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EDITED TRANSCRIPT

L.TO - Q1 2016 Loblaw Companies Ltd Earnings Call

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OVERVIEW:

Co. reported 1Q16 adjusted net earnings of CAD338m and adjusted EPS of CAD0.82.



CORPORATE PARTICIPANTS

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Richard Dufresne *Loblaw Companies Ltd - CFO*

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Mark Petrie *CIBC World Markets - Analyst*

Michael Van Aelst *TD Securities - Analyst*

Vishal Shreedhar *National Bank Financial - Analyst*

Jim Durran *Barclays Capital - Analyst*

Patricia Baker *Scotiabank - Analyst*

Keith Howlett *Desjardins Securities - Analyst*

Chris Li *BofA Merrill Lynch - Analyst*

PRESENTATION

Operator

Good morning. My name is Angel and I will be your conference operator today. As a reminder, today's conference is being recorded. At this time I would like to welcome everyone to the Loblaw Companies Limited first-quarter 2016 conference call.

(Operator Instructions)

I will now turn the call over to Sophia Bisoukis. You may begin your conference.

Sophia Bisoukis - Loblaw Companies Ltd - IR

Thank you, and good morning. Welcome to the Loblaw Companies Limited first-quarter 2016 results conference call. I am joined by Galen Weston, President and Executive Chairman; and Richard Dufresne, Chief Financial Officer.

Before we begin today's call, I want to remind you that the discussions will include forward-looking statements, such as the Company's beliefs and expectations regarding certain aspects of financial performance in 2016 and future years. These statements are based on certain risks and uncertainties that could cause actual results or events to differ materially from our expectations.

These risks and uncertainties are discussed in the Company's materials filed with the Canadian Regulators from time to time. 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 what has been required by law.

Certain non-GAAP financial measures may be discussed or referred to today. Please refer to our annual report and other materials filed with the Canadian Securities Regulators for a reconciliation of each of these measures to the most direct comparable GAAP financial measures.

I will now turn the call over to Richard.



Richard Dufresne - *Loblaw Companies Ltd - CFO*

Thank you, Sophia, and good morning, everyone. We continue to deliver against our financial plan in the first quarter of 2016, with positive same-sales stores and stable gross margins. We grew adjusted net earnings by 12.3%, to CAD338 million, and delivered adjusted earnings per share of CAD0.82, an increase of CAD0.10, or 13.9%, compared to the first quarter of 2015. We continued to return capital to shareholders, buying back approximately 3.4 million shares during the quarter. And, yesterday, we approved a 4% increase to our quarterly dividend, which now stands at CAD0.26 per share.

Turning to our Retail results, our Food Retail business achieved 2.6% same-store sales growth. Internal inflation, fueled primarily by produce, was moderately higher than the food CPI rate of 4.3%. Our Drug Retail business had a strong start to the year, with same-store sales growth of 6.3%. Same-store pharmacy sales of 4.2% reflected an increase in prescription count and an increase in the average value of scripts dispensed. In the front of store, same-store sales grew by 8.2%, based on strong performance in all categories, and particularly in food.

With same-store sales growth in both Food and Drug Retail, total revenue in our Retail segment was CAD10.2 billion, up 3.3% year over year. Retail adjusted segment gross margin was 26.9%, compared to 26.7% in the prior year. This excludes the impact of consolidating franchisees in Q1, which results in an increase in revenue, gross profit, and SG&A. We will continue to consolidate more franchises throughout the year and disclose the impact.

Adjusted Retail gross margin was stable, as an increase in the underlying gross margin and incremental synergies in the quarter were partially offset by the impact of healthcare reform. On an adjusted basis, SG&A as a percentage of sales, improved by 10 basis points, excluding the impact of consolidating franchisees. I am pleased to report that we delivered CAD72 million in net synergies during the first quarter, bringing net synergies achieved to CAD270 million. We remain on track to achieve our net synergy target of CAD300 million in 2016.

Looking ahead, we remain confident about both our strategy and business performance. Our long-term financial strategy continues to be based on positive sales growth, and a focus on cost reductions and operating leverage. With a strong balance sheet and free cash flow, we will continue to invest in growth, while also returning capital to shareholders.

Thank you, and I will turn it over to Galen.

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

Thank you Richard, and good morning. As you just heard, Loblaw continued to execute within our strategic framework and financial plan in the first quarter, delivering positive same-store sales, stable gross margins, and growing our earnings.

Positive same-store sales reflected very strong performance in Drug Retail and slightly disappointing results in Food Retail. Our Food Retail business saw traffic and basket growth in the quarter. Same-store sales grew 2.6% against a CPI inflation rate of 4.3%. And the Easter shift into Q1 this year, drove approximately 100 basis points of that growth.

Shoppers Drug Mart continued to perform well, with pharmacy same-store sales growth driven higher by Rx count and average value increases more than offsetting the negative pressures from healthcare reform. Front of store also performed very well, showing strength in all categories and led by an expanding and more compelling food offer.

Looking ahead, we will remain focused on the same strategic framework that has guided our progress over the past two years, delivering best in food, best in health and beauty, operational excellence and growth. In what promises to remain a highly competitive grocery market, and with continued negative pressures in our pharmacy business from healthcare reform, we expect to deliver positive same-store sales momentum and continued stable gross margins.

Over the balance of the year, earnings growth will be moderated by strategic investments we are making in the future, as well as the impact of healthcare reform. However, adjusted basic net earnings will continue to outpace revenue growth as a result of our efficiency and synergy initiatives.

Thank you. At this point, I will hand the call back to Sophia for questions.

Sophia Bisoukis - *Loblaw Companies Ltd - IR*

Hello, operator, we can open the call now for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Irene Nattel, RBC Capital Markets.

Irene Nattel - *RBC Capital Markets - Analyst*

Good morning, everyone.

Galen, both in the release and in your opening comments you mentioned food results as being disappointing. Can you talk to us about the different ways, or the ways in which the results were disappointing? And what actions you've taken to improve them?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

We were a bit disappointed with food sales and also tonnage share performance. Two principal reasons for that: the tonnage share was disproportionately impacted by what we call Project Spring, which was our 50 store closures. We also saw, though, in Q1 a noticeable consumer shift to discount; and while that was happening, our promotional program was not as sharp as it needed to be, specifically in our hard discount formats. So, those are the two things. One was expected. And then on no-frills, we were trying to balance out some aggressive investments that we did in Q1 last year, and I think we over-rotated, while at the same time the rest of the market was pushing very hard in that category. So, those are the two principal reasons.

In terms of actions that we are taking, we picked up on this probably about midway through the quarter. We've got some decisive but measured plans that are in place. And our objective is to close the sales performance gap to market over the balance of the year, not to bounce it back in Q2. And again, that is in keeping with our stable trading principle, not creating more volatility in our own performance by over-reacting when you run a little bit behind.

Irene Nattel - *RBC Capital Markets - Analyst*

That is very helpful. And that leads me to the next logical question, which is: there is a lot of chatter going on out there right now in terms of what is going on in the competitive landscape, both in discount and in the market segments. Can you speak to that a little bit -- on what you're seeing from your competitors, and what you are seeing in terms of consumer behavior full-stop?



Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

This is something that you've asked over the last couple of quarters. It's something we've been watching very carefully to try and understand the consumer's reaction to what has been a sustained period of food price inflation. And we began to notice some consumer resistance in the previous quarter. We're seeing more of that in Q1, then likely manifesting in this shift to discount, which is accelerating. Our view is that that intensity is going to continue to increase. We see inflation slowing down as the Canadian dollar continues to increase. And we see consumer prices coming down in certain markets and in certain categories.

Irene Nattel - RBC Capital Markets - Analyst

Can you give us a little more color as to what categories and markets?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

No. That would be competitively sensitive information. I'd love to help out, but I think I will give you one example, which is our hard discount business; and then different categories that have different levels of consumer price sensitivity where people are going to be making adjustments.

Irene Nattel - RBC Capital Markets - Analyst

That's great. Thank you.

Operator

Peter Sklar, BMO Capital Markets.

Peter Sklar - BMO Capital Markets - Analyst

Thanks. Back on the same-store sales. Your retail [insulation] is well in excess of the 2.6% same-store sales, implying that your tonnage was negative. But when I look at your supplemental information, you are saying that both basket and traffic increased. So I'm having -- I'm just wondering if you can reconcile exactly what is going on with your tonnage.

Richard Dufresne - Loblaw Companies Ltd - CFO

Yes, basket and traffic are up, clearly, and that drives sales growth. So that is definitely driving it. But as Galen mentioned, tonnage, because of what happened with our store closures definitely was a factor and we did have our front foot forward in the quarter. So, we clearly felt that. And also the point that was mentioned regarding our performance with no-frills needs to be put on the table, too. So those are essentially the reasons which affected our tonnage performance in the quarter.

Peter Sklar - BMO Capital Markets - Analyst

Okay, but not to belabor the point Richard -- but the store closures -- those would come out of the same-store sales because they -- you're looking at sales trends for existing stores. So, I wasn't too sure how that fit into the equation.



Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

Yes, they do. Two separate points. Tonnage share, which is an absolute performance measure, where we underperformed. And then comp store tonnage, because of that issue in discount, was definitely down.

Peter Sklar - BMO Capital Markets - Analyst

Okay. I understand now. That makes sense.

My next question is, can you just update us on where you are on the SAP implementation? I assume that is coming to an end or has come to an end. And where you are realizing benefits from it in terms of cost savings?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

So, SAP we finished at the end of last year and we moved fundamentally from that stage of implementation to that period of optimization. And I think I mentioned we have specific benefits that we expect to see come into the financial plan in 2016 that are budgeted into all of the operating divisions that have deployed SAP. I'm not going to go through the specific line items where those benefits are going to come through, nor the quantum. But, suffice to say there are designs to make sure that we meet the efficiencies targets that we have inside the business, and also that we get a satisfactory return on the investment that we made in SAP.

Peter Sklar - BMO Capital Markets - Analyst

And when do you anticipate that you would start seeing the benefits in terms of improved merchandising? Just because you have access to all of this information in a very usable manner.

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

No, so, we are seeing them now. At the end of last year we started to deploy pilot projects to zero in on areas that we anticipated benefits in those pilot projects. We ran them, identified the ones that actually were seeing real benefits, and then the operators and the merchants are making decisions to deploy those where they feel they can execute and where the benefit is most likely to come to pass. If I were to pick the area in 2016 where we are going to see the ball move the furthest forward, it will be in the stores -- store operations, inventory management, and in stock position in promotions. The second wave of benefits, which we see in merchandising, is likely to come later.

Peter Sklar - BMO Capital Markets - Analyst

Okay. Thanks very much.

Operator

Mark Petrie, CIBC.

Mark Petrie - CIBC World Markets - Analyst

Good morning.

I wanted to ask -- just follow up on your comments around discount. Was that shift isolated to Ontario? Or would that be consistent across the other regions of the country?



Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

It is consistent, although Ontario is certainly one of the places that it's most pronounced.

Mark Petrie - *CIBC World Markets - Analyst*

And how do you feel about your positioning on the Maxi banner on a relative basis?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

Very good.

Mark Petrie - *CIBC World Markets - Analyst*

And then, you've got a few years under your belt with regards to the Inspire program. Taking a step back, how have the results and the returns come in relative to your expectations? And how has that impacted, or have you adjusted your plans with regards to that program and store renovations going forward?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

So the good news -- the story on Inspire is overwhelmingly a good news story. If you remember, we identified those stores based on their specific market locations, less price-sensitive markets by and large, high-volume stores with a good mix where service was highly valued. Those stores are, on average, they're performing very well, equal to or ahead of expectations.

We've been working hard to make sure that we are managing the cost lines in those stores effectively. Where we see a little bit more vulnerability in the market division with this discount shift, is actually not the Inspire stores but the neighbor stores that are in less affluent neighborhoods and would be competing more directly with the discount networks for a more price-sensitive shopper.

Mark Petrie - *CIBC World Markets - Analyst*

And do you expect a change in tactics on those stores? Or is the shift to discount -- are you okay with the shift to discount, essentially?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

Well, we have a big discount business, so in many respects, we benefit from those kinds of shifts, especially if we have our formats running on all cylinders. But we have a market division business where we need to continue to ensure that the gap from a pricing point of view between the opening price discount formats and those stores does not get too wide. I'd say we feel comfortable about where we are. We'd feel more comfortable if they gap was a little narrower. But no concerning gap at this point.

Mark Petrie - *CIBC World Markets - Analyst*

Thanks very much.



Operator

Michael Van Aelst, TD Securities.

Michael Van Aelst - TD Securities - Analyst

Thank you.

On the same-store sales in the Shoppers side of the business, drug side of the business, same-store is extremely strong and you attributed a chunk of that to the food business rollout. To what degree do you think you might be cannibalizing the PC sales into your food operations?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

It is a good question. The short answer is, not much. Probably some. We don't have a specific calculation at the moment. What we are tracking is where we have strong food businesses, enhanced fresh food stores and Shoppers that are located across the street or in a very close proximity to one of our traditional supermarkets, that gives us the most accurate proxy, we feel. At this stage the impact is nominal. So, our view is that the growth in food, even though there may be a touch of cannibalization in President's Choice -- it's hard to believe there wouldn't be -- but it is an overwhelming incremental benefit to our food sale.

Michael Van Aelst - TD Securities - Analyst

Okay; and can you talk a little bit about the relative margin performance between the food and the drug?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

No, we don't really provide that level of detail in the disclosure.

Michael Van Aelst - TD Securities - Analyst

Okay. Maybe in a more general sense, can you -- given that the front store Shoppers were so strong, is that allowing your EBITDA Shoppers to grow again for the pre-synergies?

Richard Dufresne - Loblaw Companies Ltd - CFO

Yes. In Q1.

Michael Van Aelst - TD Securities - Analyst

Thank you very much.

Operator

Vishal Shreedhar, National Bank.

Vishal Shreedhar - *National Bank Financial - Analyst*

Thanks for taking my questions.

Just on the EBITDA margin expansion that Loblaw retail saw in Q1, I noticed that it was predominantly driven by synergies, at least if you back out the synergies that seemed to be the apparent benefit year over year. I was just hoping you could provide a little bit of color on -- your thoughts on operating leverage in addition to synergies as we look forward?

Richard Dufresne - *Loblaw Companies Ltd - CFO*

Well, you are seeing [if you] just look at the numbers on a consolidated basis, earnings growing close to 14%, EBIT growing north of 7% and EBITDA growing north of 5%. So you are seeing operating leverage throughout the income statement. Some of it is in SG&A, some of it actually in gross margin, and our D&A expenses is more or less flat. So all of these work together to drive operating leverage to the bottom line.

Vishal Shreedhar - *National Bank Financial - Analyst*

I guess another way of asking my question is: as these synergies start to fade away, because the Company's nearing its target, should we expect this EBITDA margin benefit year over year to say it as well?

Richard Dufresne - *Loblaw Companies Ltd - CFO*

I guess at some point we will stop commenting on synergies, but we are still going to be working hard to drive costs south of our business, which will help drive the growth in EBITDA going forward. That will continue to be our plan for the next few years.

Vishal Shreedhar - *National Bank Financial - Analyst*

How do you feel about Loblaw's ability in the retail segment to more effectively deliver operating leverage on a go-forward basis?

Richard Dufresne - *Loblaw Companies Ltd - CFO*

That remains a big area of focus for us. We saw 10 basis points in the quarter. I can't say I'm ecstatic about seeing that. I'd like to see a bigger number; more consistent over time. But we are not in a rush, we are working hard at driving costs out of the business and that needs to be our focus and remains our focus. So stay tuned.

Vishal Shreedhar - *National Bank Financial - Analyst*

Okay. When you talked earlier about not being on the front foot in the discount business as much as you would have liked, perhaps, in the quarter, is the implication of that statement -- does that mean that Loblaw will invest more in pricing going forward in discount?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

What we will do is we'll make sure that our promotional programs are as competitive as they need to be in the key weeks to drive the topline performance. The thing about the hard discount business, which I think you largely appreciate, is that it is a big business and it is very very responsive to promotional programs.

That is good, because when you dial up the promo program you see a very instant sales response. If you overachieve, it can cost you more than you anticipate. We have been working hard to try and stabilize the promotional investment cycles in that business -- less peaks and valleys. And

what happened in Q1, as I mentioned earlier, is that we backed off too much, basically, in the promotional design in the quarter, while our competitors ramped up significantly. And the combination of those two things hit us harder than we anticipated.

As we move forward, we will make sure that we have the sharpest possible pencils on those promo programs. We're not going to just yank a lever to try and chase the sales number because we lost a bit of ground in Q1. And that is why I talk quite specifically about building back our relative rate of sales versus the market over the balance of the year. And our commitment is to do that. We may need to make some investments. Certainly we're going to make investments in promo. Maybe some incremental investments in price. But we're going to do that while delivering on our financial plan and we have no thought about changing our outlook.

Vishal Shreedhar - *National Bank Financial - Analyst*

Okay, so the comment about stable gross margins still stands?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

Yes.

Vishal Shreedhar - *National Bank Financial - Analyst*

Okay. And just a quick one here.

When we look at 2016, how should we think about how much square footage Loblaw will vend into Choice and how much square footage is left to vend in, in total?

Richard Dufresne - *Loblaw Companies Ltd - CFO*

It is slowing down dramatically. I don't think we've commented on the amount, but it is less than what it was last year and it's probably going to do even less in the Q. It is starting to become less of a factor for Choice's growth and the [choice] in grow going forward will come from the development of its own pipeline and that is what we should rely on going forward.

Vishal Shreedhar - *National Bank Financial - Analyst*

Okay. Thanks for your comments.

Operator

Jim Durran, Barclays.

Jim Durran - *Barclays Capital - Analyst*

Going back to tonnage for a second, how much of an impact did the Easter shift have on your tonnage growth?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

Probably about the same as it did in terms of sales.



Jim Durran - *Barclays Capital - Analyst*

And so when we look at the next quarter, can you give us some direction on how 1.9% might translate into a Q2 drain on the comps?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

About the same.

Jim Durran - *Barclays Capital - Analyst*

Okay. With respect to what you're talking about in terms of the need to be a bit more price-sharp perhaps in hard discount -- so, if I'm listening correctly, is your expectation that you could still retain roughly same gross profit dollars if you just more effectively invest gross margin into price in that segment?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

Yes, I mean there are two ways to fund increased investment. The first is to -- there's actually three ways. The first is mix. You make an investment on one set of products and you mix it back through the basket in other products. The second is, it pays for itself as you get tonnage growth, so your rate goes down but your dollars go up. The third is that you offset that with cost savings in other parts of the business. We will be looking at all three, and we think that we have sufficient capacity in all three. Certainly we see prices coming down.

Jim Durran - *Barclays Capital - Analyst*

I think we are all hearing from various players within each segment that there is a need to adjust price. So I think both within the markets or conventional business, there's [metro] saying that they need to narrow the spread. It sounds like you're saying the same thing; and then we're obviously hearing that Walmart is looking at reducing center of store pricing, which enhances the spread and needs to be taken care of. So, I think everybody is just concerned that there is a net compression here that maybe, when you were establishing your guidance for 2016, that, that dynamic wasn't crystal clear. It is a little bit clearer now. And I guess the question is do you feel that you've got enough ramp-up in cost reductions that you can offset that investment need?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

I don't think we provided guidance as to how the year would trade, but certainly our view is that we can deliver our financial plan and get our sales to the place that we would like them to be.

It is also worth just reminding everyone, we haven't spent a ton of time on this. Our sales story is really a tale of two. We had an absolutely terrific sales performance in Shoppers Drug Mart, and that is a big part of the overall sales of our business today. And we see that momentum continuing through the balance of the year.

Jim Durran - *Barclays Capital - Analyst*

And within the quarter, I would assume that the strength that Shoppers had some marginal, favorable mix impact on your gross margin performance? Is that fair to say?

Richard Dufresne - *Loblaw Companies Ltd - CFO*

No, actually, because the Shoppers, the driving factor of their gross margin is healthcare reform. And so we've seen pressure on gross margin on the Shopper side for a number of years. And that trend is continuing.

Jim Durran - *Barclays Capital - Analyst*

Great. Thank you.

Operator

(Operator Instructions)

Patricia Baker, Scotiabank.

Patricia Baker - *Scotiabank - Analyst*

Thank you very much. Most of my questions have been answered, and I have another one and I think for all intents and purposes, Galen, you probably answered this in your answer to Vishal, but I'm going to try and ask it a little differently.

So, if we look and try to dig a little deeper on this same-store sales trend in the food retail, when you adjust for Easter 1.6 net, quite a decelerating trend from what we saw in Q4 where it was 3.1. And I appreciate the color you gave us around what has been happening in the discount, and being you backed off too much, and that helps us understand what happened. On the other hand, you have a very big discount business. As the consumer is changing their behavior and shifting to discount, it's a big opportunity for you. Would it be fair to say that having been caught on the back flip, that perhaps you missed a little bit of an opportunity to gain more discount share in this quarter by that little misstep?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

Yes.

Patricia Baker - *Scotiabank - Analyst*

Okay.

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

I think that's right.

Patricia Baker - *Scotiabank - Analyst*

Okay. I just really wanted to understand it, so I apologize for asking a belabored fashion.

I now have a completely different question and you might not have this at your fingertips. If we look at the click and collect -- and I know that's a very important project and one that's accelerating in Europe. Certainly gathering a lot of metrics on that. You happen to have any sense of the throughput time for an individual -- the average time it takes for a person to drive in, get their groceries and drive off?



Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

I think we're going to need to get back to you on that.

What I would say is that we are satisfied with the range of performance that we are continuing to press forward with it. We do certainly believe that we should be able to tighten up the time that the customer spends waiting for someone to come out and bring them their groceries. We call it in an order ready when the customer arrives metric, or something of that nature. We will get back to you with a little bit more specifics.

Patricia Baker - *Scotiabank - Analyst*

I would really appreciate that. Thanks.

Richard Dufresne - *Loblaw Companies Ltd - CFO*

If you use a data point of one being me, it's pretty quick (laughter). Especially if you program the phone number in your smart phone and you call 5 minutes ahead of getting to the store (laughter).

Patricia Baker - *Scotiabank - Analyst*

And I know you are very demanding, Richard, when it comes to things like time and attention. Thanks.

Operator

Keith Howlett, Desjardins Securities.

Keith Howlett - *Desjardins Securities - Analyst*

Well, I'm glad to know they know the CFO is coming to pick his groceries up (laughter).

I just wanted to ask about some of the store plans for this year. I was wondering in terms of no-frills in Western Canada, what your plans would be in terms of conversion of extra stores to no-frills this year.

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

We are continuing to convert stores to no-frills. Equally important is Extra Foods convergence to the gig format, the neighbor format. Both those platforms are performing exceedingly well in Western Canada. We are really happy with them. What happens as you get to the end of the Extra Foods network -- you start to get into a set of stores where the economics associated with the conversion investment don't look as attractive as the first wave of stores. And we are just moving into what we would call the last quartile, probably the least attractive quartile. So it's fair to say that after this year the pace of change with the Extra Foods network, is likely to decelerate.

Keith Howlett - *Desjardins Securities - Analyst*

I think you opened a few conventional stores, one in Calgary and maybe three in Vancouver. How are those performing in Western Canada?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

They are performing well. I can say it is definitely easier to convert a store from one format to another. Add a whole lot of service and assortment, or improve prices if you're converting it to no-frills. We see a really consistent and very satisfactory sales bump when you open a store brand-new in a market where you don't have a lot of network density and awareness of the brand. It is a bit of a slower start.

But having said that, we are really happy, actually, with the standalone stores in Vancouver and in Calgary. And we remain committed again to a measured deployment of new square footage in the market division in Western Canada.

Keith Howlett - Desjardins Securities - Analyst

And then just on the Quebec market, was there much impact of moving from the Provigo banner from the Loblaw banner? I know there were some store renovations attached with some of those transitions, but is there much change as you switch the banner?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

Only positive. I think to be able to exit the Loblaw brand in Quebec is an enormous step in the right direction for us. It just allows us to focus our marketing efforts on two specific brand names. Provigo is so much stronger in the consumers' mind then it was just three or four years ago. So, no, only positive.

Keith Howlett - Desjardins Securities - Analyst

Thank you.

Operator

Chris Li, Bank of America.

Chris Li - BofA Merrill Lynch - Analyst

Sorry, I am just a little bit unclear about the statement about the favorable foreign exchange impact on your SG&A expenses rate this quarter, given that the Canadian dollar was weaker compared to a year ago. I thought that weaker Canadian dollar would give rise to higher expenses because as you value the US dollar tables. So, I was wondering if you can maybe help me explain that?

Richard Dufresne - Loblaw Companies Ltd - CFO

It actually improved versus last year, and so we had a slight benefit in this quarter versus the reverse in Q4.

Chris Li - BofA Merrill Lynch - Analyst

Would you be able to quantify what was the impacts in dollar terms during the quarter?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

No.

Chris Li - BofA Merrill Lynch - Analyst

And just in terms -- on the healthcare reform side. With the professional alliances in Quebec being lifted or being lifted higher, can you just quantify or help us understand what is the net impact on the Shoppers pharmacy business in Quebec with this regulatory change?

Richard Dufresne - Loblaw Companies Ltd - CFO

We don't go into that level of detail. We just said that the impact of drug reform this year should be similar in total to last year. So, we did budget the listing of the [cap] in Quebec. But we were expecting that it would be listed altogether now, and now it's a phased-in approach. There's probably a slight benefit to our budget because of that, but that's it.

Chris Li - BofA Merrill Lynch - Analyst

Probably it's not meaningful, I'm guessing.

Richard Dufresne - Loblaw Companies Ltd - CFO

No.

Chris Li - BofA Merrill Lynch - Analyst

Great. Thanks.

Operator

Keith Howlett, Desjardins Securities.

Keith Howlett - Desjardins Securities - Analyst

I just wondered if we could have an update on the Shoppers Drug Mart program in, I believe it's Regina, in terms of the food offering?

Galen Weston - Loblaw Companies Ltd - President & Executive Chairman

So, we basically have three ways of the enhanced fresh food proposition. The first was in downtown Toronto, the second was in Regina, and the third was in downtown Toronto. We were very happy with the results in the downtown core. We spent some considerable time getting the cost lines, once we had the sales, working correctly; and then we made a decision to deploy wave three, which was essentially doubling down on enhanced food in Toronto. And we've been really pleased with the early going, early results, from those stores, both on a top line and how quickly the cost lines are coming into the right zone.

Regina is a slightly different story. So, that is our suburban test. We have been satisfied to happy with the sales, but the stores are big, the volumes aren't quite as high, and we put a bit too much space into the fresh food departments there. We are having a harder time getting the costs in line. So the teams are doing a lot of work to experiment with different promotional programs to drive in customer traffic; also re-merchandising over-spaced areas so that we can reduce some things like shrink. So we are running certainly behind in Saskatchewan, although as every month goes by, increasing confidence that we're going to be able to unlock a suburban, enhanced fresh model for the Shoppers Drug Mart network. And it is really that suburban model that has disproportionate potential to scale up that proposition. So, we're paying close attention to it.



Keith Howlett - *Desjardins Securities - Analyst*

I wonder, if I could just ask the -- last -- ask about the idea of generic drug tendering in the province of Quebec. Do you have any information as to the timing of a decision on that or what the decision may be?

Galen Weston - *Loblaw Companies Ltd - President & Executive Chairman*

No.

Keith Howlett - *Desjardins Securities - Analyst*

Great. Thanks.

Operator

There are no further questions at this time. I will turn the call back to Sophia Bisoukis.

Sophia Bisoukis - *Loblaw Companies Ltd - IR*

Great. Thank you, everyone for joining us today. If you have any further questions you can contact our Investor Relations team. We look forward to speaking with you again to discuss our second quarter 2016 results, which will be held on July 27, 2016. Have a good day.

Operator

Thank you. Ladies and gentleman, this concludes the conference call for today. You may now disconnect your line and have a great day.

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