IFRS 16 Leases

Investor Education Session

Friday, April 12, 2019

Forward Looking Statements

This presentation for Loblaw Companies Limited ("Loblaw" or "the Company") contains forward-looking statements about the Company's objectives, plans, goals, aspirations, strategies, financial condition, results of operations, cash flows, performance, prospects, opportunities and legal and regulatory matters. Specific forward-looking statements in this presentation include, but are not limited to, statements with respect to the impact of the Company's adoption of IFRS 16 on its financial statements and related financial reporting of anticipated future results. These specific forward-looking statements are contained throughout this presentation. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may" and "should" and similar expressions, as they relate to the Company and its management.

Forward-looking statements reflect the Company's estimates, beliefs and assumptions, which are based on management's perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, and as such, are subject to change. The Company can give no assurance that such estimates, beliefs and assumptions will prove to be correct.

Numerous risks and uncertainties could cause the Company's actual results to differ materially from those expressed, implied or projected in the forward-looking statements, including those described in Section 12 "Enterprise Risks and Risk Management" of the Company's MD&A in the Annual Report of 2018 and the Company's Annual Information Form ("AIF") (for the year ended December 29, 2018).

Other risks and uncertainties not presently known to the Company or that the Company presently believes are not material could also cause actual results or events to differ materially from those expressed in its forward-looking statements. Additional risks and uncertainties are discussed in the Company's materials filed with the Canadian securities regulatory authorities from time to time, including, without limitation, the section entitled "Risks" in the Company's AIF (for the year ended December 29, 2018). Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect the Company's expectations only as of the date of this presentation. Except as required by law, the Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

This presentation uses certain non-GAAP measures, such as EBIT and EBITDA, which the Company believes provide useful information to both management and investors in measuring the financial performance of the Company. These measures do not have a standardized meaning prescribed by GAAP, and therefore, they may not be comparable to similarly titled measures presented by other publicly traded companies and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

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IFRS 16 Leases: Key Concepts

IFRS 16 requires the recognition of assets and liabilities on the balance sheet for all leases(i)

- IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

- Substantially all of the Company's operating leases are real estate leases for a significant portion of it's 2,500+ retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and IT equipment. The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are mainly related to non-consolidated franchisees, ancillary tenants and gas bar land.

- The Company has adopted IFRS 16 *Leases* on December 30, 2018 using the modified retrospective approach. The modified retrospective approach applies the requirements of the standard retrospectively with the cumulative effects of initial application recorded in opening retained earnings as at December 30, 2018, and with no restatement of the comparative period.

- IFRS 16 will have no impact on:
  - Loblaw's underlying business economics
  - How we operate our businesses
  - Future business plans
  - Cash

- IFRS 16 will have a significant impact on the Company's financial statements. Impacts include:
  - Balance Sheet is "grossed up", as substantially all leases are brought on balance sheet, including lease renewals where Management is "reasonably certain"
  - Increase in EBITDA and EBIT (no longer operating lease expense, now interest and depreciation)
  - Negative net earnings and EPS impact earlier in the lease term on an individual lease basis
  - Nil cumulative net earnings and EPS impact over the term of the lease
  - Change in classification of amounts on the statement of cash flow

(i) Except for leases that meet certain recognition exemptions.

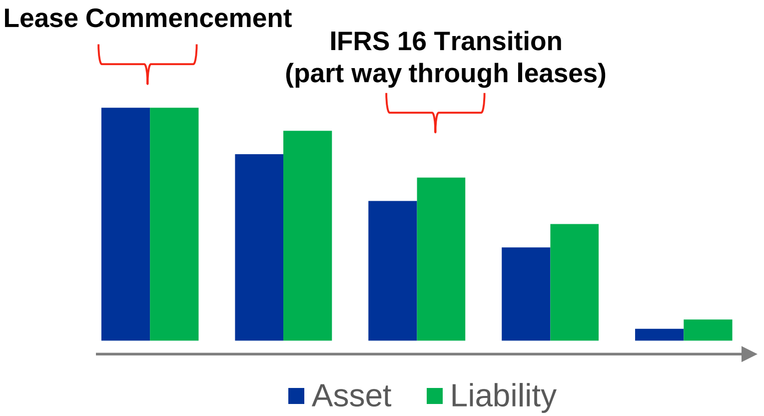
IFRS 16 Leases: Key Concepts (cont'd)

IFRS 16 requires the recognition of assets and liabilities on the balance sheet for all leases(i)

- The objective of IFRS 16 is to align the presentation of leased assets more closely to owned assets. In doing so, a right-of-use asset and lease liability are brought on to the balance sheet.
- Where previous accounting recognized rent expense on a straight-line basis, under IFRS 16, total lease expense is front loaded as interest is higher in the beginning of the term.
- Over the entire term of the lease, total interest and depreciation equals total rent expense under the previous standard.

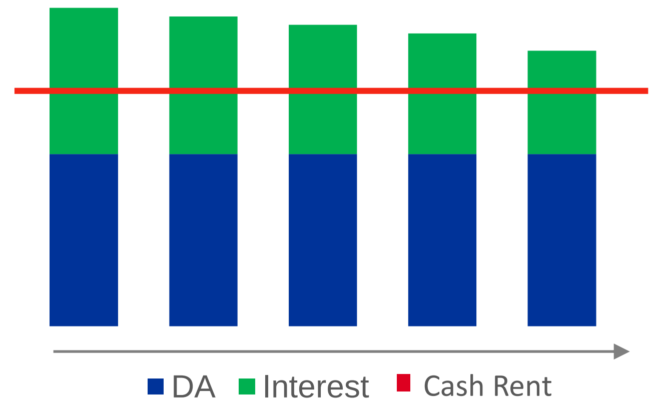
Balance Sheet

1. Lease Inception - asset and liability are set up as the present value of the lease payments. Note: these balances may not align on transition due to the fact that Loblaw is part way through the term on most of its leases
2. After initial recognition the asset will amortize faster than liability, creating a net liability on the balance sheet



Income Statement

1. EBITDA increases because rent is removed from SG&A
2. Depreciation is recorded evenly over the lease term
3. Interest is front loaded - recorded liability is accreted based on the effective interest method
4. Interest and depreciation equal cash rent over lease term



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IFRS 16 Leases: Transition Method

Loblaw has applied the modified retrospective transition method

The Company has applied the modified retrospective approach on transition. Under the modified retrospective approach, the Company's right-of-use assets are calculated retrospectively using the discount rate at the transition date. The Company's financial liability equals the PV of future lease payments. The difference is recorded in opening retained earnings on December 30, 2018. No prior periods are restated.

IFRS 16 Transition Method

Retrospective	Modified Retrospective
Equity Adjustment Jan 1, 2018	Equity Adjustment Jan 1, 2019
Under the retrospective approach the Company applies the standard retrospectively as if the standard has always been in effect.	Under the modified retrospective approach the Company applies the standard from the beginning of the current period using transition rules included in IFRS 16

Recognition Exemptions and Practical Expedients

The Company has applied the following recognition exemptions and practical expedients:

- grandfather the definition of a lease for existing contracts at the date of initial application;
- exclude certain short-term leases from IFRS 16 lease accounting;
- use portfolio application for leases with similar characteristics, such as vehicle and equipment leases;
- apply a single discount rate to a portfolio of leases with reasonably similar characteristics at the date of initial application;
- exclude initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- use hindsight in determining lease term at the date of initial application.

IFRS 16 Leases: Measuring the ROU Asset and Lease Liability

Summary of calculations

Lease Liability

Lease Liability

=

PV of lease payments

+

PV of expected payments at end of lease(i)

Key Inputs

- Lease Term
- Lease Payments
- Discount Rate

(i) residual value guarantees, exercise price of purchase option, and/or lease termination payment, if applicable.

Lease Asset

Right-of-use Asset

=

Lease Liability

+

Prepayments

+

Initial Direct Costs

+

Restore/ dismantle

−

Incentives received

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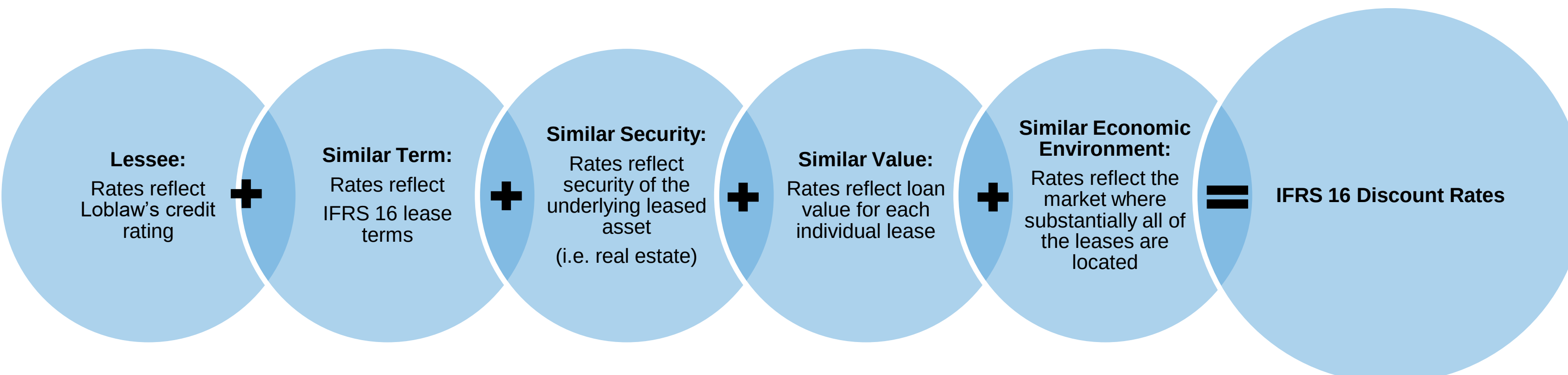
IFRS 16 Leases: Key Assumptions - Discount Rate

IFRS 16 requires a lease specific discount rate

Determining the discount rate is a <u>material</u> judgment area under IFRS 16 as it drives the calculation of right-of-use assets and lease liabilities the Company will put on its balance sheet, which consequently impacts depreciation and interest expenses.

Lessee's incremental borrowing rate	The rate of interest that a <u>lessee</u> would have to pay to borrow over a <u>similar term</u>, and with a <u>similar security</u>, the funds necessary to obtain an asset of a <u>similar value</u> to the right-of-use asset in a <u>similar economic environment</u>.



IFRS 16 Leases: Key Assumptions - Lease Term

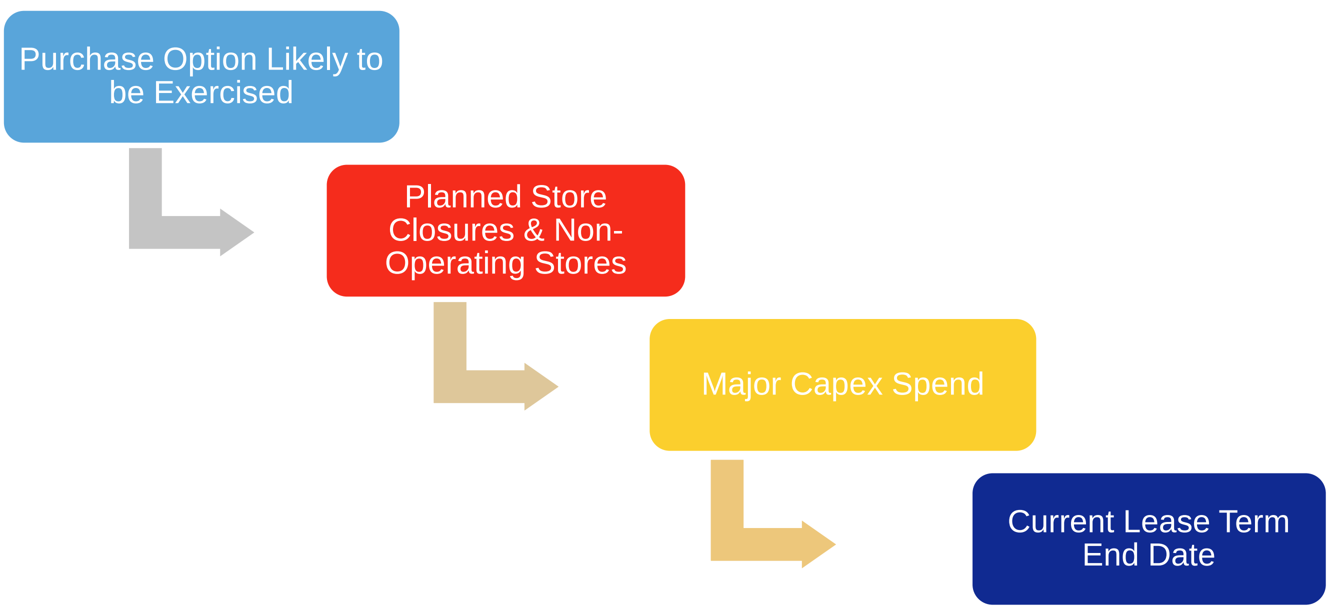
Alignment on “reasonably certain” is key to determining lease term

Lease term is a <u>material</u> judgment area as it affects the magnitude of right-of-use assets and lease liabilities set up on transition and go-forward, which consequently impacts depreciation and interest expenses.

Lease term	The non-cancellable period for which a lessee has the right to use an underlying asset, together with: 1. periods covered by option to extend the lease if the lessee if reasonably certain to exercise 2. periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise

The majority of the Company’s leases are property leases. Property leases were assessed by Management on a lease by lease basis consistent with the requirements of IFRS 16. This assessment was also done for all non-property leases on a lease by lease basis.

Key Property Lease Assessment Indicators:

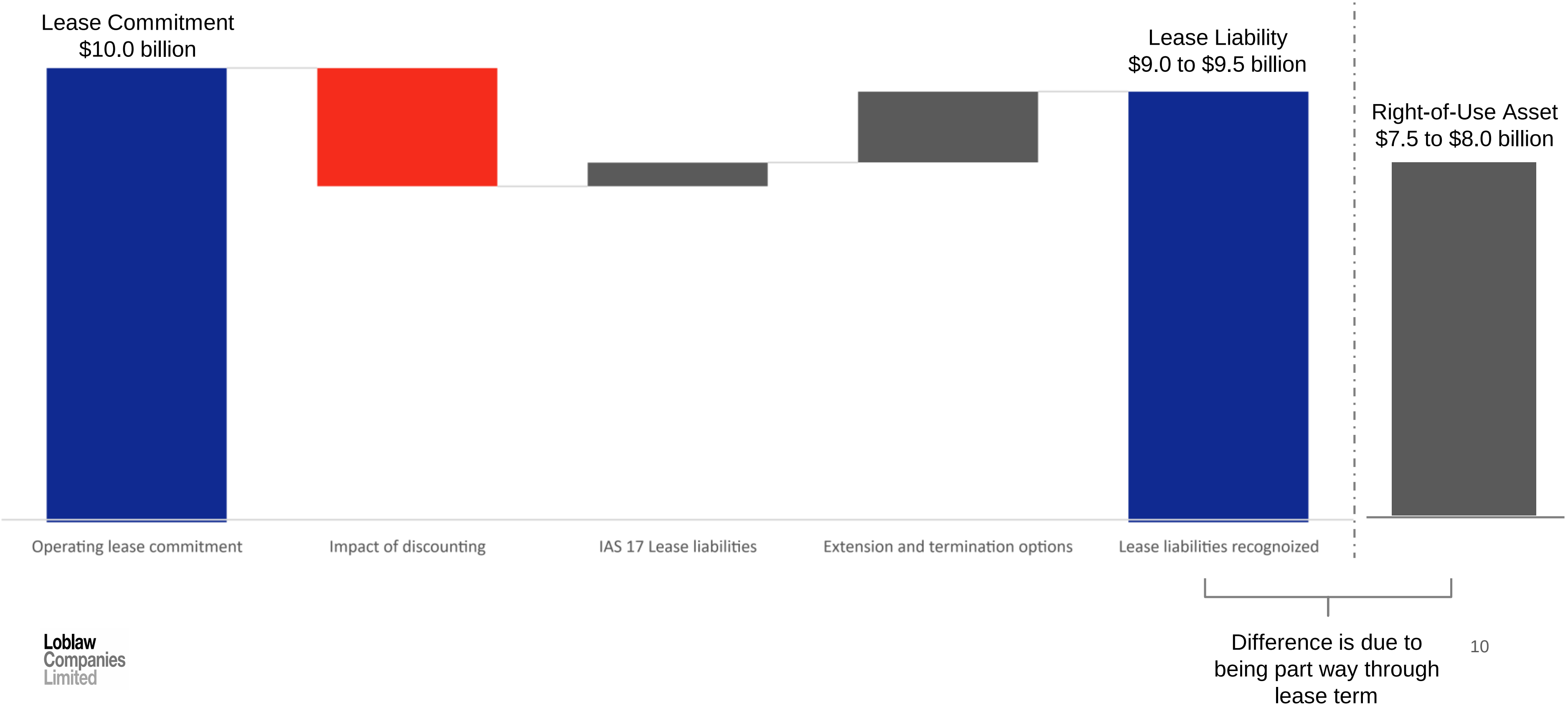


IFRS 16: Lease Commitment Note to Lease Liability

Understanding Loblaw's Lease liability

Substantially all of the Company's operating leases are real estate leases for retail stores, distribution centers and corporate offices. Other leased assets include passenger vehicles, trucks and IT equipment. The Company also has owned and leased properties which are leased and subleased to third parties, respectively. The subleases are mainly related to non-consolidated franchisees, ancillary tenants and gas bar land. The following is a bridge of the Company's 2018 Operating Lease Commitment note to the Lease Liability recorded on transition.

IFRS 16 Lease Liability Bridge – As at December 30, 2018 (ILLUSTRATIVE)



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IFRS 16 Leases: Key Concepts Recap

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