Loblaw
Companies
Limited

NEWS RELEASE

Loblaw Reports 2020 Second Quarter Results(1)

BRAMPTON, ONTARIO July 23, 2020 Loblaw Companies Limited (TSX: L) (“Loblaw” or the “Company”) announced today its unaudited financial results for the second quarter ended June 13, 2020. The Company’s 2020 Second Quarter Report to Shareholders will be available in the Investors section of the Company’s website at loblaw.ca and will be filed on SEDAR and available at sedar.com.

“Loblaw delivered strong operational performance, as both our base business and strategic growth pillars performed well amidst the extraordinary conditions brought on by COVID-19,” said Galen G. Weston, Executive Chairman, Loblaw Companies Limited. “Significant investments in the safety and wellbeing of everyone in our stores delivered against customer expectations, despite negatively impacting earnings. At the same time, the Company considerably strengthened its position in e-commerce as online grocery sales surged 280%.”

In the final two weeks of the first quarter, the Company experienced unprecedented consumer demand and stockpiling relating to COVID-19. Although this resulted in a sharp increase in revenue and profit, spending to protect our colleagues and customers was only just beginning to ramp up. In the second quarter, the Canadian market entered the next phase of the pandemic. Unprecedented demand for products across multiple categories continued. Food sales growth included changes within the mix and the benefit from strong demand for essential food categories. Overall demand shifted towards conventional formats, with the Market division delivering strong same-store sales growth of 18.8% and the Discount division growing sales by 4.9%. Same store sales in Drug declined by 1.1%. Growth in front store sales from essential categories was more than offset by a decline in pharmacy sales due to COVID-19.

As expected, profit declined year over year in the quarter as the strong growth in sales was insufficient to overcome substantial COVID-19 related costs in the quarter. In total, the Company invested $282 million to protect and benefit colleagues and customers, with approximately $180 million related to temporary pay premium costs which included a one-time bonus for store and distribution centre colleagues of $25 million. As the Company exited the second quarter, it continued to incur COVID-19 related costs to enhance the safety and security of its customers and colleagues, although at a lower rate of investment than in the second quarter, reflecting a greater degree of stability in store and distribution centre operations.

The COVID-19 pandemic has accelerated certain longer-term trends, supporting the Company’s strategy and accelerating its strategic growth areas of Everyday Digital, Connected Healthcare, and Payment & Rewards. The Company’s investments in its Everyday Digital platforms have allowed it to offer Canadians a choice of shopping in-store, or online with either home delivery or convenient pickup locations. In the quarter, its e-commerce sales accelerated sharply, growing by 280%. Year to date, Canadians have purchased almost $1.2 billion in everyday items across the Company's grocery, pharmacy, and apparel eCommerce platforms. The accelerated growth rate has resulted in increased costs and investments in the quarter. The Company expects continued growth in its e-commerce business and is investing to expand capacity and enhance its same-day service offering while also improving the cost structure of the business over time.

2020 SECOND QUARTER HIGHLIGHTS

Unless otherwise indicated, the following highlights include the impacts of the consolidation of franchises and COVID-19.

- Revenue was $11,957 million. When compared to the second quarter of 2019, this represented an increase of $824 million, or 7.4%.
- Retail segment sales were $11,768 million. When compared to the second quarter of 2019, this represented an increase of $862 million, or 7.9%.
    - Food retail (Loblaw) same-stores sales growth was 10.0%.
    - Drug retail (Shoppers Drug Mart) same-store sales decreased by 1.1%, with a pharmacy same-store sales decline of 6.2% and front store same-store sales growth of 3.3%.
- COVID-19 investments amounted to approximately $282 million of which $180 million related to compensation costs, inclusive of the one-time bonus for store and DC colleagues of $25 million.
- The Company accelerated its e-commerce initiative, growing its Everyday Digital sales by 280% to $1.2 billion on a year-to-date basis.
- Operating income was $404 million. When compared to the second quarter of 2019, this represented a decrease of $184 million, or 31.3%.
- Adjusted EBITDA(2) was $1,016 million. When compared to the second quarter of 2019, this represented a decrease of $159 million, or 13.5%.
- Net earnings available to common shareholders of the Company were $169 million. When compared to the second quarter of 2019, this represented a decrease of $117 million, or 40.9%. Diluted net earnings per common share were $0.47. When compared to the second quarter of 2019, this represented a decrease of $0.30, or 39.0%.
- Adjusted net earnings available to common shareholders of the Company(2) were $266 million. When compared to the second quarter of 2019, this represented a decrease of $107 million, or 28.7%.
- Adjusted diluted net earnings per common share(2) were $0.74. When compared to the second quarter of 2019, this represented a decrease of $0.27, or 26.7%.
- The Company did not repurchase any common shares for cancellation.
- The Company invested $199 million in capital expenditures and generated $334 million of free cash flow(2).
- The Company recorded approximately $17 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives.

See "News Release Endnotes" at the end of this News Release.

CONSOLIDATED RESULTS OF OPERATIONS

Unless otherwise indicated, all financial information includes the impacts of the consolidation of franchises and COVID-19.

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars except where otherwise indicated)	**2020 (12 weeks)**	2019 (12 weeks)	$ Change	% Change	**2020 (24 weeks)**	2019 (24 weeks)	$ Change	% Change
Revenue	**$ 11,957**	$ 11,133	$ 824	7.4 %	**$ 23,757**	$ 21,792	$ 1,965	9.0 %
Operating income	**404**	588	(184)	(31.3)%	**945**	1,039	(94)	(9.0)%
Adjusted EBITDA(2)	**1,016**	1,175	(159)	(13.5)%	**2,185**	2,215	(30)	(1.4)%
Adjusted EBITDA margin(2)	**8.5%**	10.6%			**9.2%**	10.2%		
Net earnings attributable to shareholders of the Company	**$ 172**	$ 289	$ (117)	(40.5)%	**$ 415**	$ 490	$ (75)	(15.3)%
Net earnings available to common shareholders of the Company(i)	**169**	286	(117)	(40.9)%	**409**	484	(75)	(15.5)%
Adjusted net earnings available to common shareholders of the Company(2)	**266**	373	(107)	(28.7)%	**618**	663	(45)	(6.8)%
Diluted net earnings per common share ($)	**$ 0.47**	$ 0.77	$ (0.30)	(39.0)%	**$ 1.14**	$ 1.30	$ (0.16)	(12.3)%
Adjusted diluted net earnings per common share(2) ($)	**$ 0.74**	$ 1.01	$ (0.27)	(26.7)%	**$ 1.72**	$ 1.79	$ (0.07)	(3.9)%
Diluted weighted average common shares outstanding (in millions)	**359.5**	370.4			**360.3**	371.1		

(i) Net earnings available to common shareholders of the Company are net earnings attributable to shareholders of the Company net of dividends declared on the Company's Second Preferred Shares, Series B.

REPORTABLE OPERATING SEGMENTS

The Company has two reportable operating segments (with all material operations carried out in Canada):

- The Retail segment consists primarily of corporate and franchise-owned retail food and Associate-owned drug stores. The Retail segment also includes in-store pharmacies and other health and beauty products, apparel and other general merchandise and supports the *PC Optimum* Program; and
- The Financial Services segment provides credit card services, the *PC Optimum* Program, insurance brokerage services, and telecommunication services.

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars)				**2020 (12 weeks)**				2019 (12 weeks)
	Retail	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Revenue	**$ 11,768**	**$ 233**	**$ (44)**	**$ 11,957**	$ 10,906	$ 284	$ (57)	$ 11,133
Adjusted gross profit(2)	$ 3,484	$ 211	$ (44)	$ 3,651	$ 3,263	$ 245	$ (57)	$ 3,451
Adjusted gross profit %(2)	29.6%	90.6%	—%	30.5%	29.9%	86.3%	—%	31.0%
Operating income	**$ 370**	**$ 34**	**$ —**	**$ 404**	$ 546	$ 42	$ —	$ 588
Net interest expense and other financing charges	154	22	—	176	154	21	—	175
Earnings before income taxes	**$ 216**	**$ 12**	**$ —**	**$ 228**	$ 392	$ 21	$ —	$ 413
Depreciation and amortization	$ 593	$ 5	$ —	$ 598	$ 575	$ 5	$ —	$ 580
Adjusted EBITDA(2)	977	39	—	1,016	1,128	47	—	1,175
Adjusted EBITDA margin(2)	8.3%	N/A	—%	8.5%	10.3%	N/A	—%	10.6%

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

For the periods ended June 13, 2020 and June 15, 2019 (millions of Canadian dollars)				**2020 (24 weeks)**				2019 (24 weeks)
	Retail	**Financial Services**	**Eliminations(i)**	**Total**	Retail	Financial Services	Eliminations(i)	Total
Revenue	**$ 23,352**	**$ 499**	**$ (94)**	**$ 23,757**	$ 21,358	$ 550	$ (116)	$ 21,792
Adjusted gross profit(2)	$ 6,934	$ 452	$ (94)	$ 7,292	$ 6,360	$ 480	$ (116)	$ 6,724
Adjusted gross profit %(2)	29.7%	90.6%	—%	30.7%	29.8%	87.3%	—%	30.9%
Operating income	**$ 908**	**$ 37**	**$ —**	**$ 945**	$ 947	$ 92	$ —	$ 1,039
Net interest expense and other financing charges	304	44	—	348	308	40	—	348
Earnings (loss) before income taxes	**$ 604**	**$ (7)**	**$ —**	**$ 597**	$ 639	$ 52	$ —	$ 691
Depreciation and amortization	$ 1,182	$ 10	$ —	$ 1,192	$ 1,150	$ 10	$ —	$ 1,160
Adjusted EBITDA(2)	2,138	47	—	2,185	2,113	102	—	2,215
Adjusted EBITDA margin(2)	9.2%	N/A	—%	9.2%	9.9%	N/A	—%	10.2%

(i) Eliminations include the reclassification of revenue related to President's Choice Financial Mastercard® loyalty awards in the Financial Services segment.

RETAIL SEGMENT

Unless otherwise indicated, the following financial information includes the impacts of the consolidation of franchises and COVID-19.

- Retail segment sales were $11,768 million. When compared to the second quarter of 2019, this represented an increase of $862 million, or 7.9%. After excluding the consolidation of franchises, Retail segment sales increased by $762 million or 7.2%.
  - Food retail (Loblaw) sales were $8,747 million and Food retail same-store sales growth was 10.0% (2019 – 0.6%). Food same-store sales growth was positively impacted by COVID-19.
    - The Company's Food retail average article price was 4.6% (2019 – 3.3%), which reflects the year over year growth in Food retail revenue over the average number of articles sold in the Company's stores in the quarter.
    - Food retail basket size increased and traffic decreased in the quarter.
  - Drug retail (Shoppers Drug Mart) sales were $3,021 million, and Drug retail same-store sales decreased by 1.1% (2019 – increased by 4.0%), with pharmacy same-store sales decline of 6.2% (2019 – increased by 4.8%) and front store same-store sales growth of 3.3% (2019 – 3.3%). Drug same-store sales was negatively impacted by COVID-19.
    - On a same-store basis, the number of prescriptions dispensed increased by 4.3% (2019 – 3.7%) and the average prescription value decreased by 11.2% (2019 – increased by 0.6%). Temporary changes in prescription refill limits from 90 days to 30 days related to COVID-19 contributed to a net increase in the number of prescriptions and a reduction in the average prescription value.
- Operating income in the second quarter of 2020 was $370 million. When compared to the second quarter of 2019, this represented a decrease of $176 million, or 32.2%.
- Adjusted gross profit[(2)] in the second quarter of 2020 was $3,484 million. When compared to the second quarter of 2019, this represented an increase of $221 million, or 6.8%. Excluding the consolidation of franchises, adjusted gross profit[(2)] increased by $104 million. Adjusted gross profit percentage[(2)] of 29.6% decreased by 30 basis points compared to the second quarter of 2019. Adjusted gross profit percentage[(2)], excluding the consolidation of franchises, was 26.9%. This represented a decrease of 90 basis points compared to the second quarter of 2019. Food and Drug retail margins were negatively impacted as a result of the change in product sales mix, largely due to COVID-19.
- Adjusted EBITDA[(2)] in the second quarter of 2020 was $977 million. When compared to the second quarter of 2019, this represented a decrease of $151 million, or 13.4%. The decrease included the year-over-year unfavourable impact of the consolidation of franchises of $20 million. Excluding the consolidation of franchises, the decrease was driven by an increase in SG&A of $235 million, partially offset by an increase in adjusted gross profit[(2)] of $104 million. SG&A as a percentage of sales, excluding the consolidation of franchises, was 18.5%, an increase of 90 basis points compared to the second quarter of 2019. The unfavourable increase of 90 basis points was primarily related to costs associated with COVID-19 related investments and additional costs from the acceleration of the Company's e-commerce initiative, partially offset by process and efficiency and cost savings from mitigating other expenses.
- Depreciation and amortization in the second quarter of 2020 was $593 million, an increase of $18 million compared to the second quarter of 2019, primarily driven by the consolidation of franchises and an increase in IT assets. Included in depreciation and amortization is the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart Corporation of $118 million (2019 – $116 million).
- The Company recorded approximately $17 million of restructuring and other related charges, primarily related to Process and Efficiency initiatives. Included in the restructuring charges is $9 million related to the closure of the two distribution centres in Laval and Ottawa, that were previously announced in the first quarter of 2020. The Company is investing to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec. Over the next two years, the distribution centres in Laval and Ottawa will be transferring their volumes to Cornwall. The Company expects to incur additional restructuring costs in 2020 and 2021 related to these closures.
- As at the end of the first quarter of 2020, the Company consolidated all of its remaining franchisees. Consolidation of franchises in the second quarter of 2020 resulted in a year-over-year increase in revenue of $100 million, a decrease in adjusted EBITDA[(2)] of $20 million, an increase in depreciation and amortization of $5 million and a decrease in net earnings attributable to non-controlling interests of $27 million.

FINANCIAL SERVICES SEGMENT

- Revenue was $233 million. When compared to the second quarter of 2019, this represented a decrease of $51 million. The decrease was primarily driven by lower interchange income and credit card related fees due to lower customer spending, in addition to lower sales attributable to the partial closure of *The Mobile Shop* kiosks, due to COVID-19.
- Earnings before income taxes were $12 million. When compared to the second quarter of 2019, this represented a decrease in earnings of $9 million. The decrease was primarily driven by lower revenue, as described above, and higher expected credit card losses attributable to an immediate increase in unemployment forecasts and recessionary environment when COVID-19 was declared a pandemic, partially offset by lower customer acquisition costs.

COVID-19 UPDATE

General

The COVID-19 pandemic continued to have a dramatic impact on our colleagues, customers, suppliers and other stakeholders in the second quarter. As disclosed previously, starting in March the Company reacted quickly to changing circumstances by ramping up investments in four areas: enhancing customer convenience by expanding on-line capabilities and increasing staffing in our stores; supporting our colleagues in our stores and distribution centres with temporary pay premiums and pay protection safeguards; securing operations, with more in-store cleaning and in-store security, introducing new ways to shop stores to promote social distancing, and installing plexiglass barriers at check outs; and providing financial support to our communities and customers by pledging financial support to food banks and community charities and offering personalized solutions for President's Choice Financial Mastercard® customers who are experiencing financial hardship. These investments continued in the second quarter.

In the first quarter of 2020, the Company announced that the cost of the incremental investments were expected to be approximately $90 million every 4 week period. The cost of these incremental investments was approximately $282 million in the second quarter, exceeding the benefit from incremental sales volumes due to COVID-19. These costs include approximately $180 million related to the temporary pay premium costs which included the one-time bonus for store and DC colleagues of $25 million which was announced on June 11, 2020. The Company continues to incur COVID-19 related costs to enhance the safety and security of its customers and colleagues. In the four weeks following the end of the second quarter, these costs were approximately $19 million. Given the unprecedented nature of the pandemic and the variability in reopening plans across the country, it is expected that consumer behaviour and the resulting impact on sales and gross margin mix will continue to be volatile. In the four weeks following the end of the second quarter, sales mix continued to evolve as restaurants began to re-open. Food retail same-store sales continued at elevated levels but have seen a modest tapering of growth rates, and Drug retail same-store sales growth rates have improved, relative to the second quarter.

In light of the uncertainty surrounding the duration and severity of the pandemic, it is not possible to reliably estimate the length and severity of COVID-19 related impacts on the financial results and operations of the Company. As announced on April 9, 2020, the Company has withdrawn its 2020 Outlook that is contained in its Management's Discussion and Analysis ("MD&A") for the year ended December 28, 2019.

Liquidity

The Company's liquidity position is supported by a strong balance sheet and the ability to generate significant cash flow from its operations. As at the end of the second quarter of 2020, the Company's consolidated cash and short-term investments balance was $2.6 billion. The aggregate available liquidity is approximately $4.6 billion including undrawn amounts under committed credit facilities. President's Choice Bank continues to maintain a level of liquidity well in excess of required regulatory minimums. Subsequent to the end of the second quarter, the Company's liquidity was reduced by $350 million due to the repayment of the 5.22% Medium Term Notes, Series 2-B, which was paid on June 18, 2020.

Risk Factor

For more information on the risks presented to the Company by the COVID-19 pandemic, please see Section 9, "Enterprise Risks and Risk Management" of the Company's MD&A for the quarter ended June 13, 2020.

DECLARATION OF DIVIDENDS

Subsequent to the end of the second quarter of 2020, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	$0.315 per common share, payable on October 1, 2020 to shareholders of record on September 15, 2020
Second Preferred Shares, Series B	$0.33125 per share, payable on September 30, 2020 to shareholders of record on September 15, 2020

NON-GAAP FINANCIAL MEASURES

The Company uses non-GAAP financial measures as it believes these measures provide useful information to both management and investors with regard to accurately assessing the Company's financial performance and financial condition.

Management uses these and other non-GAAP financial measures to exclude the impact of certain expenses and income that must be recognized under GAAP when analyzing underlying consolidated and segment operating performance, as the excluded items are not necessarily reflective of the Company's underlying operating performance and make comparisons of underlying financial performance between periods difficult. The Company excludes additional items if it believes doing so would result in a more effective analysis of underlying operating performance. The exclusion of certain items does not imply that they are non-recurring.

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.

For reconciliation to, and description of, the Company's non-GAAP financial measures and financial metrics, please refer to Section 10 "Non-GAAP Financial Measures" of the Company's 2020 Second Quarter Report to Shareholders.

FORWARD-LOOKING STATEMENTS

This News Release 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 News Release include, but are not limited to, statements with respect to the Company's anticipated future results, events and plans, strategic initiatives and restructuring, regulatory changes including further healthcare reform, future liquidity, planned capital investments, and the status and impact of Information Technology systems implementations. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Consolidated Results of Operations" Other Business Matters section and "COVID-19 Update" section of this News Release. Forward-looking statements are typically identified by words such as "expect", "anticipate", "believe", "foresee", "could", "estimate", "goal", "intend", "plan", "seek", "strive", "will", "may", "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 expectation of operating and financial performance in 2020 is based on certain assumptions including assumptions about the COVID-19 pandemic, healthcare reform impacts, anticipated cost savings and operating efficiencies and anticipated benefits from strategic initiatives. The Company's estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events, including the COVID-19 pandemic 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 MD&A in the 2019 Annual Report and the Company's 2019 Annual Information Form (for the year ended December 28, 2019) as well as COVID-19 related risks that have been added to Section 9 "Enterprise Risks and Risk Management" of the Company's MD&A for the three periods ended June 13, 2020.

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 News Release. 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.

CORPORATE PROFILE

2019 Annual Report and 2020 Second Quarter Report to Shareholders

The Company's 2019 Annual Report and 2020 Second Quarter Report to Shareholders are available in the "Investors" section of the Company's website at loblaw.ca and on sedar.com.

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Additional financial information has been filed electronically with various securities regulators in Canada through the System for Electronic Document Analysis and Retrieval (SEDAR) and with the Office of the Superintendent of Financial Institutions (OSFI) as the primary regulator for the Company's subsidiary, President's Choice Bank. The Company holds an analyst call shortly following the release of its quarterly results. These calls are archived in the "Investors" section of the Company's website at loblaw.ca.

Conference Call and Webcast

Loblaw Companies Limited will host a conference call as well as an audio webcast on July 23, 2020 at 10:00 a.m. (ET).

To access via tele-conference, please dial (647) 427-7450 or (888) 231-8191. The playback will be made available approximately two hours after the event at (416) 849-0833 or (855) 859-2056, access code: 4096945. To access via audio webcast, please go to the "Investors" section of loblaw.ca. Pre-registration will be available.

Full details about the conference call and webcast are available on the Loblaw Companies Limited website at loblaw.ca.

News Release Endnotes

(1) This News Release contains forward-looking information. See "Forward-Looking Statements" section of this News Release and the Company's 2020 Second Quarter Report to Shareholders for a discussion of material factors that could cause actual results to differ materially from the forecasts and projections herein and of the material factors and assumptions that were used when making these statements. This News Release should be read in conjunction with Loblaw Companies Limited's filings with securities regulators made from time to time, all of which can be found at sedar.com and at loblaw.ca.

(2) See Section 10 "Non-GAAP Financial Measures" of the Company's 2020 Second Quarter Report to Shareholders, which includes the reconciliation of such non-GAAP measures to the most directly comparable GAAP measures.

(3) To be read in conjunction with the "Forward-Looking Statements" section of this News Release and the Company's 2020 Second Quarter Report to Shareholders.