FINAL TRANSCRIPT

Thomson StreetEvents℠

L.TO - Q4 2009 Loblaw Companies Earnings Conference Call

Event Date/Time: Feb. 17. 2010 / 4:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Inge van den Berg
Loblaw Companies Limited - VP IR

Galen Weston
Loblaw Companies Limited - Executive Chairman

Bob Vaux
Loblaw Companies Limited - CFO

Allan Leighton
Loblaw Companies Limited - President and Deputy Chairman

Sarah Davis
Loblaw Companies Limited - EVP Finance

CONFERENCE CALL PARTICIPANTS

Perry Caicco
CIBC World Markets - Analyst

Michael Spinelles
TD Newcrest - Analyst

Jim Durran
National Bank - Analyst

Patricia Baker
Scotia Capital - Analyst

Winston Lee
Credit Suisse - Analyst

Keith Howlett
Desjardins Securities - Analyst

Irene Nattel
RBC Capital Markets - Analyst

Michael Van Aelst
TD Newcrest - Analyst

Chris Lee
Bank of America - Analyst

PRESENTATION

Operator

Good morning. My name is Krista and I'll be your conference operator today. At this time I would like to welcome everyone to the Loblaw Companies Limited fourth quarter results conference call. All lines have been placed on mute to prevent any background noise. After the speaker remarks there will be a question-and-answer session. (Operator Instructions). Thank you.

Ms. Inge van den Berg, you may begin the conference.

Inge van den Berg - *Loblaw Companies Limited - VP IR*

Good morning and welcome to the Loblaw Companies Limited 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; Bob Vaux, Chief Financial Officer; Sarah Davis, Executive Vice President Finance; and Kim Lee, Senior Director Investor Relations Designate who will assume investor relations responsibilities at the beginning of March.

Before we begin's today's call, I want to remind you that the discussion will include forward-looking statements such as the Company's beliefs and expectations regarding certain aspects of its financial performance in 2009 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 actual 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 from time to time including the Company's annual reports and fourth quarter news release. Any forward-looking statements speak only as of the date they are 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 or referred to. Please refer to our fourth quarter news release and other materials filed with the Canadian Securities Regulators from time to time for a reconciliation of each of these measures to the most directly comparable GAAP financial measures. Our fourth quarter news release as well as the archive of this conference call will be available on our website.

I will now turn the call over to Galen Weston.

Galen Weston - *Loblaw Companies Limited - Executive Chairman*

Good morning and thank you for joining us. We've now completed the third year of our renewal program and are making progress. However two of our toughest years remain ahead. As we enter 2010 we continue to expect sales and margins to be challenged by deflation and increased competitive intensity. We plan to step up our investment in information technology and supply chain which will increase our operating expenses by approximately CAD185 million over 2009 while at the same time maintaining capital investment levels at approximately CAD1 billion.

I'll now turn the call over to Bob Vaux to review our financial performance.

Bob Vaux - *Loblaw Companies Limited - CFO*

Thank you, Galen, and good morning. Sales in the fourth quarter decreased 5.6% to CAD7.3 billion compared to the 13-week fourth quarter 2008. Same-store sales decreased by 7.8%. Last year's extra week negatively impacted sales and same-store sales growth by 7%. In addition, the changes in sales and same-store sales in the quarter were negatively affected by 0.75 as a result of the shift of Thanksgiving sales into the third quarter of '09 from the fourth quarter of '08. And positively impacted by about 0.6% as a result of the labor disruptions in certain Maxi stores in Quebec in the fourth quarter of last year. Sales were positively impacted by 1.8% due to the acquisition of T&T in the third quarter of '09 and negatively impacted by 0.3% as a result of the sale of the Company's food service business in the fourth quarter of '08. Excluding these items, sales were flat and same-store sales decreased 0.7%.

On an equivalent 12-week basis, sales growth in food was flat, and drugstore growth was moderate. Sales growth in apparel was strong, while sales of other general merchandise declined significantly, and gas bar sales increased as a result of higher retail gas prices and strong volume growth. National food price inflation, as measured by the consumer Price Index for food purchased from stores, was 1.6% in the fourth quarter of '09. In Q4 we saw internal retail food price deflation whereas we experienced internal retail food price inflation in Q3 '09 and in Q4 of last year. Gross profit in the quarter was CAD1.73 billion or 23.6% of sales versus CAD1.74 billion or 22.5% of sales in the fourth quarter of '08. The improvement was primarily due to improved buying synergies, more disciplined vendor management, lower fuel costs and the efficiency of transportation operations. Continued investments in pricing partially offset the improvement.

Operating income was CAD277 million for the quarter compared to CAD320 million in Q4 '08. Operating margin was 3.8% in the quarter, compared to 4.1% last year. The decline in operating income and operating margin was primarily influenced by the additional selling week in '08. In addition a net stock-based compensation charge and incremental costs related to the Company's investment in IT and supply chain contributed to the decrease in operating income. Operating income in Q4 '08 was positively impacted by stock-based compensation, reversal of restructuring costs, and a gain on the sale of the food service business. The Company incurred an incremental cost of CAD12 million in the fourth quarter, related to its previously announced investment in IT and supply chain.

Loblaw realized fourth quarter basic net earnings per common share of CAD0.60 compared with CAD0.70 during the same period in 08. On an equivalent 12-week basis, and after considering the impact from the net effect of stock-based compensation, incremental IT and supply chain expenses, as well as the restructuring reversal and the gain on the sale of the food service business in the fourth quarter of '08, operating income EBITDA and basic net earnings per common share in the fourth quarter this year improved significantly compared to the fourth quarter of '08.

Net debt at the end of '09 was CAD2.8 billion compared to CAD3.3 billion at the end of '08. The decrease of CAD500 million was primarily due to improvements in non-cash working capital and cash savings associated with the DRIP, partially offset by the purchase of T&T, the acquisition of a distribution center, and the purchase of common shares. Capital expenditures in '09 were CAD1 billion, and we estimate capital expenditures for 2010 will again be about CAD1 billion.

Before I turn it over to Allan, we announced in the quarter that Sarah Davis will assume my responsibilities as CFO of Loblaw Companies at the annual meeting on May 5th. I've worked with Sarah for some time now and I'm highly confident that Sarah will add significant value as the CFO.

I will now turn it over to Allan Leighton who will provide his views on the year and an update on our priorities for 2010.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Thank you, Bob. As I described in previous quarters, 2009 was a year of two halves. A year where our top line sales and gross margins were bolstered by inflation in the first half, and that gave us the runway to ramp up our infrastructure programs. And in the second half we saw inflation disappear and we were able to use our war chest to focus on volume. At the same time, the progress that we've made on our renewal has started to show real benefits. Providing us with enhanced food offerings, refreshed and renovated stores, streamlined processes, and improved productivity and availability to better serve our customers and support our bottom line.

In 2009 we renovated and refreshed 267 core stores. We revitalized our control label brands with new product, product improvements and new packaging. And we launched significant price programs across the country.

On the infrastructure front, our supply chain is the best it's ever been. This year we added more than 800,000 square feet of new or expanded capacity. We're now using a new transportation system, TMS, and we've rolled out a new warehouse measurement system, WMS, to four distribution centers. More recently, our first SAP release, while small, went live with a successful launch. Which gives us real confidence for the 2010 to 2011 programs. Through our cash marathon we strengthened our balance sheet significantly in '09. Inventory was reduced with availability improved. Our working capital is now neutral and even after paying for the acquisition of T&T and buying back our agent's warehouse, our net debt at the end of the year was down CAD500 million.

We continue to edge forward, but there is still more to do. The next two years, the final two of our renewal program, will be the toughest yet. 2010 will now represent the first of two years of a more compressed and intensified IT and supply chain program. That will round off our five year renewal period. We'll intensify our efforts and plan to have TMS and WMS completed in our distribution centers by the end of 2011. Transitioning one DC every month. We are planning to roll our second release of SAP, which includes finance and merchandising, later this year and live in the first quarter of 2011. Our goal is to have these systems operational for our category managers in the first half of 2011. Earlier than originally planned. This is a massive program, currently the biggest retail infrastructure program of its type in the world. And to largely complete this by the end of 2011, we'll be increasing our P&L investment by an incremental CAD185 million over our 2009 expense. This is now an incremental CAD260 million over our 2008 base.

Although we managed to mitigate the CAD74 million cost in '09, it will be difficult to do the same with the 2010 expense. We plan to spend CAD1 billion on capital in 2010. Roughly split 50/50, stores and infrastructure. We will renovate or refresh another 200 stores, and start to add new footage as we plan to increase our footage and our footprint by more than one million square feet over the next two years. And this will include more than 150,000 square feet in downtown Toronto. This will be happening against a backdrop of zero inflation to deflation in the first half of the year and an increasingly competitive and soft market.

We remain hawks on the economic indicators, but (inaudible) food retail. Unemployment remains unmoved from its heights and household debt is mounting. During this challenging economic period, we'll continue to focus on volume and volume market share and continue to up the investments in the future of our business. The next two years we'll see a step-up in the balance (inaudible) for Loblaw companies, managing the right balance between trading for today whilst building for tomorrow.

Operator, I'd now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Perry Caicco from CIBC World Markets. Your line is open.

Perry Caicco - *CIBC World Markets - Analyst*

Good morning. I wonder if you could begin by giving us a little more accurate estimate of the internal rate of deflation.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Good morning, Perry. As you know, we do not absolutely give the numbers. Suffice it to say that we have deflation throughout the quarter and that deflation accelerated as we exited the quarter.

Perry Caicco - *CIBC World Markets - Analyst*

So if we think about basket size and traffic on a same store basis, should we assume that traffic was up and basket dollars were down? And then what about items in the basket?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

If you think across the whole business, a bit of guidance, I guess, Perry, is that items would be up. The basket size would be down a tad. And transactions would be up.

Perry Caicco - *CIBC World Markets - Analyst*

Okay. And obviously if you exclude any impact of deflation, this is one of the better same-store sales performances in quite a while. But the question, Allan, now that you've seen some positive tonnage, do you think this is an aberration or is it possible this is the beginning of a trend? Just wondering your opinion on that. Your outlook suggests that you would have an opinion on that.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

My outlook does have an opinion on it, Perry. I'm still very hawkish about the market really. Deflation is a difficult thing for retailers to deal with. And that's why we've been very focused on volume. The market is still very competitive. I know you know that, if you look at what's been happening in terms of fliers and activity and the market is pretty competitive. And values in the market are very wobbly. They are up and down. But they are often more down in volume than they are up in volume. And so sometimes you're trying to drive your volume and drive volume market share in a market that is contracting and that's obviously more difficult than it is in a market that is expanding.

And I do have concerns still about the economy. And I've often said before, unemployment does make a big difference to us, but household debt is also a very important factor in what happens in food markets. And I read yesterday or the day before, it's now 150% of household income and rising. And I think those things will make a difference. So I think in short, it's pretty difficult to predict. I think the market is much tougher. I think that volume is more difficult to get. But we are very focused on getting volume and volume market share.

Perry Caicco - *CIBC World Markets - Analyst*

And just one more question if I could. I just want to focus a little bit on the SG&A line. Compared to last year, if you put it a little bit more on a week to week basis, the SG&A dollars were up. Was that largely an investment, Allan, in store labor? I know a little bit of that was spending on IT.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

A bit of both. We did invest more store labor in Q4, as we said we would do, because we thought it would be a good thing to do for Christmas. And there is clearly the IT element in that also.

Perry Caicco - *CIBC World Markets - Analyst*

And then looking forward, you mentioned obviously the CAD185 million investment. Is there any way you can offset any portion of that or should we expect that to be purely incremental?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

That's a leading question. And if I gave you the answer, then I would be seem to be giving a forecast, which, as you know, we do not do. I would just take what I said. It's a big number. And it's a big number on top of what already was a big number. And therefore, sometimes they are much more difficult to do. Because the one thing I'm determined to do, Perry, is that we are investing in this business because we are confident about the outcome. But at the same time, we've got a business to run on a day to day basis. Our price position is good, we intend to keep it, and we intend to continue to drive for market share in terms of volume. I would like to invest a bit more back into labor and I want to complete this infrastructure program. So there is a lot going on that all have an impact on our earnings in this two-year period.

Perry Caicco - *CIBC World Markets - Analyst*

Okay. That's good for now. Thank you.

Operator

Your next question comes from the line of [Michael Spinelles] from TD Newcrest. Your line is open.

Michael Spinelles - *TD Newcrest - Analyst*

I just wanted to circle back on the IT spend for a second here. When you started the project, it was CAD100 million annually in each of 2009, 2010 and 2011, if I remember correctly, or in that ballpark. Does the big jump in 2010 mean that 2011 will be well below CAD100 million?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Two things Michael. First of all, the most important thing to read in the infrastructure program is that we feel confident in our ability to execute it. And as you know, I felt prepared at the time. You can feel pain two ways on these programs. Slow pain or fast pain. Because whichever way you do it, they're painful. So I want to try and get this done in the two-year period.

There are two or three things that really make a difference in making these programs work. The first thing is the data. And we got a lot of data, and dirty data is a killer of these programs. We have a very good team working on this. We found a way in which we can load our data much earlier and more frequently than we thought we could. And that gives us great confidence in the ability to get the data piece right. And that's another reason why we're prepared to compress what we're doing.

The second piece is all about process. Because the most important thing, the systems always work, you have to make sure that the processes are in place and the training is in place to go along with the systems. And so what we've done is we've brought forward the process and the process training, particularly in the merchant area. In fact it starts today. Which means that we'll have all of that in place by the time we go live with the system, which is another reason why we can bring things forward. The third thing is coexistence. We have to run old systems and new systems at the same time. We have a huge amount of old legacy systems, about 260. Most retailers in the world would have around about 80 or 90. So not only have we got to reduce the number of those legacy systems, we have a big combination of the old legacy systems and the new systems running at the same time, and I want to minimize the amount of time that that takes place. And again, that's another reason of why we are slightly changing where we thought we would be originally. But I would see it as a thing of confidence in our ability to do it rather than anything else.

As far as the outer years, I think a good walkaround number is that if you think about this sort of increment in 2011, then that's probably a good place to start. Because the intention is to get as much of this done as we possibly can for the beginning of 2012. That's now the objective.

Michael Spinelles - *TD Newcrest - Analyst*

All right. So if I understood that correctly, your two-year period is for 2010 and 2011.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Yes, that's correct.

Michael Spinelles - *TD Newcrest - Analyst*

And you expect 2011 to be similar level of spending versus 2010.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Again I don't want to give you absolute guidance on it, but if you think about where we are today it's not a bad place to start as an increment.

Michael Spinelles - *TD Newcrest - Analyst*

Okay. And then just on the fixed asset impairment charges, they seem to consistently be there in Q4 year after year at least over the last four years. Should we expect these to continue and why and for how long?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

I'll hand you over to Sarah.

Sarah Davis - *Loblaw Companies Limited - EVP Finance*

We have had them for the last three years, we've had impairments and I would expect we would continue to have them. There are always going to be stores that do not perform to the appropriate level. So I would expect to have those continue.

Michael Spinelles - *TD Newcrest - Analyst*

All right. I'll get back in the queue. Thanks.

Operator

Your next question comes from the line of Jim Durran from National Bank. Your line is now open.

Jim Durran - *National Bank - Analyst*

I'm sorry to stay on the IT spend line but I want to make sure I understand it correctly. The CAD185 million for 2010 is the impact on operating line. You'd previously provided guidance of CAD100 million, so is it only CAD85 million that is the increment or CAD185 million in your mind?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

No the increment is CAD185 million over this year. I go back to the point that we are just trying to get this program done in a shorter period of time. And that's really what it was about. Our overall spend that we started off with in this project is going to be, it may have to be marginally less than what we thought it was going to be. The spend in terms of annually will be different than where we thought it would be just because we feel more confident about it.

Jim Durran - *National Bank - Analyst*

With respect to the turnaround plan, can you give us a sense by region as to where you are in terms of store refresh programs and what you would be planning in terms of activity for 2010?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Yes, we've been around the country really and done some work, and quite a lot of work in most of the areas. We still are very aggressive in the west. A big soup store program. We had a big program this year. We'll have an equally big program next year. Again, also in terms of the Extra Foods to No Frills conversions and new No Frills in the west, that will continue. So a big program in the west.

In Ontario, we've done a lot of good work in the Loblaw stores and Fortinos now will come under, no doubt, some more development. And there is a big Zerhs program this year, too, because those stores have not been touched for a long period of time. In Quebec we'll continue on as we've done, which is some more Great Food conversions and some more Maxi conversions and just normal work on Maxi. And in the Atlantic, we've been very encouraged by No Frills in [Cheriak] and that's gone down a blast. And so you can expect some more activity there.

Jim Durran - *National Bank - Analyst*

So within Ontario, how far along do you feel you are now?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

I think about another way around, is I like to feel that every five years, in some way, shape or form most of the stores have been touched in some way. We are probably two-thirds of the way through across the whole country of all of the stores being touched. And so in my view, there is another 12 to 18 months worth of work to get us back to where we should have been with some of our real estate. And then the whole process will just start again but it will be on a much more regular basis. I wouldn't flag it as a major change but again I see it as a confidence thing, we are now starting to lay down a bit more new footage. We're being much more choosey about where it goes and very aggressive about the returns that we expect to get from it. But I think, as I've said, you'll see more new footage going in than has been the case. And that's again getting towards the tail of our renovation program, and having sorted our core stores. Now we feel a bit more comfortable about building some new footage.

Jim Durran - *National Bank - Analyst*

And can you give us some idea as to how that new square footage will be allocated between discount and conventional?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Probably the way to think about it, if you include the super stores in the discount thing, it's probably going to be pretty close to 50/50, I would have thought.

Jim Durran - *National Bank - Analyst*

Great. Thanks very much.

Operator

Your next question comes from the line of Patricia Baker from Scotia Bank. Your line is open.

Patricia Baker - *Scotia Capital - Analyst*

Thank you very much and good morning, everyone. Allan, I just want to come back to the IT question and I want to ask it very simply to make sure I understand it so you might have to dumb down the answer. You say you're spending the incremental CAD185 million because you are confident in your ability to execute, so that would imply that perhaps you're doing more than you originally intended and not so much that it's costing more than you originally intended.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

I think that's a very good observation. One of the reasons we didn't spend as much money in '09 as we originally thought is as we've gone on we got smarter. It's one of those things you evolve, you learn how to manage these things. We have a very good team under Peter McMahon running it, which is Dixon and Tina Murrin. And we are really beginning to understand how to make these things work. And part of that is making them more cost effective. So a very simple thing, a big element of the cost in these things is do you use your own people, or do you use contractors. Contractors clearly cost much more money. But of course they're more flexible because at the end of the program you do not need as many people so they're easy to move off. Probably we're just moving a bit more to using more of our own people and less of contractors. Because the other thing that is very important in this is to keep the experience of the implementation past the implementation stage and that has an impact on cost. So all of the time we're looking to be much more cost effective in the way we deliver. So you're spot on.

Patricia Baker - *Scotia Capital - Analyst*

Okay. Don't take this the wrong way, I know I've been on calls before where I've talked a lot to you and criticized a lot about all of the consultant costs so it almost sounds like we're taking some of those out and just putting it back in and using it more effectively with Loblaw people?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Yes, although I know you ask about it Patricia, we do not have as many consultants in as we did, by a long shot. And in many ways the way to think about these, they aren't consultants, they are people. A lot of this is transactional stuff. But no, part of the thing that we've learned is that you've got to balance this off and there is a cost advantage of using your own people. But I'm also very interested in keeping the DNA of how we make these changes in the business past when the program is complete.

Patricia Baker - *Scotia Capital - Analyst*

Okay. Now my second question is you reference, when you talked about the future and also when you talked about 2009 and your progress there, that you are very, very focused on volume and volume market share. Did you give us any indication about where you ended '09 with respect to volume or volume market share?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

No only in the fact that we said across the business our items and transactions were up, and without giving numbers away, which I wouldn't do, I feel much better about that than I would have done six months ago.

Patricia Baker - *Scotia Capital - Analyst*

And certainly better than you felt going into '09.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Certainly, yes.

Patricia Baker - *Scotia Capital - Analyst*

Okay. Third question. In your discussion about the volume, again, and you talked about the wobbly markets and that sometimes you find yourself having to try to grow volume when the market is contracting, which is different than when the market is expanding. Given that you're planning on getting back into adding square feet, what is your view about the market in general, not looking at the ebbs and flows of the market contracting and expanding over a given month or a given quarter but do you see the food market as one that is stable, growing or contracting?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

I described it as wobbly and I think that's how I see. It actually pretty difficult to judge because there are many ups and downs in it. But the way I describe it is uncertain. And that's the way that we're planning the business, with that in mind. And that's why I say, I always talk about inside the business as being a balancing act because it is, because on one hand, we intend to improve our volume and volume market share in the business, and on the second hand, we have a lot of investment for the future of the business. And that's why these two years are going to be crucial basically.

Patricia Baker - *Scotia Capital - Analyst*

Okay. Last question. With Dalton leaving, you've changed the structure again slightly in that there will neither be a CMO or a COO in the Company. So if we go back to when you originally started the structuring and the changes at the end of '07, beginning of '08 and the structure you had in place then and where it is now, can you just describe how you really see the structure playing out and the way that it is now? Is that where you think it's going to stay?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

First of all, I always have this thing, structure evolves and every organization I've ever seen is flawed. So I always come from a cynical place on it. How it works now is that with Dalton not here, if you think about what Dalton does is he's directional and coordination, and therefore there are four guys that reported to Dalton. We only made that organizational change a few months ago. And those four guys will just pick that work up. And with Peter McMahon running all of the supply chain and IT piece, basically that work flow is spread across those five individuals. I wouldn't se that changing in the foreseeable future.

Patricia Baker - *Scotia Capital - Analyst*

Okay. Thank you. I'll get back in the queue.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Is that dumbed down enough?

Patricia Baker - *Scotia Capital - Analyst*

Very. Thank you.

Operator

Your next question comes from the line of Winston Lee from Credit Suisse. Your line is now open.

Winston Lee - *Credit Suisse - Analyst*

Thank you. Just staying on the management structure topic a bit further. Allan, if you see yourself, and you think that the hard lifting has been done, over the next two years, what kind of role do you think you would have to play thereafter?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

One of the hard lifters. There is a couple of things. I never think of beyond what we need to do. We have two years worth of work to do and that's what everybody is focused in the business on. My role here is President and that's how it stays and that's a very hands-on role. How it develops over time, who knows, but at the moment we're just pretty focused on what we need to do. Because the point you made is the most important one, is we've made a lot of progress in the last three years but the real finishing line is two years away, and if we can get it right, which I'm confident we can, this business will be transformed and that's really what we're all interested in.

Winston Lee - *Credit Suisse - Analyst*

Okay. Given that you're stepping up the pace of the IT and supply chain, it seems to me that you have some operational initiatives, benefits there that gives you more confidence in being able to get this thing done faster. But also that there may be some better offset there on the impact of the P&L. And I know you're not leading towards anything but is it fair to say that some of the gross margin expansion you've got in the quarter, which was substantial in a deflating environment, should be reasonably expected to continue throughout 2010?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

When you think about the elements of that gross margin it's really about vendor management, buying synergies. And then the other big element of that is remembering that gross margin is the transportation piece of the supply chain. We've seen some real benefits come through from the supply chain. The reason that we feel confident in the programs that we've got is where we've executed so far, which has largely been supply chain driven, the benefits that we expected have come through. And that does always make you feel much better. So on gross margin, what will determine that is those things all over again. It obviously just becomes harder.

Remember, a big driver is gross margin dollars, and gross margin dollars, inflation has a big impact on. So I think it is more difficult at the moment where you basically have got no inflation, in fact deflation, and a market where the volume is under pressure. So that's why I describe the market as being uncertain because that's the way I see it. And therefore you really do manage it on a week by week basis, depending on what is happening in the marketplace which is pretty volatile.

Winston Lee - *Credit Suisse - Analyst*

And in terms of the general merchandise business, can you give us an update on your thoughts there. I know, and this is probably old now, at one point there were aspirations for Joe Fresh to be CAD1 billion in sales, and I'm wondering if you're still on track towards that, if that is something you talk to. And what is happening in the other areas of general merchandise outside of pharmacy?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Let's start with Joe. We talk about it all of the time because we really do believe that that could be a CAD1 billion business. And Joe's, the quarter, they had a tremendous quarter. And he's got that business cooking on gas. The customer position is absolutely spot on and the value and quality is fantastic. So no, we're very, very focused on that. We see that as a great opportunity and you couldn't have a better guy than Joe running it because he knows what he's doing. So we're still very aggressive about that business.

The other parts of general merchandise, actually the performance of general merchandise in the quarter was slightly better, but still not very good but it was slightly better than it had been in previous quarters. And home, I think we're beginning to get a bit more there. We still have a lot of work, we've probably got still another year's worth of work in the stores where we're reducing space and reallocating space, which will knock into those businesses. But I feel more confident about where we're steering home.

And now, if you look at the electronic and the ledger businesses, Joey is going to run all of those. James Wright who ran that has done a really good business of getting that business under control in terms of inventory and risk and all of those other things. James is now going to take a development opportunity in grocery, and so Joey is going to run the whole of the right-hand side of the store. And I think that will make a big difference too because you have one person really looking at that whole core GM business as an entity rather than disparate bit. So I feel pretty good about general merchandise. I think we've created a base to work from and with Joe's leadership, I think that we can certainly improve the profitability of our business a lot.

Winston Lee - *Credit Suisse - Analyst*

And on that last point with Joe, is that more an Ontario/Quebec focus or is that nationally?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

No, nationally. We have huge business in the west. Our top store in Joe sales last week was in the west, in Vancouver, actually. And so you see a lot of people in the Olympics wearing Joe.

Winston Lee - *Credit Suisse - Analyst*

Okay. And lastly, the impairments, are they related to any of those general merchandise businesses? I get the sense there are impairments across different types but was it more focused or was it more slanted on the, say, superstore business versus -- were there any trends there that you could discern or help us out with?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Sarah will do that.

Sarah Davis - *Loblaw Companies Limited - EVP Finance*

Just on the impairments it was not regional based but it was across the country and it was across the banner. So just specific locations didn't perform to the level, but there's no specific banner or no specific region on that one. It was right across.

Winston Lee - *Credit Suisse - Analyst*

Okay. Thank you very much.

Operator

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

Keith Howlett - *Desjardins Securities - Analyst*

Yes, I wonder if you could indicate what the tax rate would be going forward?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Bob will do that.

Bob Vaux - *Loblaw Companies Limited - CFO*

Order of magnitude 31%.

Keith Howlett - *Desjardins Securities - Analyst*

And then just on the Ajax distribution center, can you just outline the thinking there on buying it back or is that something that was already planned?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Yes, Keith, it's Allan. We like owning our real estate. And we think that's a very good thing to do. And from time to time, you get the opportunity to buy things back. That opportunity came and we decided to take it.

Keith Howlett - *Desjardins Securities - Analyst*

And just so I understand, on the implementation of the supply chain and IT systems, do you anticipate these incremental expenditures more or less disappear in 2012 or are they taken up by some other ongoing expenditure or some new project or do they fall away?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Well 2012 is a long way off and therefore we're not giving any guidance on it. But clearly, Keith, the way to think about this is, you invest upfront, some of that cost does stay. Our IT will be more expensive to run in the future than it's been in the past because it just is. We were significantly below anywhere near industry standards. But the whole idea is to make the business more efficient. And so over time you would expect some of certainly the investment costs to fall away but you'd expect to get benefits off the back of it and that's certainly been our experience in the supply chain.

Keith Howlett - *Desjardins Securities - Analyst*

And that leads into my second part of the question. When you talk about the CAD185 million incremental expense, does that take a deduction for some benefits that you might have already been getting back from what you spent in 2009 or not?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

No. Any benefits would, we chose somewhere else in the business. The way I look at these things, I want to see the incremental cost of each one of these activities. So that is the incremental cost associated with those programs in this year.

Keith Howlett - *Desjardins Securities - Analyst*

And I guess it's fair they do start to pay back before 2012 but it shows up elsewhere?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

They won't all necessarily be paid back by 2012 because these are huge investments and if you can get five or six-year paybacks, that's pretty good. But we clearly are further along the track on the supply chain than anywhere else and we are clearly seeing benefits higher than the benefits we had in those programs originally.

Keith Howlett - *Desjardins Securities - Analyst*

And just a question on the square footage growth. The expenditure was thought to be about 50% conventional and 50% discount. I was surprised that conventional was so high. Does that reflect the downtown --

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Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

No, we feel pretty good about our conventional stores. And there is an opportunity to put some new footage into some of the banners and we're going to take an opportunity.

Keith Howlett - *Desjardins Securities - Analyst*

Great. Thanks very much.

Operator

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

Irene Nattel - *RBC Capital Markets - Analyst*

Thank you and good morning, everyone. Just sticking with the subject of the day which is the IT spend, in the past you've referred to periods of maximum risk. And as you think about the roll out of the different modules and how they come onstream, could you outline for us where you see the periods of maximum risk over the 2010-2011 period?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Yes, Irene. Clearly when you start to get into the big merchandising changes, and clearly when you are starting to roll out DC a week almost on some of the systems, that's when you are at risk. So for me, really, from the mid point of this year, which is June, probably all the way through to June of next year, that is going to be the time of maximum risk. Because clearly the risk accelerates when you really get into the activity. And as I said earlier, I'm not stupid and I know, I've been here before, there is real risk associated with these things. And that's why we've done so much work on trying to focus on those three things -- what I call the dealers of death. Which is the data, the process, and then absolutely the coexistence. And that's where we've been doing our work, because that's where the maximum risk lies.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great thank you very much. And then just moving on to what you're actually seeing out there in terms of consumer behavior, in prior quarters you've commented on a move into discount. One of your competitors noted that it seems that that shift has already occurred. Can you just talk a little bit about that and what you are seeing in terms of private label versus branding, and also vendor dollars for promotion.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Much has been, as is, really, that there is that slight trend into hard discount. It's increased a bit but not significantly. That real trend has there been for six or nine months. So that's still there. Control label continues to grow in terms of penetration. And the consumer habits are much as is. I think the only thing at the moment is that I think people are buying less. And that's what you see when I described the market as wobbly. You can see that on a week by week basis.

Irene Nattel - *RBC Capital Markets - Analyst*

And are you seeing more marked deterioration in sales volumes toward the end of the month where a higher proportion of people would be running out of money quite simplistically?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

A bit, not a lot. You would get that trend anyway. But not significantly more than has been in the past.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great. Thank you very much.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Your voice sounds very bad, are you all right?

Irene Nattel - *RBC Capital Markets - Analyst*

I feel about as good as I sound. Thank you, Allan.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Well, get to one of our pharmacies.

Irene Nattel - *RBC Capital Markets - Analyst*

Will do. Thank you.

Operator

Your next question comes from the line of Michael Van Aelst from TD Newcrest. Your line is now open.

Michael Van Aelst - *TD Newcrest - Analyst*

Thanks. A few follow-ups. First on the Joe Fresh, you said that the apparel is going extremely well. How is Joe Fresh resonating in the newer segments like the cosmetics or accessories and things like that.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Equally strong. The great thing about what Joe does for that business is the essence of the brand, for want of a better description, is in the accessory business and in that cosmetic business. And so we see those businesses have been very good. And we see some expansion in those. But I always go back to the same thing. They're nice businesses to be in and we can get some growth from them but the core of that business is the apparel business and that's where the growth is and that's where we really see the development.

Michael Van Aelst - *TD Newcrest - Analyst*

Okay. And then the store renovations, would you say that you're at the point yet where the disruptions are now being offset by benefits or are you still seeing net disruption.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

You still see net disruptions. The guys, Mark Butler and Al Burke, who run that, we're doing these renovations in half the time we were doing them a year ago. That's a huge difference in terms of disruptions. Clearly we get disruption as we're doing it. Fortunately we're only getting half of the disruption that we had before. But net-net, because of the sheer scale of the activity, 200 stores is a lot, that net-net we would still be a net negative on the disruption.

Michael Van Aelst - *TD Newcrest - Analyst*

And the buying synergies you alluded to, would that be disproportionately weighted towards the private label?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

No. A bit. As you know, we have this project going at the moment because our control label isn't as popular as it should be. There is an element of that in the quarter, actually. But it's not the major driver, but it's becoming more of a driver.

Michael Van Aelst - *TD Newcrest - Analyst*

So how far along are you towards getting private label profitability where you think it should be?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

20% of the way.

Michael Van Aelst - *TD Newcrest - Analyst*

I'm sorry, what percent?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

20% of the way.

Michael Van Aelst - *TD Newcrest - Analyst*

20?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

Yes.

Michael Van Aelst - *TD Newcrest - Analyst*

And then the minority interest that jumped in the quarter, can you just explain that?

Bob Vaux - *Loblaw Companies Limited - CFO*

The minority interest jumps as the earnings jump.

Michael Van Aelst - *TD Newcrest - Analyst*

Okay. Although I don't think it was as significant, for example, as it was in Q3 for example.

Bob Vaux - *Loblaw Companies Limited - CFO*

The percentage is roughly the same. I don't think you'll find much of a difference.

Michael Van Aelst - *TD Newcrest - Analyst*

I'll circle back with that. And the depreciation also seemed to jump in the fourth quarter. Should we be looking at that as more of a run rate for next year or was there some catch-up going on in the fourth quarter?

Sarah Davis - *Loblaw Companies Limited - EVP Finance*

Q4 was higher than it was the previous year and the run rate of the year, partially because of the higher capex spending that we are experiencing, up to CAD1 billion this year. And within that capex spending, a larger proportion going to the infrastructure projects which we write over a shorter period. So the answer is the depreciation is higher, it's going to continue to be higher in 2010, as well.

Michael Van Aelst - *TD Newcrest - Analyst*

And was there any catch-up in Q4 or was it just the timing of when these assets got put in place?

Sarah Davis - *Loblaw Companies Limited - EVP Finance*

No, no specific catch-up, no.

Michael Van Aelst - *TD Newcrest - Analyst*

Thank you.

Operator

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

Jim Durran - *National Bank - Analyst*

I wanted to go back on cross talking in terms of changing how you handle inventory as we go through this process. I'm not quite clear. There was a time we were talking about, I think it was project 2011 or 2012, in terms when you would see a big shift from storage to cross stocking. Where are you on that in terms of how you are approaching it now and what percentage of the system do you think is already converted to cross stocking versus where you want to be into 2012?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

I think we describe it as flow, Jim. And it's the same thing. This year that we're just entering, will be the first year where we really start to build that up. And it's still very much our plan to do it. I've always said, I think we'll end up with the best supply chain infrastructure in North America and I think we're well down the track to do that. And this next phase, which is the flow piece, is the work that is now taking place. We would see over the period of time more of our business being converted to that, which is why centralization of vendors is very important. Our model is centralized distribution, less DSD, because we have a big cost advantage and therefore the more volume you lay on the trucks, the more you expand that cost advantage.

Flow is a very important part of that because part of our philosophy is that you can take costs in two places. You can either take it in the supply chain or you can take it in the store. And what we're trying to do is take the cost in the supply chain to make it very easy for the stores, and that's what flow begins to do. We've got a lot of work to do with our vendors because it has a big impact on the way in which vendors run their businesses. We have a vendor advisory council which works with Peter McMahon. This year will be the first real start of really beginning to develop that. It won't really start to come on, on flow, for want of a better description, probably until the second half of next year with some scaling in 2012, but it's still very much part of how we see really turning our supply chain into a competitive edge.

Jim Durran - *National Bank - Analyst*

And so just in that same time frame then, you would expect inventory dollars starting to drop probably dramatically in the second half of 2011.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

We certainly expect inventory dollars to drop.

Jim Durran - *National Bank - Analyst*

Thanks, Allan.

Operator

(Operator Instructions) Our next question comes from the line of Chris Lee from Bank of America. Your line is now open.

Winston Lee - *Credit Suisse - Analyst*

Hi, good morning. Just had a question on capex. I realize you are two years away from completing the IT and supply chain upgrades but where do you see capex settling out once those programs are completed?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

I was going to say difficult to say. I wouldn't expect our ongoing capex levels when we build out the infrastructure and finish the renovations to be much more than the CAD1 billion mark they are today. My workaround number is CAD750 million of capex as an ongoing run rate is probably a sensible ongoing run rate when you've been through what we need to do.

Winston Lee - *Credit Suisse - Analyst*

Okay. And on the private label, I realize you disclose the sales on an annual basis. Can you tell us what the private label sales were for 2009?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

No. No, we do it on an annualized basis. We do not do it on a quarterly basis.

Winston Lee - *Credit Suisse - Analyst*

I'm sorry, for the year, I mean. For the year.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

We do not show it -- It's on the March 12th release, I'm told here reliably, by my person on the right.

Winston Lee - *Credit Suisse - Analyst*

And just a couple of housekeeping questions. The CAD185 million incremental IT expenses for the year, do you expect them to be spread evenly throughout the quarters or are they front-end loaded, back-end loaded?

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

They're reasonably evenly spread. As a phasing that would be probably a good rule of thumb. They will move around a little bit. But if you spread them evenly, that would be a reasonable place.

Winston Lee - *Credit Suisse - Analyst*

And then on the depreciation, it was up 7% for the year. Can we expect a similar growth rate for 2010 given your capex is still at CAD1 billion for the year, roughly?

Sarah Davis - *Loblaw Companies Limited - EVP Finance*

Generally, we do not give guidance on the specific line items but I would expect it to be higher than 7%.

Winston Lee - *Credit Suisse - Analyst*

A few points higher or? Can you be a bit more specific on that or is that as specific as you can get?

Sarah Davis - *Loblaw Companies Limited - EVP Finance*

That's as specific as I'm going to get.

Allan Leighton - *Loblaw Companies Limited - President and Deputy Chairman*

That's more specific than normal. You did well.

Winston Lee - *Credit Suisse - Analyst*

Thanks.

Sarah Davis - *Loblaw Companies Limited - EVP Finance*

Operator, if there are no more questions, then I would like to thank everyone for their interest in Loblaw Companies Limited and look forward to speaking with you again on our Q1 call which is May 4th. Thank you very much.

Operator

This concludes your conference call. You may now disconnect.
