

FINAL TRANSCRIPT

Thomson StreetEventsSM

L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Event Date/Time: Nov. 13. 2008 / 11:00AM ET

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

CORPORATE PARTICIPANTS

Inge van den Berg

Loblaw Company - VP - Public Affairs, IR

Bob Vaux

Loblaw Company - CFO

Galen Weston

Loblaw Company - Executive Chairman

Frank Rocchetti

Loblaw Company - Chief Merchandising Officer

Allan Leighton

Loblaw Company - Pres. & Dept. Chairman

Dalton Philips

Loblaw Company - COO

CONFERENCE CALL PARTICIPANTS

Michael Van Aelst

TD Newcrest/Waterhouse Securities - Analyst

Perry Caicco

CIBC World Markets - Analyst

Winston Lee

Credit Suisse - Analyst

Irene Nattel

RBC Capital Markets - Analyst

Ryan Balgopal

Scotia Capital - Analyst

Jim Durran

National Bank Financial - Analyst

David Hartley

BMO Capital Markets - Analyst

Keith Howlett

Desjardins Securities - Analyst

PRESENTATION

Operator

Good morning ladies and gentlemen. Welcome to the Loblaw Company's limited third quarter results conference call. At this time all participants are in a listen only mode. Following the presentation, we will conduct a question and answer session and instructions will be provided at that time for you to queue up for questions. (OPERATOR INSTRUCTIONS) I would like to remind everyone that this conference is being recorded today, Thursday, November 13, 2008, at 11:00 AM Eastern time.

I would now like to turn the conference over to Inge van den Berg, Vice President Public Affairs and Investor Relations. Please go ahead.

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Inge van den Berg - Loblaw Company - VP - Public Affairs, IR

Good morning, and welcome to the Loblaw Company's Limited third quarter conference call. This call is also being webcast simultaneously on our website at www.loblaw.ca. I'm joined here this morning by Galen G. Weston, Executive Chairman; Allan Leighton, President and Deputy Chairman; Dalton Philips, Chief Operating Officer; Frank Rocchetti, Chief Merchandising Officer; Bob Vaux, Chief Financial Officer; and Sarah Davis, Senior Vice President, Financial Operations.

Before we begin today's call, I want to remind you the company's discussions will include forward-looking statements, such as the company's beliefs and expectations regarding certain aspects of its financial performance in 2008 and future years. These statements are based on certain assumptions, and reflect management's current expectations and they are subject to a number of risks and uncertainties that could cause material results or events to differ materially from current expectations. These risks and uncertainties are discussed in the company's materials filed with the Canadian Securities Regulators to from time to time including the company's annual reports, and third quarter reports. For any forward-looking statements, speak only as of the date they're made. The company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, other than as required by law. Certain non-GAAP financial measures may be discussed and referred to today. Please refer to our third quarter report and other materials filed with the Canadian Securities Regulators to from time to time for reconciliation of each of these measures to the most directly comparable GAAP financial measures. Our third quarter report as well as the archive of this conference call will be available on our website. I would now like to introduce Bob Vaux.

Bob Vaux - Loblaw Company - CFO

Good morning, and thank you for joining us for today. Total sales are the third quarter increased 3.9% to C\$9.49 billion while same stores sales in the quarter increased by 3%. Old sales and same store sales growth were negatively impacted by about 0.7%, as a result of the shift of Thanksgiving sales into the fourth quarter this year compared to the third quarter of 2007. Sales growth in both food and drugstore were good in the quarter. General merchandise sales were down due to unseasonable weather and the markdown of merchandise to sell through seasonal inventory, and gas bar sales continued to be strong as a result of fuel price inflation and volume growth. National food price inflation, as measured by the Consumer Price Index for food purchased from stores, was 5.4% for the third quarter of 2008. This measure of inflation does not necessarily reflect the effect of inflation on the specific mix of goods offered in Loblaw stores. Our analysis indicates that internal retail food price inflation was moderate for the third quarter 2008.

Operating income was C\$311 million for the third quarter compared to C\$250 million during the same period of '07, an increase of 24.4%. Operating margin was 3.3%, compared to 2.7% in the third quarter of last year. Loblaw realized third quarter basic net earnings per common share of C\$0.56 compared to C\$0.43 for the same period of '07. Q3 was the first quarter in 2008 where operating income, EBITDA, and basic net earnings per common share after considering the impact from restructuring costs and the net effect of stock base compensation and the associated equity forwards were higher than 2007.

Free cash flow for the third quarter was C\$87 million, compared to C\$117 million in the third quarter of 2007. We are continuing to invest in renovations to our existing store base with a focus on generating profitable same store sales growth and in upgrading our information technology and supply chain infrastructure. Our estimate of capital expenditures for the remainder of the year is approximately C\$300 million, which will bring the total expenditure for 2008 close to C\$700 million.

During the third quarter of 2008, the company completed two financing transactions, which generated C\$518 million. In June of '08, a preferred share public offering raised C\$218 million, and in September 2008, C\$300 million of credit card receivables were securitized. The proceeds enabled the company to repay short-term borrowings from its C\$800 million credit facility. As of October 4, C\$273 million was drawn on this five-year committed credit facility.

Given the current difficulties in the credit markets, I would like to address the company's liquidity. The financing transactions completed in the third quarter and earlier in this year, existing cash and cash equivalents, short-term investments and security

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

deposits, including other assets, future operating cash flows, and the amounts available to be drawn against the credit facility are expected to enable the company to satisfy its requirements to repay the MTN note which matures in 2009, finance its capital investment program, and fund its ongoing business requirements, including working capital, as well as pension plan funding over the next 12 months. Nor do we anticipate at this time being unable to satisfy the company's liquidity needs beyond the 12 months. I would now like to turn it over to Galen Weston.

Galen Weston - Loblaw Company - Executive Chairman

Thank you Bob and good morning, everyone. Performance in the third quarter showed some signs of progress toward our goal of becoming an effective selling organization. Margins were acceptable in the third quarter, as we continued to realize benefits from our enhanced operating, buying, and cost management procedures. Yet, we are mindful that further improvements are needed to keep advancing our banner relevant experience and our value with customers. The recent economic uncertainty underscores our need now more than ever to maintain our focus on providing attractive value to the increasingly price conscious consumer. The company remains focused on delivering profitable sales momentum driven by our efforts in food renewal, store enhancements, innovations, infrastructure, and improving value. Continued progress in cost and operating efficiencies are expected to support these investments. However, we are preparing for a difficult close to the current year, and start to the next, driven by the unpredictable economy and continued aggressive competitive environment. Results are expected to be challenged for the remainder of 2008 and 2009. Operator, I would now like to open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now conduct the question and answer session. (OPERATOR INSTRUCTIONS) Your question comes from Michael Van Aelst from TD Newcrest.

Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst

Hi, good morning. Start with an easy one. Can you explain why the inventories were up 16% year over year?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Michael, Frank will deal with that.

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

So part of that is due to increase over last year where we felt inventories were a little light to make our availability targets. The growth in sales and inflation as we just spoke about, and the shift of Thanksgiving all contributed to the inventory growth. Having said that, though, a majority of inventory sitting in food and drug where we don't think quality is an issue nor any margin erosion, but we have work to do in this area and we think we have an opportunity to reduce it.

Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst

You mentioned inflation, can you quantify the, that what moderate means?

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Frank?

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

Well, as Bob stated, we are running below CPI, and in part just we're being very cautious in passing on some of these increases to consumer, but where it's appropriate, we are, and it partly reflects our mix of goods in our store that don't line up exactly with the CPI Index.

Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst

Well, would your real growth have been positive or negative?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Stable.

Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst

And then finally for now, you, you're cautioning for the fourth quarter, which obviously it's an uncertain environment, but you are going up against what was probably the worst Q4 in -- I don't know, decades maybe for this industry. How do you, I guess how do you rationalize the necessity to caution for Q4 when you're going up such an easy comp?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Because we're living in a world which is the most unpredictable it's been for a period of time. We're in uncharted waters, but there is -- already there are signs, consumer confidence falling off. A lot of the economic indicators are going in the wrong distribution. Canada is better placed than most country, but is it going to feel the backdrop of what's happened in US and the rest of the world? Absolutely. So we're very caution about it, and I think that the thing for all of businesses at this moment in time is that most businesses are going into areas and waters in which they've never been in before, so best to be cautious.

Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst

Do you expect to have to provide the same promotional incentives that you did in Ontario last year? Do you expect to do that either in Ontario or western Canada?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Our program for Christmas is set. We think it's a pretty good one and we expect to be competitive.

Michael Van Aelst - TD Newcrest/Waterhouse Securities - Analyst

Okay. Thank you.

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Operator

Your next question comes from Perry Caicco of CIBC World Markets. Go ahead.

Perry Caicco - CIBC World Markets - Analyst

Thanks. Just want to start with a couple questions on sales for the first quarter. First of all, are you available to quantify the impact of gas price increases on the same store sales number?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Frank will cover that.

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

Gas is obviously a contributor to our sales in the quarter, with gas prices being as high as it was, but it's about 5% of our sales, and about 1% -- about 5% of the sales in the quarter were gas, Perry.

Perry Caicco - CIBC World Markets - Analyst

Okay. That's great. Thanks. You mentioned that customer account was up, but item count was flat. I'm just wondering what that tells you about customer behavior relative to your offering so far, and how do you see those two trends playing out?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

I think the trends will probably stay roughly as they are, Perry. It is a -- we're pleased with the fact that our basket size is up, because clearly that's the most that's the most important thing. That's what you drive productivity off the back of, and clearly the customer count is up too, so those two things. I just think you've got, a situation where customers are shopping less frequently, and you see the item counts change largely in the smaller baskets.

Perry Caicco - CIBC World Markets - Analyst

Okay. And just a second question -- with EBITDA margins up over last year, did you experience an improvement in both gross margin rate and SG&A rate versus Q3 of 2007?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Well again, we are talking about margin -- we don't talk about gross margin going to [GPs]. Basically the construct of the business is exactly the same as it's always been, and we'll be going forward, which is we continue to invest margin. Which we get back into A, one in terms of cost of goods, and then secondly in terms of operating margins. And the productivity and the cost productivity in the quarter has been pretty acceptable.

Perry Caicco - CIBC World Markets - Analyst

And then, well, perhaps related to that, you referred to cost reduction initiatives, which certainly helps you in the quarter, but also mention I think that store labor costs were up. Can you square those for us? Where were the cost reductions exactly, and again, what do you think the trend will be on both cost reductions and store labor going forward?

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Cost reductions, are primarily in the central costs, and in, I would just best describe it, what we call is goods not for resale -- i.e. control in the cost of purchase [is a] controllable cost, where the central organization is able to buy significantly better than it's been done in the past. Store productivity will always be slightly challenged because of the labor deals, but largely Dalton and the team have been able to get back in productivity whatever we have to increase in terms of labor. And shrink too, why don't you comment on shrink, Dalton?

Dalton Philips - Loblaw Company - COO

Shrink is a big cost to the business, Perry, and we've been attacking it aggressively and all regions below last year in both rate and dollars. So we've got good programs and we're making strong progress now.

Perry Caicco - CIBC World Markets - Analyst

Okay. Thanks, I'll turn it over to somebody else.

Operator

Your next question comes from Winston Lee of Credit Suisse, please go ahead.

Winston Lee - Credit Suisse - Analyst

Thank you. Someone said that food retailing is fairly defensive in an economic downturn, and I wonder, given that the average basket size is up and you're pleased with that, why do you see Q4 then maybe in '09 as being more challenging -- not from a competitive perspective, I understand that. But from an economic perspective?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

I wish I'd get the same answer, I'm slightly people would be surprised that we would be cautious about the rest of '08 and all of '09. Just pick up the newspapers. There really is a sense of the Christmas, I think the holiday period will both be very competitive, but could be very tough. And the beginning of '09, when the economic backdrop I think will really start to hit home as it always tends to in the first quarters of years, the beginning of '09 I think could be very, very tough.

Winston Lee - Credit Suisse - Analyst

And are you talking about more the weighting tougher or expecting it to be tougher, I gather in the GM side versus food or is that -- ?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Well, I mean, it's across the peak. GM is always challenged in these times and you can see that in most people's businesses across North America. But food too, food is a necessity, and clearly food retailers are generally better placed in hard times than non-food retailers, but generally, there is -- the business does suffer. And I think the thing is, and the reason we are cautious and as I think we should be, is that what is being experienced has never been experienced before. And I'd much rather the business was

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

setting itself up for a very difficult period of time, and sets its cost base and program against that, because then you come out of it much stronger than you do going into it and that's very important.

Winston Lee - *Credit Suisse - Analyst*

Great. And linked into the cost base, can you outline for us how we should think about the progression of your supply chain on key initiatives? Do you start on one side of the country first and roll out or what's the overall thought process right now?

Allan Leighton - *Loblaw Company - Pres. & Dept. Chairman*

Let's start with supply chain. As you know, on the supply chain, we're really focused on the infrastructure piece and there's a lot of work happened and is happening there. Ajax is up and running. South Caledon, which is the Joe distribution center, is now up and running, being very effective. We've put together North Point, which is a slow moving DC in the west, which has enabled us to take all our slow moving products out of the four DCs and put them into one. That's having a very positive impact on the supply levels in the west. Pitt Meadows has been expanded because it needs to be. Freeport has been expanded because it needs to be. And Harmony, which has been one of our more complex DCs, is being reset. So that is all ongoing work, and the supply chain work certainly for the next 12 months has been on the last six months is very much focused on infrastructure and getting infrastructure right and I think that is -- that is the way forward, and that is done on a DC by DC basis.

As far as IT is concerned, as you know, we've now announced our three partners. The systems clearly are pretty plain vanilla, you just plug them in. So I don't think we have any concern about the system piece of it. The key piece is the process, and the key things is therefore changing the process in a way which sticks, and so we are pacing ourselves accordingly. You remember, the IT program is a three-year program, not three-month program. And so we'll pace ourselves accordingly. We'll start in the areas where there is the most benefit on one hand, and also where the [LIBOR] assets and so antiquated in the other, and we expect to over that three-year period execute in that way. So it is very detailed in terms of how it's being planned, but I think the most important thing is we're doing it where it has the most impact first. But we're doing everything in a way where we pace ourselves accordingly.

Winston Lee - *Credit Suisse - Analyst*

Thank you for that color. And I wondered on your pension, Bob, you mentioned a pension and you're looking at being able to fund that going forward. Could you provide us just a view of an update on your pension, last valuation update or how we should be thinking about it? Is something coming up in terms of an actuarial update? And what you think about your cash contribution in '09 versus what you experienced in '08 so far?

Bob Vaux - *Loblaw Company - CFO*

If you refer back to the '07 annual report, we said at that point in time the fair value of the assets were about C\$1.2 billion. C\$1.161 billion to be exact, and the liabilities were C\$1.232 for a C\$71 million deficit. So coming into the year we actually came in relatively good shape. Our cash funding in '08, as we said in the '07 report, was planned to be about C\$76 million, and we're basically tracking that. The recent events in the capital markets clearly have left us with expected returns for this year that will be lower than what we assumed in our actuarial assumptions, and therefore our unfunded position, if we did nothing, would be certainly lower than what we came in the year on. We're actually not required, I think our funding is in good enough shape that we're not going to be required to top it up and put money in, but we're watching the situation, and we'll have dialog with our board in terms of what we may or may not do in terms of dealing with what's happened in the markets. But on balance, we're quite comfortable that given the liquidity we have available to us, and given the fact that we're not required to do anything in near term, we're very comfortable that we can do what we, what the board believes is prudent in terms of possibly topping up some part of this funding.

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Winston Lee - *Credit Suisse - Analyst*

Terrific. And I have a last question if I may, on credit cards. I was pleased to see that you guys were able to reinstitute securitization. How did you do it given that the credit markets are so difficult for this type of activity and do you expect to be able to continue to be able to do that going forward?

Bob Vaux - *Loblaw Company - CFO*

Well, again.

Allan Leighton - *Loblaw Company - Pres. & Dept. Chairman*

Because he's brilliant.

Winston Lee - *Credit Suisse - Analyst*

I think that's helpful, yes.

Bob Vaux - *Loblaw Company - CFO*

Look we got it done. We're happy we got it done. And clearly it's a win-win for both us and the party we did the securitization with. In terms of going forward, there's no question securitization is, is challenging for all issues today, and as we look at our liquidity over the next year, we're not counting on having to do additional securitization in order to meet our needs. But we're hopeful the market will open up and be in a position to further securitize.

Allan Leighton - *Loblaw Company - Pres. & Dept. Chairman*

That's a good example of the caution we talk about, our assumption is we won't be able to do. And therefore we set this all out accordingly, then if we can, that's in the positive.

Winston Lee - *Credit Suisse - Analyst*

I think that's prudent. Great. Thank you.

Operator

Your next question comes from Irene Nattel of RBC Capital Markets. Please go ahead.

Irene Nattel - *RBC Capital Markets - Analyst*

Thanks and good morning, everyone. Just continuing on the whole notion of caution, which certainly seems warranted, we had a couple of retailers here in Canada report recently, in saying that October was actually okay for them. Would you be able or willing to give us any color on how October or how the quarter to date has been for your GM?

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

In one word, Irene, no, unfortunately. You have to wait until the next set of results. As you know, though, I think any phase -- the key month is December for everybody.

Irene Nattel - RBC Capital Markets - Analyst

Absolutely. Allan, you provided a little bit of an update -- in terms of the five key initiatives you touched on IT and supply chain, and certainly we've seen the new insiders report, but could you provide some update on how you feel about -- or where you are in the other initiatives and how you feel overall about them? Can you comment on those?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Irene, I'll get Dalton to update you on those, he's managing those.

Dalton Philips - Loblaw Company - COO

Hi Irene. On the Back to the Best program, the renos have been completed in 12 stores, 12 of the 18 and so we're on track there. 1,000 new jobs have been created, on track there. And then the Fresh Standards have been launched in those stores. The new graphics have gone in, new ads, pricing, investments, [wattage], new assortments came in, so feeling about the Back To Best. The second point that we talked about was In the West and to the restructuring program there, so we'll have eight of the 25 superstores finished by the end of this year, so that's on track. On the No Frills side, we'll have 12 open by the end of the year, got nine at the moment and on track there. And also we talked about 20 new No Frills going into new sites, and we now have ten identified and the first one will be open at the end of Q1 '09, so feeling good about that. The third point we talked about was the local merchants, that's 85/15 split that we had talked about. That's in place. Teams are in place, programs been developed, but Irene, you won't really see the impact of that until early 2009. Allan covered the IT, and on the 20 -- on the PC side, that's all under -- that's going very well. 500 redesigned no named products are on track. And then you've obviously seen from the holiday inside report what's going on and obviously the Prices From the Past. We're very excited about Christmas. And just on that note, the Price From the Past worked very well. We've got the PC (inaudible) launched in 1993, and you can buy it today for the same price it was launched at. So we're feeling good about the five point plan.

Irene Nattel - RBC Capital Markets - Analyst

That's great, thank you. Thank you very much.

Operator

Your next question comes from Ryan Balgopal from Scotia Capital. Go ahead.

Ryan Balgopal - Scotia Capital - Analyst

Thanks, good morning. Just wanted to clarify, Allan, did you say that volume was flat in the quarter?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Yes, I mean, flat to upper [tab].

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Ryan Balgopal - Scotia Capital - Analyst

Okay. So we are seeing a deterioration from over the last three or four quarters. Can you speak to why you think that is?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

I mean, there's a couple of things that are really happening, really is I think sort of volume and [items] always a difficult measure if you've got items going down, which is what we've got to a degree, volume goes with it. It depends on what the measure of volume is. So I don't really read anything into it. The key thing for us really is to look at what happens with basket size and what's happening in terms of customer count. So we're not, we're not too fazed by it. And in some of the markets, particularly the west, it's been volume still very, very strong.

Ryan Balgopal - Scotia Capital - Analyst

So are you implying that tonnage is much better than item volume?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

It's hard to read, and because tonnage is sometimes important in fresh food, and items are very important in terms of groceries, so you're always trying to blend the mix together. The way I read into it, is there's a bit of movement but not anything that's particularly significant or that we're particularly chastened about.

Ryan Balgopal - Scotia Capital - Analyst

Okay. And I wonder if you can just talk about the performance of the different categories of stores. I think your discount stores had been performing much better than conventional. I'm wondering if that's still the case, how that's evolved? And maybe just talk about the consumer. Are you seeing trading down between categories of store or even within products?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Well, Frank will talk about the consumers and then we'll pick up the banner point. Do you want to?

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

Yes. Over the last couple of months, particularly in the quarter here we started seeing a movement to our controlled brand and particular no name, so it's very evident that consumer is looking for value. And so we feel with our two big brands there, we're positioned to take advantage of this. And Dalton will comment on the stores with regard to any shipped.

Ryan Balgopal - Scotia Capital - Analyst

Just before. Are you seeing any change to ship to lower quality cuts of meat or produce, that sort of thing?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Not really. Again, there's a bit of down trading. No name has picked up well, and we're pleased about that, because we've got this big no name program coming down the track, but basically, that's it. And again if you go back to the fact the basket size

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

up, the customers count's up, there's a bit of change but not significant yet. And if you look at the different banners and format, there's really not a lot between them. They're all performing at roughly the same levels.

Ryan Balgopal - Scotia Capital - Analyst

Okay. I wondered if you can just comment on Joe Fresh. I'm assuming maybe some of the inventory build is part of that, what your outlook is I guess for the quarter. And also maybe just your purchasing costs of that I would assume have gone up significantly with the lower Canadian dollar?

Dalton Philips - Loblaw Company - COO

I'll comment on Joe. Pretty good quarter in Joe we're trending better. It is part of the inventory build. You remember last year we had difficulty landing product in the quarter, but actually the quality of inventory is pretty high and we don't anticipate running into issues there. We made some significant change in our lot just fixing flow of goods to store, which is bringing a [pair] model forward and we've converted onto Retek, so we feel pretty good about the Joe business an the way it's tracking.

Ryan Balgopal - Scotia Capital - Analyst

Okay. Thanks very much.

Operator

Your next question comes from Jim Durran of National Bank Financial. Please go ahead.

Jim Durran - National Bank Financial - Analyst

I was wondering if you were to look back on this quarter and compare it to the dialog you had in the second quarter, where you got a little cautionary with with respect to margin expectations for Q3, what are the major things that have changed in your favor that have driven the margin up so much in the quarter?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

I don't think our view on the margin has changed very much. I mean -- this construct of the business is to continue invest in the value position, which is at a cost of margin. Mix that back, which I think we've been able to do slightly better, and then in overall margin, which is the thing I always look at, the operating margin of the business, is make sure you run your costs in such a way that you can make that model work. And that's exactly what happened, and that's will continue to be the model that happens, so there's not really that much difference. And clearly the sales are slightly higher than that helps, but primarily the construct of the business in terms of margin and cost in the balance of those two and the mix back is exactly the same.

Jim Durran - National Bank Financial - Analyst

So ignoring the fact that there's a tough economy out there, do you feel that you've got your act together now in managing those variables, although maybe the early stage?

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

I think we have, I can only describe it as getting our act together. The way I think about the business at the moment, it is best described as edging forward. And we've edged forward a bit. But I don't think anybody should read any more into it than we edged forward a bit. We're still along way from being right.

Jim Durran - National Bank Financial - Analyst

And on the Great Foods store renewal project, can you give us any indications as to how those stores are performing? Some of them are already completed for a period of time?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Headline is we're pretty pleased with them. And the customer reaction has been particularly good, particularly good in fresh, and they're not complete. Some of them have been physically complete, but there is still more work and more things to come. And in reality, I think it's probably the end of Q1 before we'll really see the total impact of what we've done, but we're pretty pleased with what's happened so far.

Jim Durran - National Bank Financial - Analyst

Are you pleased enough to expand the effort next year versus what you were thinking of before?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

We, I think we'll go, yes, we'll go at the same pace. I mean, as I said, I'd like to capture all of the learning and I think we've got half of it, and it's been positive. I think there's another half of learning to come, and I want to make sure that when we roll stuff out, that we're rolling out in a more complete way.

Jim Durran - National Bank Financial - Analyst

Just last question -- as you look out now over the next several quarters and talking about the tough environment, would you expect to have a more aggressive price stance than what you might have been anticipating before the world fell off?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

We feel, we're reasonably comfortable, where we're sitting. We are -- we've established I guess in primarily in our [Harperscale] and in the superstores a place which is around where we want to be. We probably still have a little bit more to do in conventional, but actually, the way we will do that is as we make other changes in the offer, we won't just change price alone. It's a very competitive market out there -- the flyer piece of the activity is always pretty aggressive, so we'll continue to compete in that. So I think what we said before -- we made the big price adjustment, but pricing is something that's, a way of life, so we'll continue to adjust as we go to make sure that we are competitive, and in one of two of those formats, we are the lead on price.

Jim Durran - National Bank Financial - Analyst

And if might, just one more question, with respect to the IT changes that are coming up, are you going to be providing us with some key dates that we can keep an eye on what's coming down the pike?

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

I think we'll give you some chunks rather than -- I think we can, we can probably give you some stuff on a quarterly basis, things that you should be looking out for. I think that's the way to do it. So yes, we'll probably as we develop the plan -- and the plan is in pretty good shape, but again I'm just -- we can doublecheck in all the time, just want to make sure that we go at a pace in which things stick. There is, three years is a long time, and in three years, you can get things pretty well right, and and that's why the only point I make to everybody is, the point I made earlier on is, all of the IT stuff is a three-year program. It is not a three-month program. And so we'll give you some chunks that you can check the progress on.

Jim Durran - National Bank Financial - Analyst

Thank you.

Operator

Your next question comes from David Hartley, BMO Capital Markets. Please go ahead.

David Hartley - BMO Capital Markets - Analyst

Morning and thank you. Just a few questions here. Just the, just to be clear the CapEx program for this year, I believe it was at C\$800 million, now it's C\$700 million; is that correct?

Bob Vaux - Loblaw Company - CFO

That's correct.

David Hartley - BMO Capital Markets - Analyst

And what, is there any guidance you may be able to provide at this, at this point in time, especially given that you're talking about a similar pace for certain initiatives in 2009 that you had in 2008? Will you expect CapEx to be kind of a similar number or would you expect it to be at the C\$800 million to C\$900 million level next year, a little higher?

Bob Vaux - Loblaw Company - CFO

It won't be materially different than this year.

David Hartley - BMO Capital Markets - Analyst

Okay. And, and the change in CapEx, you would probably -- would this be more attributed to the economic environment, or just some pushback and maybe some costs or some initiatives, whether it be the IT side or store side?

Bob Vaux - Loblaw Company - CFO

I think there's a number of different, number of factors. One is we're, I think we're making good progress on the efficiency on our spend on capital. We're watching hurdle rates and tightening them as appropriate, and the other thing is simply the timing

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

of it. As Allan said we're making sure that we do things at the right pace, instead of rushing them. So those are the three things. In terms of split between retail and infrastructure, roughly the same as was included in the C\$800 million.

David Hartley - *BMO Capital Markets - Analyst*

Okay. So nothing's -- no initiatives are falling through the cracks? You're not eliminating anything really, you're just -- ?

Allan Leighton - *Loblaw Company - Pres. & Dept. Chairman*

No, only eliminating only what didn't work. But generally it's as Bob says, is that we've raised the hurdle rate timing -- that's a very sensible thing to do. And secondly we've just become much more efficient. We've done more activity probably in the last quarter than we've done for a couple of years. And particularly, remember it's a different type of activity, so a lot of activity is focused on renovating existing stores as opposed to building new ones. And we'd just getting much more efficient, and as we should see, and for me that's a bit of a test of the progress of the overall organization, that it can do those renovations in a shorter period of time at a lower cost with a better result. And you're starting to see a bit of that in the capital for this year and for next.

David Hartley - *BMO Capital Markets - Analyst*

And as it relates to all the initiatives that are undergoing here, the consultant cost side of the things -- I know you may not want to get into talk about dollars, but could you give us some indication as to where we are with that, the need for consultants, these, if you will, the discretionary spend on consultants we've seen over the last few years, and do you expect to see any exiting of these costs going forward?

Allan Leighton - *Loblaw Company - Pres. & Dept. Chairman*

Well, I think as I made the point the last time, is as far as I'm concerned, consultants are off the agenda. But to the direction, number one thing is the consultant costs are less. And secondly, we're using them less and less in the core business. Clearly as I said last time, as we do more work in particularly in IT, and what we'll show as consultants costs are often labor that we bring in, that go under that banner that we use on a temporary basis as opposed to building up our own headcount. So the consultant cost of the business is way down. The consultant use in the business is way down and that's what will continue. Will that be one the bigger pushes in terms of your margin in the quarter or -- ? It's an element of, but I mean generally our costs control. And our productivity has improved. But as far as I'm concerned, there's still some way to go.

David Hartley - *BMO Capital Markets - Analyst*

Okay. And maybe to switch gears a little bit, in terms of regionally across Canada, I don't want to get your sales figures regionally although I'd love to have them.

Allan Leighton - *Loblaw Company - Pres. & Dept. Chairman*

(inaudible)

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

David Hartley - BMO Capital Markets - Analyst

The regional environment, maybe you can talk a little bit about a different areas of the country where you're seeing more pressure, more opportunity, and maybe start with Quebec where it seems that the promotional environment started to heat up a little bit more of late?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

I mean, again, it's much the same all over the place, all the markets are pretty competitive. The Atlantic is pretty competitive at the moment. Quebec is. You may be right, they're heating up a bit because of running into the holidays. Ontario is always a pretty competitive, as is the west. So there's no difference in our mind between any of the parts of the country, and we're trying to compete in them all.

David Hartley - BMO Capital Markets - Analyst

Now, did any of the promotional programs you've seen out there or spending, did it have, are we seeing only a limited impact in the quarter that just passed and we'll see more impact in the quarter that's coming? Would you expect that?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

No. It's all relative. I mean, this is the famous coupon, the west coupon. The West coupon has been going for I think 20 years, and basically, if you look at the level of activity -- given activity in the west this year, it was probably the same as it was last year and it was probably roughly the same as it was ten years ago. Sometimes people see things that get taken out of the context -- is the amount of promotional activity is, I guess, roughly the same as it's always been. I think from our perspective, which is a way to think about it, I think we're just trying to be a bit more effective in the way we do it. I think it was, it was an appropriate criticism of the organization in Q4 of last year, it was a bit [scanago] and we pared that back. And again, we have learned the thing -- well, I can say the business is edging forward, because it learns, it's learning things, and one of the things that we are learning and we haven't got quite got there yet is how to be much more effective in the way in which we promote.

David Hartley - BMO Capital Markets - Analyst

Okay. And actually I wasn't talking about that coupon, but since you brought it up, what has been the response here, since as you say it's an ongoing effort -- is this something that has, same kind of efficacy it's had in the past?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

It's a very good mechanic in the west, and our business in the west has been very strong.

David Hartley - BMO Capital Markets - Analyst

Okay. And finally the promotion on gas you had out west, could you talk to us about the response there, and, I think you've exited that promotion; is that correct?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

No. Again, Frank, you want to cover this?

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

No, the combination of the coupons and the gas, which you'll notice in the flyer have been effective both in helping drive some sales and loyalty build with our consumers, just an opportune time in gas, that's it.

David Hartley - BMO Capital Markets - Analyst

Okay. Great guys. Thanks.

Operator

Your next question comes from Keith Howlett from Desjardins Securities. Please go ahead.

Keith Howlett - Desjardins Securities - Analyst

I wonder if you can update us on the availability project.

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Dalton?

Dalton Philips - Loblaw Company - COO

Yes, availability project on track. We talked about getting 450 stores on the new program by the end of the year and we're well on track, and availability continues to improve.

Keith Howlett - Desjardins Securities - Analyst

And then just, I wonder if you can comment on the program this holiday season on 24-hour stores and, what your thinking is there, how that's expected, what your outlook is there?

Dalton Philips - Loblaw Company - COO

Yes, Keith. Keith, we trialed some stores last year on the 24-hour program, and we had good results. I mean, remember, we were in seasoning into this into our big stores where we have people running those -- in those stores 24 hours a day anyway. So it's not a huge cost to us, and it's a service that our customers appreciate that time of year but it's not something that we would see, long-term. It's something that we do in the season.

Keith Howlett - Desjardins Securities - Analyst

And then just on the general merchandise re-sets and the general merchandise assortment, how's your, how are you viewing your progress or are you where you want to be or how are you looking at that?

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Frank?

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

Okay. I won't speak about Joe in that regard, but we're continuing to make shifts and minor changes in the assortment, and significant space has been moved into food, as we transition the GM business into primarily what will be a superstore business going forward, so we're making changes, transitioning at a rate that we can absorb in the organization and you'll see it become primarily a superstore business.

Keith Howlett - Desjardins Securities - Analyst

And then, just one last question on the new -- well, I don't know you had some before, but the No Frills such as Malvern Towne Center or Yonge and Steeles, the larger footprint No Frills, can you speak to that and how those are doing, and what your expectations are for those?

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

I mean, on No Frills business, it's a strong business as you know. On the larger stores where the market can sustain a larger footprint, we'll put it in. And obviously we have expanded off in those stores, particularly on the ethnic side in this case. Much stronger ethnic produce, meat, seafood an obviously grocery in those stores.

Keith Howlett - Desjardins Securities - Analyst

Thanks very much.

Operator

Your next question is a follow-up from Irene Nattel from RBC Capital Markets, please go ahead.

Irene Nattel - RBC Capital Markets - Analyst

Thanks. Just to follow up with regard to the sharp decline in the Canadian dollar and clearly the impact that has on flowthrough produce pricing, what's your thinking? Are you -- is it going to be 100% pass-through? Are you going to try to and fold back a little bit as you have generally speaking? Could you just speak to that a little?

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Frank?

Frank Rocchetti - Loblaw Company - Chief Merchandising Officer

Okay. Well, that's the dollar has been moving around quite a bit and produce is where obviously you feel it the most. We've been flowing it through where it's appropriate. We've got to be very careful here, because some of these will get into price points that will be on the threshold for consumers, so the answer is, fairly cautious. We're watching it carefully by category. In

Nov. 13. 2008 / 11:00AM, L.TO - Q3 2008 Loblaw Companies Earnings Conference Call

fact, we're with a group today just looking at each one of key price points across the categories, but with the dollar at \$0.80. This is something we're watching very carefully and trying to be cautious about certain price points thresholds.

Irene Nattel - RBC Capital Markets - Analyst

Thank you very much.

Inge van den Berg - Loblaw Company - VP - Public Affairs, IR

Thanks everyone. This is Inge van den Berg. Just want to hand you one last comment over to Allan Leighton.

Allan Leighton - Loblaw Company - Pres. & Dept. Chairman

Because I think it's a quite important quarter and I just want to reconfirm what I said really, which is, it's been an okay quarter, but it's representative of business that's edging forward -- this is not yet a trend. And we do expect Christmas to be pretty tough from a competitive standpoint. And we do expect the economy and particularly consumer confidence, that's the thing that I was -- put most store buy in determining how things are going to be. And so we expect it to be tough and we expect certainly the first half of next year to be pretty tough too. So we are setting our store out to do that. It's not something that we're particularly concerned about in the business, but it is going to change the context of which we all operate. And so with we're setting us all out to work within that. We're very focused on generating cash and preserving our cash and we're very focused on productivity inside the business. And the combination of those things will make sure that we can continue to deliver great value to the Canadian consumer, where value is going to become much more important than it's been over the last couple of years. So as I say, I think we're pleased with the quarter, but I wouldn't read anything into it more than this is just the business still in transition. Still in renewal, still with a lot to do and only edging forward.

Inge van den Berg - Loblaw Company - VP - Public Affairs, IR

We thank you for your interest in Loblaw Company and look forward to speaking with you in the near future.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for your participation. You may now disconnect your lines.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2008, Thomson Financial. All Rights Reserved.