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PRESENTATION

Patricia Baker - *Scotiabank GBM - Analyst*

Good afternoon, everyone, and welcome back from lunch. We are about to resume the presentations, and it is my great pleasure to introduce to you this afternoon Richard Dufresne or Richard Dufresne, now that he lives here in Ontario, who is the -- most of you know him as the CFO of George Weston Ltd., but he's here today in his newly minted capacity as CFO of Loblaw Companies Ltd. Okay?

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

So we sit?

Patricia Baker - *Scotiabank GBM - Analyst*

We can sit.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Is there a fireplace or something?

(laughter)

Patricia Baker - *Scotiabank GBM - Analyst*

Use your imagination, Richard. I know you have one.

It's not been the proverbial 100 days, but it's been two months, I think, maybe tomorrow --

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes.

Patricia Baker - *Scotiabank GBM - Analyst*

-- since you took on your new role, and I guess it'd be fair to say your new partnership with Galen Weston in terms of running and driving the strategy for Loblaw Companies Ltd., and, of course, the integration with Shoppers.

Do you want to share with us what you've been doing, what you're thinking, progress, and your vision?



Richard Dufresne - Loblaw Companies Ltd. - CFO

Sure. Sure. I think the most important thing to talk about is to describe to you what is our strategy for, I guess I'd say, short to mid-term. Everybody's heard about our mottoes, Live Life Well, and our theme on health and wellness, but since we've completed the Shoppers acquisition, we went to our Board, I guess, a few weeks after I joined to outline them what we would be focused on over the next little while, and it's sort of four-pronged, and I think it's very important for investors to understand what we're focused on, and I want to ensure to you that everybody is aligned with these four topics, I guess, that we're focused on.

I guess the first one, which is sort of a key element to the whole thing, is to have stable operating model. What do we mean by the stable operating model? We need our core businesses -- we're talking our food retail business and our drug business -- to deliver positive comp sales, and positive earnings growth, and we feel that now is actually a great environment to be able to deliver on that, as we feel that the environment for the next little while -- I'd say probably for the next few years -- is well positioned -- is good enough that it will allow us to do that.

By that I mean, if you look at the square footage that's been adding in the grocery space over the last 5, 10 years, I guess the last few years I have in my head we're talking about 3% a year square footage growth. We're not seeing these numbers for the next three years. We're heading down, very quickly, probably around 2%, and I saw a number for two years from now, maybe 1%.

So, we're seeing less square footage growth coming in to the market, and to us, that's a key factor that will allow us to sort of help us deliver on a stable earnings model. And I'm sure you'll have more questions about that topic in specific, so I'll get to that later.

The second focus on -- and, by the way, just from a structure perspective, so, Galen is President. I'm CFO. Grant Froese has been named COO, and Grant Froese's role is to deliver on the first topic -- stable operating model. He oversees both the Market and Discount division in Loblaws, and so his objective is to deliver on what I've just mentioned.

The next topic is efficiencies. We're coming towards the end of the deployment of SAP. I think we're getting close to 400 stores deployed on SAP, as we speak, and I think we're -- we feel really good about our objective to convert all our corporate stores by year end to SAP.

So, when that gets completed, at some point, hopefully next year, we will see costs starting to go, because, essentially, we won't be spending on SAP any more. We will be able to start decommissioning a few IT systems. So, you'll see costs coming down, and then, also, the benefits of SAP will start to trickle in. And so -- but so -- the second, I guess, focus is on efficiency.

So, we want to get costs out. SAP's going to be a driver of that, but we have not stood still. As you know, we've been reducing our headcount for the last, I guess, two years now, and we're not over. So, we'll continue on that journey. So, therefore, we need to continue to deliver on efficiencies, and Sarah Davis' role now, as the Chief Administrative Officer, her role is to deliver on that one.

The third one is synergies. So, we completed the Shoppers acquisition, I guess, end of March. So, we're sort of two quarters, close to two quarters, under our belt right now, and we feel good about our synergies. We reiterated in Q2 that we felt good about our objective to have CAD100 million 12 months after the acquisition, and I can confirm that we're still on that -- on that track.

And so, me, as CFO, I've got that responsibility. So, I need to ensure that we deliver on our synergies, and I think we're heading in the right direction. So, that's the third one.

And the last one, not least, is when we closed the transaction, Loblaws had about CAD11.7 billion of debt on its balance sheet. We have always said that we want to maintain our investment-grade credit rating, and, as such, through discussions with the rating agencies, we've essentially figured out that CAD11.7 billion we're at 3.6 times debt to EBITDA, and to be in sort of the safe zone we need to be around 3 times or lower.

So, based on our projected growth in EBITDA over the next few years, and our cash flow generating ability, we determined that we need to reduce debt by some CAD1.7 billion between now -- I guess between March and, I guess, end of March 2016, I guess.

So, we've paid down CAD350 million in Q2. We're well on our way to do the same in Q3, and the plan is very well laid out to be able to de-lever by some CAD1.7 billion over the next little while. So, the only wild card now will be to make sure we deliver the EBITDA that we need to get the denominator of that ratio in line, and based on the plan we have on the table, we should be there. That's when I said to my first point, Grant Froese needs to deliver on that.

So, those are, essentially, the focus of Loblaw over the next little while, and, if we do that, that will allow us to get going on buybacks, and, obviously, from my perspective, I want to hit our debt deleveraging target as fast as possible, so that we can get going on buybacks.

As you've noticed, over the last little while, we've been -- we've increased our dividend at Loblaws and Weston over the last, I guess, year and a half. So, we want to continue on that trend.

We've not been very active on buybacks, but we see that as a catalyst to use our excess free cash, once we've reached our debt deleveraging target, because while we're going to get -- let's say by December of next year we get close to 3 times, we can stop paying down debt, and by the growth in EBITDA, our debt-to-EBITDA ratio will continue to fall. So, it'll allow us to, essentially, shift the use of our free cash to debt repayment towards share buybacks.

So, that's -- so, that's the plan, essentially, and I feel quite good about it, because I think if you look at we've put the right people in the right place. We each have our little piece to do to ensure that happens, and so, therefore, there's no confusion. It's pretty clear, and everybody is aligned, so that's what we expect to do.

Patricia Baker - Scotiabank GBM - Analyst

Okay. Probably a little unfair question, but when you just -- that last remark, there's no confusion, do you think in the past there was more confusion than there is now, and that's one of the reasons why it's going to be easier to get things done?

Richard Dufresne - Loblaw Companies Ltd. - CFO

I don't know. I wasn't there two months ago.

(laughter)

Patricia Baker - Scotiabank GBM - Analyst

Okay. Like I -- okay, unfair question.

Going back to point number one and the responsibility that Grant Froese has for stable operating margins, okay, so, let's delve a little bit into what you mean by that.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes.

Patricia Baker - Scotiabank GBM - Analyst

What's your definition of a stable operating margin? I'm not necessarily asking you to give us the margin --

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes. No, no, no, that's a good point. Like, when we look at our pricing position in both banners, we feel we're there. Like, I think we're at a good price position in our Market division.

Patricia Baker - Scotiabank GBM - Analyst

Okay, yes.

Richard Dufresne - Loblaw Companies Ltd. - CFO

And we're at a good price position in our Discount division. So, therefore, other things being equal, we should be able to drive sales, and, therefore, margin. I guess if you look at our comp sales performance over the last few quarters, it's been good. Obviously, there's tons of inflation, so, we can talk about that later. But that will evaporate at some point.

But as long as we can drive positive comp sales, that allows us to cover our increase in costs that we get in our business year-in, year-out, and it allows us to deliver on our margin.

And, also, when you're shooting for stable, stability, it helps you manage, because you know what you need to shoot for. And so, it puts less pressure on merchandising and on supply chain to be able to execute on the day-to-day stuff, and that makes our life easier.

So, therefore, I think it's -- to have one person in charge of both divisions, I think it's quite positive, because in the past, like both the way the Market and Discount divisions, they're totally separate. So, they've got their own budgets, and they have their own plans. So, they need to drive to deliver their own results.

But with Grant on top, he's going to make sure that the whole works, rather than one, is going to succeed versus the other.

Patricia Baker - Scotiabank GBM - Analyst

And to paraphrase a little bit, I guess, what you're talking about here is that when you say stable, you really mean getting more predictability into the business so that you can manage the business better.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes. I need the EBITDA numbers I've got in my head to be able to get to my deleveraging targets.

Patricia Baker - Scotiabank GBM - Analyst

Yes.

Richard Dufresne - Loblaw Companies Ltd. - CFO

And if I do that, if I become more frugal with CapEx, we're going to generate more free cash, and we're going to just be able to do more of what I'm just talking about, and Shoppers will definitely help, too, on this.



Patricia Baker - Scotiabank GBM - Analyst

Just one other area that for a big grocer that is particularly important, and in terms of driving sales, there's an incredible delicate balance that you have to execute on, between labor hours and to get the sales.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes.

Patricia Baker - Scotiabank GBM - Analyst

Can you talk about your philosophy there, what you're doing? Because there have been times where it has looked erratic.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes, no, I guess, but you need to talk about that for both Market and Discount division. In discount, it's quite easy, you want to drive sales per labor hour as high as possible to be able to get to your number.

When you get into the Market division, it's a bit more tricky, because if you've seen our new inspire stores, which are doing very well, by the way, you need to invest a bit in labor, and you can afford to invest in labor, if you mix higher, i.e., if you get more margin, and what we're seeing with these stores, with their much broader assortment, their focus on fresh, is we're able to get a higher gross margin.

So -- but that's a combination of some investment in labor, because you walk these stores, you see the depth of assortment, you need more hours to be able to deliver such a show, I guess, to customers. But if you're able to get the higher margin, it works. So, therefore, our philosophy is to try drive, I guess, the EBITDA or slash EBIT margin where labor is on top, and if it works the equation, we're all fine.

So, shrink is important with these concepts, because we're adding a lot of new stuff, and -- but I'm pleased with the numbers I'm seeing, especially with the first ones that we've done a while back. We're getting to good shrink numbers, so that helps us for the more recent ones that I've just opened.

So, I guess, on Market, I think it's fair to say that we've regained our confidence in our Market division with what we're seeing, and you're going to see more of these stores roll out across Canada over the next few years, because we feel good about the concept.

Patricia Baker - Scotiabank GBM - Analyst

And what does that imply for CapEx?

Richard Dufresne - Loblaw Companies Ltd. - CFO

CapEx, I guess -- I haven't -- I didn't go that deep in CapEx yet, but -- and so, the budgets for next year are pretty much done, but, definitely, there's an opportunity to reduce CapEx, and the way we need the business to start thinking about CapEx, because, in the past, Loblaw used to own all its real estate. So, the CapEx program that Loblaw has today in our books for next year is based on that same philosophy, that we still own our stores.

But that's not going to be true, because we're still -- now what we're doing, we're actually building a few new stores that Loblaw will own and then flip to the REIT. We need to be able to isolate the real estate component of those CapEx and sort of say, REIT, over to you, so that we can show the market what is ultimately our real level of CapEx, which is definitely lower than the number that we've quoted to the market in the past. But we're doing that work right now.

And to talk about the REIT for a second, I guess, the REIT is in the build-up phase, because we actually took a bunch of real estate assets, pulled them all together, put a management team on top, and said, go manage it. So, now they're implementing systems. They're internalizing the management of the real estate. They're putting in SAP.

So, they're building all of those infrastructure to allow us to do what I've just talked about. So, that's going to be a further benefit that will trick down to us as time evolves.

Patricia Baker - Scotiabank GBM - Analyst

And on the integration with Shoppers, can you talk, what are the five big steps that have to be completed, and where?

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes. The integration -- we're not even using that word internally, to be very candid.

Patricia Baker - Scotiabank GBM - Analyst

Okay, share your word with us.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Because Shoppers is a very well-run business. So, where we started to, I guess, integrate was the areas of least risk. For example, some corporate environment like tax, pension, treasury, all that stuff. That's actually been quite easy to do.

And just a little anecdote, the people at Shoppers are thrilled, because now all of these people have moved into, I guess, George Weston, because all of these roles exist in George, and they've kept their job, and they've not been assimilated, and we benefit from their knowledge. So, that's something that I'm quite excited to see, that they bring a new way to look at things.

Patricia Baker - Scotiabank GBM - Analyst

So, it's a reverse synergy for George Weston.

Richard Dufresne - Loblaw Companies Ltd. - CFO

It's a reverse synergy, and there's more to it, obviously. Shoppers, the way you need to think of it, compared to us, they're actually a one-banner business that's been running the same banner for the last 20 years. We are multiple, with Market and Discount, so some of the things they do seem quite simple to us, but it works. So, we're actually importing some of their way of doing things, and we need to do more of that.

But, while keeping the business --

Patricia Baker - Scotiabank GBM - Analyst

Distinct.



Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Distinctness, yes.

So, that's a key theme, and so, the focus right now is more on the low-hanging fruit, which are synergies, which are mostly coming of cost of goods. So, we're going to see our suppliers, and we've done our homework, and we're actually talking with these guys every -- all of these days now. We're in the midst of it right now.

So, that's where the focus is. We're starting to plan further integration, but we're going to go slower.

Patricia Baker - *Scotiabank GBM - Analyst*

And while we're up here, if anybody has a question in the audience, don't hesitate to put your hand up, and we'll make sure you get a microphone.

One of the things that you're doing right now, and it's very much a test, or a pilot, is in adding incremental fresh food to some Shoppers locations.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes.

Patricia Baker - *Scotiabank GBM - Analyst*

I don't know how -- I've seen three.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

You've seen three?

Patricia Baker - *Scotiabank GBM - Analyst*

I have.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

You have to go see these stores. You have to go see these stores, like -- I'm very excited about that.

Patricia Baker - *Scotiabank GBM - Analyst*

Can you talk about what you're measuring? Because what I find interesting is that the three stores I saw are all in very different demographics.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes. Okay, I think it's important to explain exactly what we're doing, because I don't want -- because people who don't go to Shoppers won't see the difference, but I think it's important that people understand.



If you look at the layout of a Shoppers, an existing Shoppers today, and a new Shoppers tomorrow with that food offering, it doesn't change that much, because when you go in to Shoppers, on the right-hand side, you've got the beauty boutique, and, essentially the corridor. I don't know if you are familiar with the Shoppers, but you go in, you're in the corridor. You're forced to stay in the beauty boutique, and so, you're in that environment, and that's where all that action is.

You don't want to touch that part of that business. That business is doing fantastically well, high gross margin, and we need to continue to do that.

If you in an existing Shoppers today the grocery is on the other side. And when I was going into stores in the past, I was just not getting excited, because it was grocery with simply food brands that consumers don't know, don't trust. So, you didn't feel excited to go there.

Now, you go in, and it's all President's Choice, and it leads a lot -- it gives a lot of credibility to the grocery section. So, to me, that's a big, big plus. Plus, we have more margin, because we've got the volume of President's Choice, and we're not using another third party with minuscule margins.

And then we've added produce at the front of the store. So, we've got, in some instances, one, two, or three tables of produce, with the full HMR program, and it's right in front of the stores, in front of the windows. You can see the light going on to the -- it actually looks wow.

And our focus here -- and, obviously, this is a pilot. Okay? We're going to do six stores in Toronto, and then we're going to move to another region later. I don't think I can tell that yet. Okay, but anyway, we're going to test it in another region, totally different, to test the concept.

But we're going to have six stores in Toronto. I think we're at five today.

Patricia Baker - Scotiabank GBM - Analyst

Okay.

Richard Dufresne - Loblaw Companies Ltd. - CFO

And so, the next one is coming shortly, I think.

There's one Spadina and Davenport, Dupont, yes? You should go -- if some of you have the time, you should go see it. But the focus is on convenience. Okay?

So, this is not -- we're not going to do that in all Shoppers. This works in downtown areas where it can substitute for a grocery store. But it -- we're selling convenience.

So, we're not selling -- we're not putting the produce at no-frills prices. If you want your produce, it's convenient, so, you'll have to pay for it.

So, we're expecting a good margin, much better than what they were having, but even on the fresh piece we're expecting a margin in the Shoppers-type neighborhood that they used to have. So -- and, obviously, it's still early days, but we're excited about the potential.

Patricia Baker - Scotiabank GBM - Analyst

So --



Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Sorry. Just one thing I want to add. The focus on what we're putting in there is more healthy. Okay? So, aligned with what Shoppers mission, so, you're going to see a lot of our Blue Menu produce, even our HMR. So, there's a theme of health and wellness that pervades the store.

Patricia Baker - *Scotiabank GBM - Analyst*

And how many SKUs do you -- incremental SKUs, just roughly?

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

I have no idea.

Patricia Baker - *Scotiabank GBM - Analyst*

Okay, and then, related to that, ignoring the pilot stores, so, if you go into any Shoppers Drug Mart now, or Pharma 3 in Quebec, there are -- every week there's more PC products in there?

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes.

Patricia Baker - *Scotiabank GBM - Analyst*

So, where are you on that program, and have you started with the --

(multiple speakers)

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Oh, there are SKUs rolling in every week.

Patricia Baker - *Scotiabank GBM - Analyst*

Every week?

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Every week SKUs are rolling in, as we are finishing the inventory of the other stuff, because we don't want to scrap the old stuff. So, we're selling the old stuff, and when it comes --

Patricia Baker - *Scotiabank GBM - Analyst*

(Inaudible).

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

-- when we no longer have them in our warehouse, we're sending in the PC. So, there's a plan that's being rolled out.

But just that, in my opinion, adds a lot of credibility to that section. So, we'll see. It's a pilot, but early signs are quite positive.

Patricia Baker - *Scotiabank GBM - Analyst*

What's the opportunity for incremental square footage and store growth in the distinct Shoppers business?

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Well, we're going to continue at the clip --

Patricia Baker - *Scotiabank GBM - Analyst*

3%?

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes, 2%, 3%. And, yes -- but, again, the other thing on the Shoppers business is we're lapping a lot of the generic price inflation, and we're starting to see it.

Patricia Baker - *Scotiabank GBM - Analyst*

Starting to see it, yes.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

So, our comps in pharmacy are actually being affected positively by that. So, that's good.

Patricia Baker - *Scotiabank GBM - Analyst*

That's good to hear.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

We're seeing it Loblaws, also, so, I assume the rest of the industry will feel it. So, it's a good theme.

The council or federation that we've been an actor in over the last few years -- I guess Shoppers has been, we've just joined -- have done a great job in getting some predictability about how governments want to deal with that. And so, that's been a big positive for us.

Patricia Baker - *Scotiabank GBM - Analyst*

Shifting gears for a second, how do you feel -- you're starting to sound more positive about both businesses.



Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes.

Patricia Baker - *Scotiabank GBM - Analyst*

We had a similar sort of messaging from the other grocers. Are you feeling a little better about the consumer?

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes. Yes, I think the environment is as good as it's been for a while. Like, I think most of the big additions in square footage are behind us, and the Target situation everybody's familiar with.

So, I think we should have a better environment, going forward. So, the onus is on us to deliver in such an environment, and that's what we're gearing for.

Patricia Baker - *Scotiabank GBM - Analyst*

Okay, switching gears a little bit here, but do have a view you can share with us about the potential change in interchange fees and what that could -- you come at that both sides --

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

Yes, I have a very precise view on that.

Patricia Baker - *Scotiabank GBM - Analyst*

Share.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

It will have essentially no impact on us, because we have a credit card business.

Patricia Baker - *Scotiabank GBM - Analyst*

Yes.

Richard Dufresne - *Loblaw Companies Ltd. - CFO*

So, while our credit card business will be negative impacted by the drop in interchange, we have a big retail business that will benefit from interchange. So, if you look at -- I don't think I can reveal those numbers, but if you look at our volume of purchases in Shoppers and Loblaws that are on credit card versus the volume of purchases on our MasterCard, it's actually quite close. So, whatever -- like, it's less than -- it's a really small number. So, it's negligible for us.



Patricia Baker - Scotiabank GBM - Analyst

Okay. Any early data reads on the success of your loyalty program?

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes. Our scanned sale on the program keeps going up. That's a big opportunity for Loblaws, as a whole, and it'll take time. That's a project that we'll take on a little bit later, beyond the four priorities that I've talked about, because think of this -- we have credit card data, we have data on Optimum and we have data on PC Plus.

So, we're far away from the time we can sort of merge all of these things together, but the potential is there. So, once we've embarked on the four priorities that I've talked about and we feel good about it, that's another one that we'll probably start to tackle on.

We all see it as a big opportunity. Our Board sees it, but we need to walk before we run. We have stuff to deliver to the market, and we need to prove that we can do that. Once we feel comfortable, we can tackle that one.

Patricia Baker - Scotiabank GBM - Analyst

Are there interesting learnings coming from both sides, things on the Optimum program that inform the PC program, and vice versa?

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes. Oh, yes. Yes. Sorry, I can't talk about that.

Patricia Baker - Scotiabank GBM - Analyst

You can't tell us any.

Richard Dufresne - Loblaw Companies Ltd. - CFO

But it's good. It's really, really good. It's really good, like, obviously, they've been using Optimum for years. Those of you who are Optimum members, and who have provided their email address, because we're still trying to get up our number of email address, you get emails once or twice a week about promotions, and you should see the takeup of these promotions.

We clearly see the potential of switching Optimum to a digital platform, a bit like PC Plus.

Patricia Baker - Scotiabank GBM - Analyst

Sure.

Richard Dufresne - Loblaw Companies Ltd. - CFO

So, that we can be a little bit more stealthy, and sort of say, we can send you stuff directly to you based on what you buy. And that's the next level of Optimum on its own, and the ultimate level is how do we look at all of this and have it all fit together.

But, yes, there are clear learnings. On the PC Plus side, we're just starting, but it's a big potential.



Patricia Baker - Scotiabank GBM - Analyst

Now, just getting back to pharmacy for a second, and the referencing of Shoppers Drug Mart being a distinct business, which is very important here, why don't we touch a little bit on how you're running pharmacy inside Loblaw, because I think some people might have mistakenly thought it was just going to be run by Shoppers, which it isn't?

Richard Dufresne - Loblaw Companies Ltd. - CFO

No, no. We're still running it within Loblaws, but we're getting input.

Patricia Baker - Scotiabank GBM - Analyst

How to do it better.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Exactly. No, and we're starting to see benefits of that, also.

Patricia Baker - Scotiabank GBM - Analyst

In the interest of being fair to the other grocers, I'm going to ask you a question that I asked both Marc and Eric earlier, and you touched on your conventional, or what you're now calling Market business. And, for the last five years, we've heard everybody talk incessantly about discount and the rapid growth in discount.

Then last year or so, six months, people are starting to bring up the word "conventional," as if it's not a dirty word, and we're talking about this being a real, legitimate business that we're interested in, again.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes.

Patricia Baker - Scotiabank GBM - Analyst

And everybody's really pushing fresh, yourselves included, and I pointed out that when I see an inspire store, or a Metro Plus or an IGA Extra, these are stores that I want to shop in, because they all look fantastic, and they're all quite enticing.

So, how -- when everybody's doing pretty the same thing, how do you differentiate in that context?

Richard Dufresne - Loblaw Companies Ltd. - CFO

Well, I think our inspire offering is quite distinct. And I can tell you, it's distinct, also, from the financials. Like, I can see the lift in sales and the lift in margin. And so, like we knew that at Loblaw that we had to revamp our Market offering, and we tested something, which was called Maple Leaf Gardens, and that was a huge success. So, that gave us the confidence we needed to try more.



So, we did Queen and Portland. We revamped a St. Clair in Bathurst. And each time, said, wow, wow. So, it's just like we tested a new concept. It worked. So, now we're deploying it, and each time we open a new one, we're quite excited by its potential.

So, right no, we're trying to assess how big is the opportunity.

Patricia Baker - Scotiabank GBM - Analyst

Okay.

Richard Dufresne - Loblaw Companies Ltd. - CFO

So, for example, in Western Canada, we don't have much of a conventional business. So, now we have a box that can really compete. So, we've opened one in Vancouver, and there's plans to open others.

So, it's all about -- ultimately, it's all about the numbers. And if you launch a new concept and you deliver numbers, then you're going to say, hey, let's do more. So, right now, it's working, and we feel confident. We're driven. You talk to Gary Senecal, who runs the Market division, like, I'm going to be his biggest obstacle, because he would want to spend way more capital than I'm going to give him to invest, but that's good, because that will allow us to at least drive value in that part of the market.

So, no, we feel good with the Market division, and it's probably just a reflection that we have a concept that appeals for our consumers right now.

Patricia Baker - Scotiabank GBM - Analyst

Are there any questions? Okay.

What do you see the biggest -- you outlined four things that you're -- four elements of your strategy, and they certainly all make sense and are quite logical, and if you achieve all of those, it'll be --it'll certainly deliver out-sized returns.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Yes.

Patricia Baker - Scotiabank GBM - Analyst

What do you see as the biggest challenge to getting there?

Richard Dufresne - Loblaw Companies Ltd. - CFO

The biggest challenge right now, after being -- I'm going to talk specifically Loblaw now. To me, the biggest challenge is we need to get to use SAP in the right way. Because it's a big change management thing, okay, because you've got people who have been using legacy systems for a while, and now you've got the new tool, and it's not easy to convince people to switch.

So, a lot of efforts, now that's becoming deployed and the tools are becoming available, to entice people to use them and get the benefits out of it. So, we're going to be very focused on that, and once we successfully do that, that should help our business. But that's -- to be very honest with you, that's the only thing I really worry about right now.



I think the rest of the business is doing fine. The pharmacy business is doing fine. Our deleveraging plan is on target. Our comp sale is doing well.

So, no, I think the environment, as I said it's -- I feel positive about our business for the next little while.

Patricia Baker - Scotiabank GBM - Analyst

Well, I think that's a great note to end on, Richard.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Good.

Patricia Baker - Scotiabank GBM - Analyst

Thank you very much.

Richard Dufresne - Loblaw Companies Ltd. - CFO

Thank you.

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