

Loblaw Companies Limited

NEWS RELEASE

Loblaw Reports 2021 Second Quarter Results⁽¹⁾

BRAMPTON, ONTARIO July 28, 2021 Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") announced today its unaudited financial results for the second quarter ended June 19, 2021. The Company's 2021 Second Quarter Report to Shareholders will be available in the Investors section of the Company's website at [loblaw.ca](https://www.loblaw.ca) and will be filed on SEDAR and available at [sedar.com](https://www.sedar.com).

"In the second quarter, Loblaw delivered strong financial performance while lapping the heightened sales and significant COVID-related costs experienced at the beginning of the pandemic," said Galen G. Weston, President and Chairman, Loblaw Companies Limited. "We maintained our focus on delivering value and quality to Canadians while providing a safe shopping experience, and are well-positioned to meet the evolving needs of customers as the pandemic restrictions begin to lift."

Grocery demand continued to benefit from elevated eat-at-home trends in the quarter. Across Loblaw's grocery stores, the Company continued to deliver superior value through its unmatched network of stores and online pick-up or delivery options. This was reflected as the Company recorded volume share gains in the second quarter, continuing its positive momentum in the grocery business. The drug store division continued to see variability in its prescription business and reduced consumer demand for high-value items like cosmetics in its front-store business due to lockdowns. The Company has experienced higher food and convenience sales during the pandemic, with muted acute-prescription and beauty sales. This trend is showing signs of rebalancing as economies re-open across Canada. With a heightened focus on its core retail businesses, including improved promotional effectiveness and cost control, Loblaw delivered another quarter of operational and financial improvements.

Loblaw continues to believe that through its everyday business decisions it has an opportunity and responsibility to have a positive effect in the communities in which it operates. That long-standing sense of responsibility has led the Company to be a corporate responsibility leader and drive change in areas that matter to Canadians. The publication of the [Company's 14th annual Corporate Social Responsibility \("CSR"\) report](#) in the second quarter marks a transition to begin reporting its corporate responsibility actions under an Environmental, Social and Governance ("ESG") framework. The 2020 CSR report contains new disclosures and targets that demonstrate the Company's commitment to ESG transparency, leadership and risk management.

2021 SECOND QUARTER HIGHLIGHTS

Unless otherwise indicated, the following highlights include the impact of COVID-19.

- Revenue was \$12,491 million. This represented an increase of \$534 million, or 4.5% when compared to the second quarter of 2020.
- Retail segment sales were \$12,282 million. This represented an increase of \$514 million, or 4.4% when compared to the second quarter of 2020.
 - Food Retail (Loblaw) same-stores sales declined by 0.1%.
 - Drug Retail (Shoppers Drug Mart) same-store sales increased by 9.6%, with pharmacy same-store sales growth of 17.2% and front store same-store sales growth of 3.6%.
- The two year sales Compound Average Growth Rate (“CAGR”)⁽⁵⁾ was 6.3% and 5.7% for Food Retail and Drug Retail, respectively.
- The Company’s e-commerce sales declined by 0.5% (2020 – grew by 280%) due to the lapping of the high penetration rates in the second quarter of 2020.
- COVID-19 related costs were approximately \$70 million (2020 – \$282 million), inclusive of approximately \$25 million (2020 – \$180 million) related to one-time bonuses and benefits for store and distribution centre colleagues.
- Retail segment adjusted gross profit percentage⁽²⁾ was 30.9%. This represented an increase of 130 basis points compared to the second quarter of 2020.
- Operating income was \$752 million. This represented an increase of \$348 million, or 86.1% when compared to the second quarter of 2020.
- Adjusted EBITDA⁽²⁾ was \$1,371 million. This represented an increase of \$363 million, or 36% when compared to the second quarter of 2020.
- Net earnings available to common shareholders of the Company were \$375 million. This represented an increase of \$206 million, or 121.9% when compared to the second quarter of 2020. Diluted net earnings per common share were \$1.09. This represented an increase of \$0.62, or 131.9% when compared to the second quarter of 2020.
- Adjusted net earnings available to common shareholders of the Company⁽²⁾ were \$464 million. This represented an increase of \$204 million, or 78.5% when compared to the second quarter of 2020.
- Adjusted diluted net earnings per common share⁽²⁾ were \$1.35. This represented an increase of \$0.63, or 87.5% when compared to the second quarter of 2020. The two year adjusted diluted net earnings per common share CAGR⁽⁵⁾ was 15.0%.
- The Company repurchased, for cancellation, 4.8 million common shares at a cost of \$350 million and 10.2 million common shares at a cost of \$700 million on a year-to-date basis.
- Quarterly common share dividend to be increased by 9%, from \$0.335 per common share to \$0.365 per common share.
- The Company invested \$258 million in capital expenditures and generated \$953 million of free cash flow⁽²⁾.
- The Company expanded its loyalty program by allowing *PC Optimum*TM members to also redeem *PC Optimum*TM points at Esso stations across Canada effective January 18, 2022.
- As disclosed in the 2020 CSR Report published in the second quarter, the Company was recognized as one of Canada’s Greenest Employers (2021) for the second consecutive year, and reduced carbon emissions by 30.9%, surpassing its original 2030 target ten years early; reduced food waste sent to landfill by 86% surpassing the original 2025 target; sourced approximately \$1 billion in local Canadian produce for the first time; and committed to increase gender and racial diversity at the Board of Directors, executive and management levels.

See “News Release Endnotes” at the end of this News Release.

CONSOLIDATED RESULTS OF OPERATIONS

For the periods ended June 19, 2021
and June 13, 2020
(millions of Canadian dollars except
where otherwise indicated)

	2021	2020 ⁽⁴⁾			2021	2020		
	(12 weeks)	(12 weeks)	\$ Change	% Change	(24 weeks)	(24 weeks)	\$ Change	% Change
Revenue	\$ 12,491	\$ 11,957	\$ 534	4.5 %	\$ 24,363	\$23,757	\$ 606	2.6 %
Operating income	752	404	348	86.1 %	1,369	945	424	44.9 %
Adjusted EBITDA ⁽²⁾	1,371	1,008	363	36.0 %	2,589	2,173	416	19.1 %
Adjusted EBITDA margin ⁽²⁾	11.0 %	8.4 %			10.6 %	9.1 %		
Net earnings attributable to shareholders of the Company	\$ 378	\$ 172	\$ 206	119.8 %	\$ 694	\$ 415	\$ 279	67.2 %
Net earnings available to common shareholders of the Company⁽ⁱ⁾	375	169	206	121.9 %	688	409	279	68.2 %
Adjusted net earnings available to common shareholders of the Company ⁽²⁾	464	260	204	78.5 %	856	609	247	40.6 %
Diluted net earnings per common share (\$)	\$ 1.09	\$ 0.47	\$ 0.62	131.9 %	\$ 1.99	\$ 1.14	\$ 0.85	74.6 %
Adjusted diluted net earnings per common share ⁽²⁾ (\$)	\$ 1.35	\$ 0.72	\$ 0.63	87.5 %	\$ 2.48	\$ 1.69	\$ 0.79	46.7 %
Diluted weighted average common shares outstanding (in millions)	342.9	359.5			345.3	360.3		

(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 and apparel and other general merchandise; and
- The Financial Services segment provides credit card and everyday banking services, the *PC Optimum™* Program, insurance brokerage services, and telecommunication services.

	2021 (12 weeks)				2020 ⁽⁴⁾ (12 weeks)			
For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total
Revenue	\$12,282	\$ 272	\$ (63)	\$12,491	\$11,768	\$ 233	\$ (44)	\$11,957
Adjusted gross profit ⁽²⁾	\$ 3,793	\$ 231	\$ (63)	\$ 3,961	\$ 3,484	\$ 211	\$ (44)	\$ 3,651
Adjusted gross profit % ⁽²⁾	30.9 %	N/A	— %	31.7 %	29.6 %	N/A	— %	30.5 %
Operating income	\$ 708	\$ 44	\$ —	\$ 752	\$ 370	\$ 34	\$ —	\$ 404
Net interest expense and other financing charges	145	16	—	161	154	22	—	176
Earnings before income taxes	\$ 563	\$ 28	\$ —	\$ 591	\$ 216	\$ 12	\$ —	\$ 228
Depreciation and amortization	\$ 603	\$ 11	\$ —	\$ 614	\$ 593	\$ 5	\$ —	\$ 598
Adjusted EBITDA ⁽²⁾	1,316	55	—	1,371	969	39	—	1,008
Adjusted EBITDA margin ⁽²⁾	10.7 %	N/A	— %	11.0 %	8.2 %	N/A	— %	8.4 %

	2021 (24 weeks)				2020 ⁽⁴⁾ (24 weeks)			
For the periods ended June 19, 2021 and June 13, 2020 (millions of Canadian dollars)	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total	Retail	Financial Services	Eliminations ⁽ⁱ⁾	Total
Revenue	\$23,952	\$ 525	\$ (114)	\$24,363	\$23,352	\$ 499	\$ (94)	\$23,757
Adjusted gross profit ⁽²⁾	\$ 7,326	\$ 447	\$ (114)	\$ 7,659	\$ 6,934	\$ 452	\$ (94)	\$ 7,292
Adjusted gross profit % ⁽²⁾	30.6 %	N/A	— %	31.4 %	29.7 %	N/A	— %	30.7 %
Operating income	\$ 1,261	\$ 108	\$ —	\$ 1,369	\$ 908	\$ 37	\$ —	\$ 945
Net interest expense and other financing charges	289	32	—	321	304	44	—	348
Earnings before income taxes	\$ 972	\$ 76	\$ —	\$ 1,048	\$ 604	\$ (7)	\$ —	\$ 597
Depreciation and amortization	\$ 1,204	\$ 20	\$ —	\$ 1,224	\$ 1,182	\$ 10	\$ —	\$ 1,192
Adjusted EBITDA ⁽²⁾	2,461	128	—	2,589	2,126	47	—	2,173
Adjusted EBITDA margin ⁽²⁾	10.3 %	N/A	— %	10.6 %	9.1 %	N/A	— %	9.1 %

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

RETAIL SEGMENT

- Retail segment sales in the second quarter of 2021 were \$12,282 million. This represented an increase of \$514 million, or 4.4% when compared to the second quarter of 2020.
 - Food Retail (Loblaw) sales were \$8,878 million and Food Retail same-store sales declined by 0.1% (2020 – grew by 10.0%). The decline was mainly driven by the lapping of the strong surge in sales in the second quarter of 2020 primarily as a result of the COVID-19 pandemic. The two year Food Retail sales CAGR⁽⁵⁾ was 6.3%.
 - The Company's Food Retail average article price was higher by 1.4% (2020 – 4.6%), 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; and
 - Food Retail basket size decreased and traffic increased in the quarter, as compared to the second quarter of 2020.
 - Drug Retail (Shoppers Drug Mart) sales were \$3,404 million, and Drug Retail same-store sales grew by 9.6% (2020 – declined by 1.1%), with pharmacy same-store sales growth of 17.2% (2020 – decline of 6.2%) and front store same-store sales growth of 3.6% (2020 – 3.3%). The pharmacy same store sales growth benefited from the lapping of government mandated 30-day supply restrictions in the second quarter of 2020. The two year Drug Retail sales CAGR⁽⁵⁾ was 5.7%.
 - On a same-store basis, the number of prescriptions dispensed increased by 0.3% (2020 – 4.3%) and the average prescription value increased by 18.3% (2020 – decreased by 11.2%).
- Operating income in the second quarter of 2021 was \$708 million. This represented an increase of \$338 million, or 91.4% when compared to the second quarter of 2020.
- Adjusted gross profit⁽²⁾ in the second quarter of 2021 was \$3,793 million. This represented an increase of \$309 million, or 8.9% when compared to the second quarter of 2020. Adjusted gross profit percentage⁽²⁾ of 30.9% increased by 130 basis points compared to the second quarter of 2020, from favourable changes in sales mix in both Food and Drug Retail and underlying improvements in business initiatives.
- Adjusted EBITDA⁽²⁾ in the second quarter of 2021 was \$1,316 million. This represented an increase of \$347 million, or 35.8% when compared to the second quarter of 2020. The increase was driven by an increase in adjusted gross profit⁽²⁾ and a favourable decrease in SG&A as described below. SG&A as a percentage of sales was 20.2%, a decrease of 120 basis points compared to the second quarter of 2020. The favourable decrease of 120 basis points was primarily due to lower COVID-19 related expenses and improvements in e-commerce labour costs.
- Depreciation and amortization in the second quarter of 2021 was \$603 million, an increase of \$10 million compared to the second quarter of 2020, primarily driven by an increase in IT assets and an increase in depreciation of leased assets. Included in depreciation and amortization was the amortization of intangibles assets related to the acquisition of Shoppers Drug Mart Corporation of \$117 million (2020 – \$118 million).

FINANCIAL SERVICES SEGMENT

- Revenue in the second quarter of 2021 was \$272 million. This represented an increase of \$39 million when compared to the second quarter of 2020. The increase was primarily driven by higher sales attributable to *The Mobile Shop*TM due to the temporary partial shutdown of *The Mobile Shop*TM kiosks in the second quarter of 2020 and higher interchange income from an increase in customer spending. This was partially offset by lower interest income attributable to lower average credit card receivables.
- In the second quarter of 2021, earnings before income taxes were \$28 million. This represented an increase in earnings of \$16 million when compared to the second quarter of 2020. The increase was primarily driven by higher revenue as described above, the reduction in the expected credit loss provision in the second quarter of 2021, lower contractual charge-off and lower funding costs. This was partially offset by higher loyalty program costs and operating costs, and higher customer acquisition costs.

DECLARATION OF DIVIDENDS

Subsequent to the end of the second quarter of 2021, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	\$0.365 per common share, payable on October 1, 2021 to shareholders of record on September 15, 2021
Second Preferred Shares, Series B	\$0.33125 per share, payable on September 30, 2021 to shareholders of record on September 15, 2021

OUTLOOK⁽³⁾

The Company cannot predict the precise impacts of COVID-19 on 2021 financial results. However, Loblaw anticipates that grocery sales will remain elevated due to the continued impact of the pandemic, including the impact of lockdown measures in many jurisdictions. As economies reopen, revenue growth will be challenged while lapping elevated 2020 sales. Costs are expected to improve, as the Company laps elevated COVID-19 related expenses, and as Process & Efficiencies and Data-Driven Insights programs continue to deliver benefits.

On a full year basis, the Company continues to expect:

- its core Retail segment business to grow earnings faster than sales;
- growth in PC Financial[®] profitability;
- to invest approximately \$1.2 billion in capital expenditures, net of proceeds from property disposals; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

Based on the Company's operating and financial performance in the first half of 2021, it now expects low to mid-twenties percentage growth in adjusted diluted net earnings per common share⁽²⁾, excluding the impact of the 53rd week in the fourth quarter of fiscal year 2020.

In the four weeks following the end of the second quarter of 2021, Food Retail same-store sales declined by 1.0% when compared to the same period last year.

During the second quarter, COVID-19 related costs were approximately \$70 million, inclusive of approximately \$25 million related to one-time bonuses and benefits for store and distribution centre colleagues. The COVID-19 costs incurred in the four weeks after the end of the second quarter of 2021 amounted to approximately \$9 million.

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 11 "Non-GAAP Financial Measures" of the Company's 2021 Second Quarter Report to Shareholders.

Non-GAAP Financial Measures Policy Change Effective First Quarter of 2021 In 2020, management undertook a review of historical adjusting items as part of an effort to reduce the number of items it excludes from its non-GAAP financial measures. Management concluded that, in order to present adjusting items in a manner more consistent with that of its Canadian and U.S. peers, the Company will no longer adjust for fixed asset and other related impairments (net of recoveries), certain restructuring and other related costs, pension settlement costs, statutory income tax rate changes or other items. For further details please refer to Section 11 "Non-GAAP Financial Measures" of the Company's 2021 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" and "Outlook" 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 2021 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 the Company's MD&A in the 2020 Annual Report and Section 4 "Risks" of the Company's 2020 Annual Information Form for the year ended January 2, 2021, which include detailed risks and disclosure regarding COVID-19 and its impact on the Company.

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

2020 Annual Report and 2021 Second Quarter Report to Shareholders

The Company's 2020 Annual Report and 2021 Second Quarter Report to Shareholders are available in the "Investors" section of the Company's website at loblaw.ca and on sedar.com.

Investor Relations

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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 28, 2021 at 10:00 a.m. (ET).

To access via tele-conference, please dial (416) 764-8688 or (888) 390-0546. The playback will be made available approximately two hours after the event at (416) 764-8677 or (888) 390-0541, access code: 465555#. To access via audio webcast, please go to the "Investor" 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 2021 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 11 "Non-GAAP Financial Measures" of the Company's 2021 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 2021 Second Quarter Report to Shareholders.
 - (4) Certain figures have been restated due to the non-GAAP financial measures policy change. See section 11 "Non- GAAP Financial Measures" of the Company's 2021 Second Quarter Report to Shareholders.
 - (5) Compound Average Growth Rate ("CAGR") is the measure of annualized growth over a period longer than one year. CAGR as disclosed by the Company is the mean annual growth rate over a two year period, 2019 to 2021.
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