Howlett from Desjardins Capital Markets. Your line is open.

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**Keith Howlett - Desjardins Capital Markets - Analyst**

Yes. I was wondering in terms of households, how these offers work? Do -- if there's a husband and wife, different card, are they accumulating all of the offers together, or maybe across debit card, two credit card numbers, or how does that work?

---

**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

That depends entirely on the customer's preference. You can sign up, up to 20 cards or we call them devices. It could be a card, it could be a credit card, it could be a debit card, it could be a phone, onto one account, so that you can collect with your wife, mother, daughter, in one hole, and share offers and collect points across the entire family. Or if you so choose, you can sign everybody up individually and have them collect points individually. You can even restrict redemptions. For instance, if you've got your kids on a family account, you can say they may earn points, but I don't want them to redeem points.

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**Keith Howlett - Desjardins Capital Markets - Analyst**

Then just on nutrition, is there any ability to tie this to nutritional -- just summarize people what they have bought in terms of nutritional ingredients, or not?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

This is step one in a long journey for us. We believe that the smartphone is fundamentally going to change the way people shop. Making nutritional information accessible to Canadians, both in our stores and in their homes, is going to be a vital part of this program going forward.

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**Keith Howlett - Desjardins Capital Markets - Analyst**

Thanks.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**



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Thanks, Keith.

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**Operator**

Your next question comes from the line of Jim Durran from Barclays. Your line is open.

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**Jim Durran - Barclays Capital - Analyst**

Yes, I apologize. I joined the call late. Have you talked about any metrics in the context of what your expected penetration is of your customer count?

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**Vicente Trius - Loblaw Companies Ltd - President**

Too early at this stage. But let's say that over the weekend, the actual was pretty good, and like Uwe said, he said tens of thousands over three days. Let's say we're right on target and right within our expectations.

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**Jim Durran - Barclays Capital - Analyst**

I assume that there's going to be a fairly heavy advertising program, both outside the store and -- I saw the in-store effort this weekend.

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Yes. The focus really is on quality of enrollment right now, to make sure that our best customers have a very good experience as they enroll into the program, so we have a focus on the in-store program. Yes, you will see an advertising campaign launching -- in fact, today.

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**Jim Durran - Barclays Capital - Analyst**

Okay. Thank you.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Jim.

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**Operator**

(Operator Instructions)

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

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**Chris Li - BofA Merrill Lynch - Analyst**

A quick clarification that this rollout is not dependent on the SAP rollout of your stores? I'm just wondering -- God forbid if something goes not as planned with the SAP rollout, does that in any way impact the rollout of the loyalty program?

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**Vicente Trius - Loblaw Companies Ltd - President**



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No. There will be -- first of all, our SAP is right on target and doing well. I should say that as of this weekend we have already 11 stores -- on the week -- on the call last week I said eight, right now we have 11 stores up and running. It was a very smooth three stores over the weekend. But no impact in relationship to SAP.

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**Chris Li - BofA Merrill Lynch - Analyst**

Okay, and maybe just a quick follow-up. In your earlier answer, it sounds like that the spending that you will be having on your print flyers will be -- should have transferred to loyalty or digital programs on a net basis. Your costs are probably going to be roughly unchanged. But I guess longer term as this digital program, if it scales the way you envision it, do you see an opportunity to really reduce your costs that you are spending on printing all these flyers, and so on a net basis, your costs actually go down over the longer term?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Absolutely. I mentioned that a little bit around the Omni channel, my initial remarks. We definitely believe as a Company that eventually all flyers are going digital. Now there's a condition in my take, with a note we say entailing maybe two to five years to get to a level like this is to be seen, but definitely the savings are substantial. When you look at all in all, there's actually substantial cost savings. It really plays a lot to our strategy that we talk all the time of shelf versus promo, right? It's a strategy that is working, and PC Plus is just an addition to that.

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**Chris Li - BofA Merrill Lynch - Analyst**

Okay. Thank you.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Chris.

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**Operator**

Michael Van Aelst, TD Securities.

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**Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst**

Will the points -- the point value -- increase as a customer collects more points, or is it -- or are you just trying to get your loyal customers tied closer to the network by providing them with more offers to collect points?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

The points, we've designed -- or the PC Points currency has always been designed to be a very transparent currency, to be very simple in terms of the math that customers have to do. A thousand points are worth a dollar. There are no sliding scales or accelerators, so we try to make it very easy for our customers to understand the currency.

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**Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst**

But the loyal -- most loyal customers will get more offers, then, to be able to collect more?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

Correct.



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**Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst**

Thank you.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Michael.

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**Operator**

Your next question comes from the line of Kenric Tyghe from Raymond James. Your line is open.

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**Kenric Tyghe - Raymond James - Analyst**

I'd like to -- the success at Tesco and a number of others. I'm just curious on what the rationale is for the approach you're taking with respect to vendors. I mean, Tesco has seen it work very well with Dunnhumby, and we all know who various other competitors partner with in Canada. Perhaps you could just walk us through the rationale of such a divergent go-to-market strategy with respect to the analytics?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

We do believe that there's opportunity in working with our vendor community and leveraging the data, but that's not where we've chosen to start. We really think that can become a bit of a distraction. We've made sure that we start by focusing on driving profitable sales and focusing on the business we're in. We're not in the business of selling data. That's not our core competency. We're a super market chain, and really focused on making sure that that's where we start.

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**Kenric Tyghe - Raymond James - Analyst**

Great. Thank you.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Kenric.

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**Operator**

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

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Irene, we're sorry.

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**Irene Nattel - RBC Capital Markets - Analyst**

I don't know, someone out there really hates me. But different question this time, but it comes back to my ability to compare. I recognize that I'm going to have different offers on a weekly basis than, say, Michael or Perry. But when it comes to the thresholds -- and you mentioned earlier that there will be different thresholds



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depending on what kind of a household you have. Will I not be able to compare with Michael and Perry at that point, and then realize that Michael, who has several children, his threshold is higher than mine with one? Will I not be able to do that?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

You might. You might have that conversation with him at the dinner table. If that were in fact to happen, then that would be a good conversation, I think, so that would mean people are engaged in the program and paying attention to the program. We certainly would anticipate that there's going to be some social media banter and then some discussion amongst customers about what offers did you get this week. If that were to happen, that would be a big success for us.

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**Irene Nattel - RBC Capital Markets - Analyst**

So you're not worried that I might say, well, hang on one second, I only got two -- I buy this thing all the time, I only got 250 points on the peanut butter, how come you got 750?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

As long as you feel that you're getting value in the program, which I think you will, that will be fine, I think.

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**Irene Nattel - RBC Capital Markets - Analyst**

Okay, thank you.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Irene.

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**Operator**

Your next question comes from the line of David Hartley from Credit Suisse. Your line is open.

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**David Hartley - Credit Suisse - Analyst**

When do you figure it will take for you to feel that the data you gather is robust enough on a national basis for the entire Loblaw retail family, I guess?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**

We have a very robust set of data right now from President's Choice Financial that gives us a very good understanding of how consumers shop. This will just augment that in a big and meaningful way. I think 12 months from now we should have a good view on how much incremental value we can drive out of this incremental value.

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**David Hartley - Credit Suisse - Analyst**

Is there a segment of your customer base that perhaps doesn't use or doesn't access the debit card or MasterCard points programs that has necessitated you moving towards this kind of program in particular, or is it more broad-based than that?

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**Uwe Stueckmann - Loblaw Companies Ltd - SVP, Marketing**



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It is more broad based than that. Just allows more Canadians to participate in the program.

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**David Hartley - Credit Suisse - Analyst**

Okay, fair enough. Thanks.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, David.

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**Operator**

I'll now turn the call back to Janet Craig for closing remarks.

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**Janet Craig - Loblaw Companies Ltd - SVP, IR**

Thanks, Lisa. On behalf of Loblaw, we wanted to thank everyone today for participating in our teach-in conference call. I mentioned earlier, we look forward to your comments and feedback so we can continue to improve on this and other investor communications activities. With that, I wish you a good day.

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**Operator**

This concludes today's conference call. You may now disconnect.

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