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INVESTMENT  
RESEARCH

July 28, 2017

**Loblaw Companies Ltd.**  
**BUY – C\$81.00**

**Ticker**                      **Current Price**  
TSX-L                              C\$68.75

## NEED-TO-KNOW; Q2-2017

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### Q2-2017 IN LINE; SIGNIFICANT MINIMUM WAGE INCREASE IN ON AND AB TRIMS OUR INTRINSIC VALUE

Loblaw's Q2-2017 results were in line with our expectations. Going forward, Loblaw will face headwinds from the significant minimum wage increase in Ontario and Alberta. Based on the new minimum wage in all provinces, we estimate the average minimum wage for Loblaw will increase from \$11.04/hr in 2016 to \$12.81/hr in 2018. Using back-of-the-envelope calculation, we concluded that management's estimate of \$190 million incremental increase in labor expense in 2018 is reasonable.

Our July 2017 grocery price surveys in Ontario showed that there were price increases in our regular price basket at Loblaw conventional and discount banners. Moreover, Loblaw and No Frills had pulled back its promotions in July 2017. Canadian grocers will be competing against easier food CPI comparison going forward. Therefore, we expect Loblaw to improve its gross profit margin going forward.

We have conservatively increased our previous 2018E SG&A expense by \$190 million to reflect the minimum wage increase, assuming there will not be any potential cost savings to offset the increase. As a result, we have reduced our intrinsic value to \$81.00 (down from 85.00), which consists of \$68.00 from Retail, \$2.00 from Financial Services and \$11.00 from the 82.7% interest in Choice Properties REIT. Loblaw remains a BUY.

### NEED-TO-KNOW FROM Q2-2017: ANALYSIS OF Q2-2017 RESULTS

Figure 1 shows Loblaw's retail adjusted EBITDA (excluding the impact of the consolidation of franchisees) increased by 4.8% to \$918 million. Retail adjusted EBITDA margin improved by 19bps and it was mainly due to a 27bps improvement in gross profit margin offsetting an 8bps increase in 33bps in SG&A margin.

Figure 1  
**Retail Segment Quarterly Analysis, Q1-2016 to Q2-2017**  
Amounts in millions of Canadian dollars

	Q1-2016	Q2-2016	Q3-2016	Q4-2016	2016	Q1-2017	Q2-2017
No of Consol'd Franchisees, End of Period	115	132	165	200	200	225	241
Adjusted Revenue	10,090	10,419	13,766	10,746	45,021	10,025	10,672
Adjusted GP (disclosed)	2,718	2,751	3,594	2,838	11,901	2,705	2,847
Adj SG&A (disclosed)	1,932	1,875	2,507	1,976	8,290	1,901	1,929
<b>Adj EBITDA (calculated)</b>	<b>786</b>	<b>876</b>	<b>1,087</b>	<b>862</b>	<b>3,611</b>	<b>804</b>	<b>918</b>
Y-o-Y Change in Adj. Gross Profit	3.6%	1.2%	1.0%	(0.2%)	1.3%	(0.5%)	3.5%
Y-o-Y Change in SG&A Expense	2.5%	(3.3%)	(4.6%)	(2.2%)	(2.1%)	(1.6%)	2.9%
Y-o-Y Change in Adj. EBITDA	6.4%	12.2%	16.5%	4.7%	10.2%	2.3%	4.8%
<b>Adjusted GPM</b>	<b>26.94%</b>	<b>26.40%</b>	<b>26.11%</b>	<b>26.41%</b>	<b>26.43%</b>	<b>26.98%</b>	<b>26.68%</b>
<b>Adjusted SG&amp;A Margin</b>	<b>19.15%</b>	<b>18.00%</b>	<b>18.21%</b>	<b>18.39%</b>	<b>18.41%</b>	<b>18.96%</b>	<b>18.08%</b>
<b>Adjusted EBITDA Margin</b>	<b>7.79%</b>	<b>8.41%</b>	<b>7.90%</b>	<b>8.02%</b>	<b>8.02%</b>	<b>8.02%</b>	<b>8.60%</b>
Y-o-Y Change in GPM	0.24%	0.05%	0.15%	(0.41%)	(0.03%)	0.04%	0.27%
Y-o-Y Change in SG&A Margin	(0.03%)	(0.79%)	(0.94%)	(0.67%)	(0.67%)	(0.19%)	0.08%
Y-o-Y Change in EBITDA Margin	0.27%	0.84%	1.09%	0.26%	0.64%	0.23%	0.19%

Source: Loblaw's Supplementary Slide Presentation, Q1-2016 to Q2-2017

## MANAGEMENT'S ESTIMATE OF \$190 MILLION WAGE INCREASE IMPACT IS REASONABLE

The minimum wage in Ontario is set to increase to \$14.00/hr on Jan. 1, 2018; and both the minimum wage in Ontario and Alberta is set to increase to \$15.00/hr on Oct. 1, 2018. Loblaw's management expects the significant increase in minimum wage to boost labor expenses by an incremental \$190 million in 2018. In this section, we evaluate whether the \$190 million incremental impact on labour expense is reasonable.

Figure 2 shows the estimated increase in minimum wage for Loblaw by province in proportion to their store base as at December 31, 2016.

Figure 2  
Our 2017-2020 Estimate of Average Minimum Wage in Canada Proportionate to Loblaw's Store Exposure

	# of Loblaw and Shoppers Drug Mart Stores in 2016	% of Total	2016	2017E	2018E	2019E	2020E
Alberta	261	10.8%	\$11.45	\$12.55	<b>\$13.95</b>	<b>\$15.00</b>	<b>\$15.00</b>
British Columbia	270	11.1%	\$10.58	\$11.02	\$11.35	\$11.39	\$11.50
Manitoba	73	3.0%	\$11.00	\$11.04	\$11.18	\$11.29	\$11.40
New Brunswick	78	3.2%	\$10.56	\$10.91	\$11.08	\$11.19	\$11.31
Newfoundland and Labrador	47	1.9%	\$10.50	\$10.69	\$10.83	\$10.94	\$11.05
Nova Scotia	83	3.4%	\$10.68	\$10.81	\$10.93	\$11.04	\$11.15
Ontario	1134	46.8%	\$11.29	\$11.45	<b>\$14.00</b>	<b>\$14.25</b>	<b>\$15.00</b>
PEI	13	0.5%	\$10.88	\$11.19	\$11.33	\$11.45	\$11.56
Quebec	392	16.2%	\$10.68	\$11.08	\$11.33	\$11.44	\$11.55
Saskatchewan	73	3.0%	\$10.56	\$10.75	\$10.85	\$10.96	\$11.07
<b>Canada</b>	<b>2424</b>	<b>100.0%</b>	<b>\$11.04</b>	<b>\$11.37</b>	<b>\$12.81</b>	<b>\$13.08</b>	<b>\$13.48</b>
<b>% Wage Increase</b>			<b>3.8%</b>	<b>3.0%</b>	<b>12.7%</b>	<b>2.1%</b>	<b>3.0%</b>
% Wage Increase (Only Ontario)			2.6%	1.4%	22.3%	1.8%	5.3%
% Wage Increase (Excluding Ontario)			4.9%	4.5%	4.1%	2.4%	0.7%

Source: Provincial Government website, Veritas estimates

In Figure 3, we provide our estimated breakdown of management & administration, and store & distribution centre employees.

Figure 3  
Breakdown of Loblaw Employees

	2016
Loblaw store and DC employees	134,400
Loblaw Management and Administration	6,300
<b>Total Loblaw</b>	<b>140,700</b>
Shoppers Drug Mart store and DC employees	53,000
Shoppers Drug Mart Management and Administration	1,300
<b>Total Shoppers Drug Mart</b>	<b>54,300</b>

Source: Loblaw and Shoppers Drug Mart disclosure in 2012 and Veritas estimates

We estimate the minimum wage for Loblaw across all provinces proportionate to the store exposure was \$11.04 in 2016 (Figure 2). Based on \$5,176 million salaries and wages and short-term benefits disclosed in 2016, we estimate that the store and distribution centre employees were paid a total of \$4,112 million assuming 7.5 hour working day and 260 workdays a year. This implies an \$11.25 hourly (Figure 4) rate for store and distribution centre employees, which is in line with the \$11.04 minimum wage that we derived from Figure 2.

Figure 4  
**2016 Wages and Salaries and Short-Term Benefits Expense**

2016A: Loblaw and Shoppers Drug Mart		Annual Comps	Wages & Salaries & ST Benefits	Hourly Rate
Total Store and Distribution Centre Employees	187,400	\$21,942	\$4,112	\$11.25
Total Management and Administration Employees	7,600	\$140,000	\$1,064	
Total Full Time and Part Time Employees	195,000		\$5,176	

Source: Company reports, Veritas estimates

Figure 5 shows our 2017E and 2018E wages & salaries & short-term benefits at Loblaw and Shoppers Drug Mart if the average hourly rate increases to approximately \$11.37 in 2017 and \$12.81 in 2018 as indicated in Figure 2, assuming the same number of employees. Our 2017E wages & salaries & short-term benefits of \$5,328 million implies \$11.67 hourly rate (Figure 5) for store and distribution centre employees, which is in line with 2017E minimum wage of \$11.37 hourly rate in Figure 2.

However, our previous 2018E wages & salaries & short-term benefits of \$5,516 million implies only \$12.18 hourly rate for the store and distribution centre employees, which is much lower than 2018E minimum wage of \$12.81 hourly rate in Figure 2. Management indicated on Q2-2017 conference call that the significant minimum wage increases in Ontario and Alberta would increase labour expenses by approximately \$190 million in 2018. If we increase our 2018E wages & salaries & ST benefits by \$190 million to \$5,706 million, this would imply a \$12.70 hourly rate (Figure 5) for the store and distribution centre employees, which is in line with \$12.81 hourly rate in Figure 2. Therefore, we believe management's estimated \$190 million incremental increase in labour expense is reasonable.

Figure 5  
**Our Revised 2018E Wages and Salaries and Short-Term Benefits Expense**

2017E		Annual Comps	Wages & Salaries & ST Benefits	Hourly Rate
Total Store and Distribution Centre Employees	187,400	\$22,754	\$4,264	\$11.67
Total Management and Administration Employees	7,600	\$140,000	\$1,064	
Total Full Time and Part Time Employees	195,000		\$5,328	
2018E		Annual Comps	Wages & Salaries & ST Benefits	Hourly Rate
Total Store and Distribution Centre Employees	187,400	\$24,771	\$4,642	\$12.70
Total Management and Administration Employees	7,600	\$140,000	\$1,064	
Total Full Time and Part Time Employees	195,000		\$5,706	

Source: Veritas estimates

## FOOD SSSG SHOULD BE SUPPORTED BY FOOD PRICE INFLATION BEGINNING IN SEPT.2017

In Q2-2017, Loblaw reported flat SSSG (excluding the impact of gas and Easter), which was in line with +0.3% at Metro in its most recent quarter. Although Loblaw's flat SSSG was slightly worse than Metro's +0.3%, the economic softness in Western Canada accounted for the difference. Loblaw has the relatively disadvantage compared to Metro given its operations in Western Canada. Despite the food price deflation, Loblaw demonstrated three consecutive of traffic growth. This implies that Loblaw has an effective promotional strategy that drove traffic to its stores.

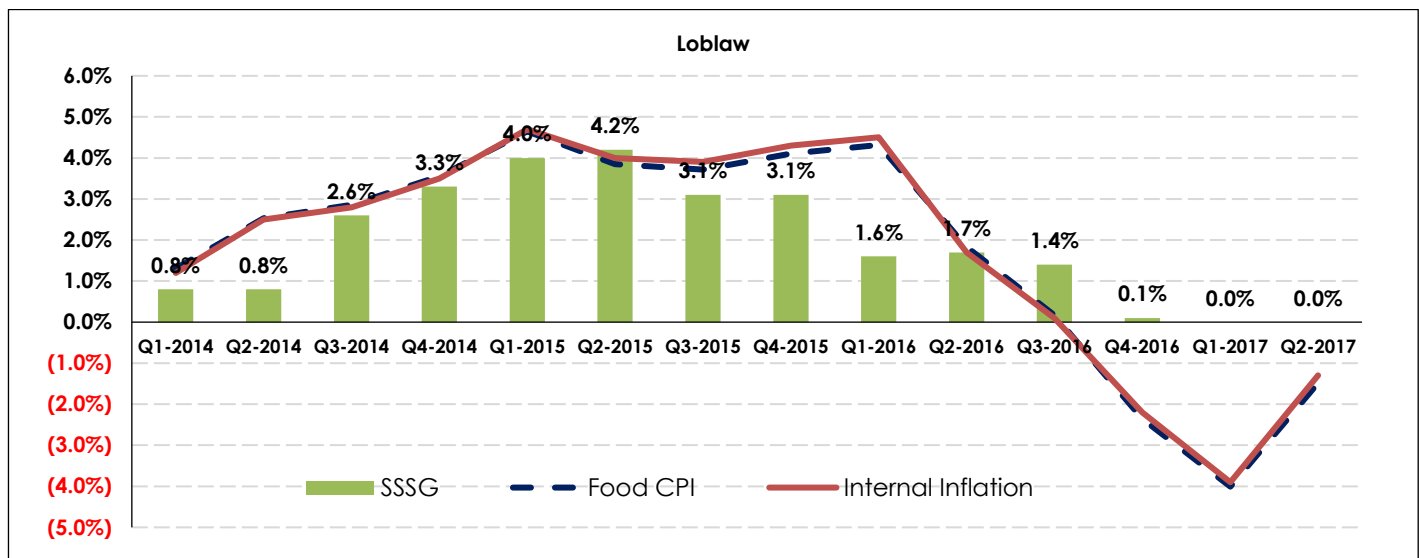
Figure 6 and 7 shows Loblaw's internal food CPI has been tracking very close to food CPI (food purchased from stores) reported by Statistics Canada. When food CPI was strong in 2015, Loblaw was successful in passing through food price inflation to consumers. The Canadian grocery industry had experienced food price deflation since September 2016 and this has negatively impacted SSSG. Figure 8 shows that the Big Three Canadian grocers will be competing against much easier comparison beginning in September 2017.

Figure 6  
Food SSSG, Internal Inflation vs. Food CPI at Metro, Q1-F2015 to Q2-F2017

Loblaw	Q1-F2015	Q2-F2015	Q3-F2015	Q4-F2015	Q1-F2016	Q2-F2016	Q3-F2016	Q4-F2016	Q1-F2017	Q2-F2017
Quarter End	28-Mar-15	20-Jun-15	10-Oct-15	2-Jan-16	26-Mar-16	18-Jun-16	8-Oct-16	31-Dec-16	26-Mar-17	17-Jun-17
<b>SSSG (a)</b>	4.0%	4.2%	3.1%	3.1%	1.6%	1.7%	1.4%	0.1%	0.0%	0.0%
Industry Food CPI	4.6%	3.9%	3.7%	4.1%	4.3%	1.8%	0.2%	(2.4%)	(4.0%)	(1.5%)
<b>Internal Food CPI (b)</b>	4.7%	4.0%	3.9%	4.3%	4.5%	1.7%	0.1%	(2.3%)	(3.9%)	(1.4%)
<b>Implied Traffic Increase (a-b)</b>	(0.7%)	0.2%	(0.8%)	(1.2%)	(2.9%)	0.0%	1.3%	2.4%	3.9%	1.4%

Sources: Company reports, Statistics Canada and Veritas estimates.

Figure 7  
Food SSSG, Internal Inflation vs. Food CPI at Loblaw, Q1-2014 to Q2-2017



Sources: Company reports, Statistics Canada and Veritas estimates.

Figure 8  
Food Price Inflation for Food Purchased from Stores

CPI Monthly	Quarterly Avg	Food From Stores
Jan-16		4.6%
Feb-16		4.4%
Mar-16	4.3%	4.0%
Apr-16		3.3%
May-16		1.4%
Jun-16	1.8%	0.8%
Jul-16		1.1%
Aug-16		0.4%
Sep-16	0.2%	(0.9%)
Oct-16		(2.1%)
Nov-16		(2.0%)
Dec-16	(2.3%)	(2.8%)
Jan-17		(4.0%)
Feb-17		(4.1%)
Mar-17	(3.9%)	(3.6%)
Apr-17		(2.6%)
May-17		(1.2%)
Jun-17	(1.4%)	(0.3%)

Sources: Statistics Canada

## OBSERVATIONS FROM JULY 2017 GROCERY PRICE SURVEYS IN ONTARIO

Note that our quarterly grocery price surveys only include the four staples (milk, eggs, bread, and butter), juices, yogurt, dry grocery, and a few general merchandise items. We have not included any meat in our survey because the price can vary based on the different grade of the meat.

Our April 2017 grocery price survey in Ontario showed that Loblaw and No Frills, Metro and Food Basics were very aggressive with their promotions. Management had indicated in previous conference calls that it has been using analytical data to carry out targeted price discounting. We believe this had helped to drive the traffic increase in Q2-2017 and the 27bps gross profit margin improvement.

Our July 2017 grocery price survey in Ontario showed the regular basket price at Loblaw and No Frills continued to be the lowest among its peers. We observed this trend in our past 10 grocery price surveys during the past two years. The discount basket prices at Loblaw and No Frills was also the lowest among its peers during most of the past year, except in July when the discount basket price at No Frills was 7% higher than Walmart Supercentre.

Our July 2017 grocery price surveys in Ontario showed that there were price increases in our regular price basket at both Loblaw conventional and discount banners. Moreover, Loblaw and No Frills had pulled back its promotions in July 2017. Therefore, we expect this should contribute to gross profit margin improvement going forward. See detailed results of grocery price survey in **Appendix A**.

## ASSESSING THE WHOLE FOODS-AMAZON IMPACT ON LOBLAW

Amazon announced on June 15, 2017 that it is acquiring Whole Foods, which has 436 stores in U.S., 13 stores in Canada and nine stores in the U.K. Based on the following factors, we do not believe Amazon's acquisition of Whole Foods will have a material impact on Loblaw:

- Using Whole Foods' segmented disclosure, we estimate it generates only \$300 million grocery sales in Canada compared to \$33 billion at Loblaw, \$24 billion at Sobeys and \$13 billion at Metro. In total, the Big Three Canadian grocers have 67% of the market share in Canada, while online options represent only 2% of the Canadian market.
- Our proximity analysis shows that only nine Loblaw stores are located in proximity to Whole Foods and they represent only 1% of Loblaw's store network (Figure 9).

Figure 9

### Proximity of Whole Foods to the Big Three Canadian Grocers

	# of Stores in Proximity to a Whole Foods	% of Store Network
Loblaw Co.	9	1%
Metro	2	1%
Sobeys	2	1%
Canada Safeway	4	2%

Source: AggData and Veritas Estimates.

- Loblaw launched "Click and Collect" in 2014. It currently has "Click and Collect" in 140 of its busiest stores across Canada and it expects to reach 200 stores by the end of 2017. Pick up fees are between \$3 and \$5 for minimum \$30 order, and the fee depends on the time of the pickup.
- According to industry sources on the economics of online grocery in Europe, the spread between "Click and Collect" and "Home Delivery" margins is 310bps, mainly due to transportation costs. Therefore, while Amazon's acquisition of Whole Foods could expand its market share, it will be at the expense of material margin loss.
- We note that Longos/Grocery Gateway online charges \$9.99 +HST and a \$15.50 +HST delivery fee for residential and business customers, respectively, on a minimum \$50.00 order. We believe these charges highlight the materiality of delivery charges to online economics. With hefty transportation charges, the online model likely appeals to customers in densely-populated cities that do not own vehicles.

All told, Whole Foods only opened about one store per year in Canada since 2002. Given the small market share of Whole Foods and the expensive home delivery model of Amazon/Whole Foods, we do not believe it will have a major impact on Loblaw.

## SHOPPERS STRONG RX COUNT OFFSETTING IMPACT OF GENERIC DRUG PRICE DEFLATION

Shoppers Drug Mart reported +3.5% prescription SSSG (+4.4% RX count and 1.1% price deflation due to the impact of generic drug reforms) and +2.3% front store SSSG.

Since January 2013, the pan-Canadian Pharmaceutical Alliance (“pCPA”) has reduced the prices of 14 molecules from 25% to 18% branded drug prices. The pCPA was formed by 13 provinces and territories, which work together to reduce the price of generic drugs for publicly-funded drug programs.

Although there is ongoing risk of further generic drug price reduction, Shoppers Drug Mart has been able to grow prescription count at a health rate which more than offset the impact of the generic drug price reduction. Management indicated that Shoppers Drug Mart was able to grow earnings after the acquisition by Loblaw.

## VALUATION

We expect Loblaw’s grocery segment to generate EBITDA margin of 6.03% in 2018, which represents a 27 bps spread or 1.05x the average 2017E EBITDA margin of its peers at 5.76% (Figure 10). The average 2018 EBITDA multiple of Loblaw’s peers is 7.4x. Therefore, we value Loblaw at a 7.8x EBITDA multiple (i.e. 7.4x \* 1.05).

Figure 10  
Grocery Retailer Peers Valuation

	Closing Price	2017E	2018E	2017E	2018E
	26-Jul-17	EBITDA	EBITDA	EV/	EV/
Loblaw	\$68.79	8.25%	7.90%	9.7x	9.8x
<b>Loblaw Food Retail</b>		<b>6.42%</b>	<b>6.03%</b>		
Metro Inc. Alimentation Couche Tard	\$42.40 (\$7.50)	8.05%	8.06%	10.7x	10.4x
<b>Metro, excluding ATD/B</b>	<b>\$34.90</b>	<b>7.41%</b>	<b>7.43%</b>	<b>9.8x</b>	<b>9.5x</b>
Empire	\$21.14	3.67%	4.23%	8.3x	7.0x
<b>Empire (Excl. Crombie REIT Shareholding &amp; Other Investments)</b>	<b>\$14.76</b>	<b>3.37%</b>	<b>3.94%</b>	<b>6.9x</b>	<b>5.7x</b>
North West Co	\$30.61	9.14%	9.66%	9.1x	8.3x
Whole Foods Market Inc	\$41.82	7.95%	7.97%	11.1x	10.7x
Sprouts Farmers Market Inc	\$24.54	6.79%	6.81%	13.1x	11.6x
Koninklijke Ahold Delhaize N	\$17.30	6.62%	6.88%	4.9x	4.6x
Wal-Mart Stores Inc	\$78.82	6.64%	6.60%	8.6x	8.5x
Ingles Markets Inc-Class A	\$29.85	4.85%	4.96%	8.9x	8.5x
Woolworths Ltd	\$26.56	5.94%	6.27%	10.8x	10.0x
Jeronimo Martins	\$17.37	5.88%	5.97%	11.7x	10.7x
Axfood Ab	\$137.00	5.80%	5.92%	10.1x	9.6x
Wm Morrison Supermarkets	\$2.44	5.17%	5.25%	8.0x	7.8x
Sainsbury (J) Plc	\$2.49	4.90%	5.13%	4.8x	4.6x
Kroger Co	\$23.68	4.79%	4.73%	6.2x	6.2x
Carrefour Sa	\$20.71	5.01%	5.20%	6.3x	5.9x
Tesco Plc	\$1.74	4.92%	5.30%	6.8x	6.2x
Metro Ag	\$10.01	3.22%	3.44%	3.6x	3.3x
Casino Guichard Perrachon	\$55.00	4.92%	5.04%	5.5x	5.1x
Supervalu Inc	\$3.61	3.01%	2.91%	4.5x	4.4x
<b>Average</b>		<b>5.60%</b>	<b>5.76%</b>	<b>7.9x</b>	<b>7.4x</b>
<b>Loblaw vs. Average</b>		<b>1.15x</b>	<b>1.05x</b>	<b>9.1x</b>	<b>7.8x</b>

Sources: Bloomberg, Company reports and Veritas estimates.

We estimate that Shoppers Drug Mart should generate 11.8% EBITDA margin in 2018, which is much higher than the EBITDA margins at both CVS and Walgreens (Figure 11). Since CVS and Walgreens currently trade at 8.2x and 10.2x EBITDA multiple, respectively, we believe our 9x EBITDA multiple for Shoppers Drug Mart is conservative.

Figure 11  
**Drugstore Peers Valuation**

	Current Price 26-Jul-17	2017E EBITDA Margin	2018E EBITDA Margin	2017E EV/ EBITDA	2018E EV/ EBITDA
WALGREENS BOOTS ALLIANCE INC	\$78.68	7.42%	7.32%	11.0x	10.2x
CVS HEALTH CORP	\$78.29	6.88%	6.85%	8.6x	8.2x
<b>Average</b>		<b>7.15%</b>	<b>7.08%</b>	<b>9.8x</b>	<b>9.2x</b>

Sources: Bloomberg and Veritas estimates.

We value Choice Properties REIT at 16.5x 2018E AFFO multiple and this implies a 5.9% cap rate.

Figure 12  
**Valuation of Choice Properties REIT, Based on 16.5x 2018E AFFO Multiple**  
Amounts in millions of Canadian dollars, except as noted

Multiple of AFFO	2018E	Implied Cap Rate	2018E
2018E AFFO	377.9	2018E Cash NOI	609.1
AFFO Multiple	16.50x	Implied Cap Rate	5.9%
		Enterprise value	10,331
		Less: Debt	(4,096)
Equity Value	6,235	Equity Value	6,235
Units Outstanding	417.6	Units Outstanding	417.6
Value per Unit	\$14.9	Value per Unit	\$14.9

Sources: Company reports and Veritas estimates.

Figure 13 shows our 2018E new NAV for Loblaw is \$81.00, consists of \$69.00 from Retail, \$2.00 from Financial Services and \$11.00 from the 82.7% interest in Choice Properties REIT.

Figure 13

**Loblaw's 2018E Net Asset Value**

Amounts in millions of dollars, except as noted

2018E	Legacy Food Retail	Shoppers Drug Mart	Loblaw Retail	Financial Services	Choice Properties REIT	82.7% of Choice Properties REIT	Consolidated
2017E EBITDA	2,873	1,542	4,414	202	754	624	5,240
Less: Rent Expense (Choice REIT)	(742)		(742)				(742)
2017E Adjusted EBITDA	2,131	1,542	3,673	202	754	624	4,498
<b>EBITDA Multiple</b>	<b>7.8x</b>	<b>9.0x</b>	<b>8.3x</b>	<b>15.1x</b>	<b>13.7x</b>	<b>13.7x</b>	<b>9.4x</b>
Enterprise Value	16,621	13,876	30,497	3,046	10,331	8,543	42,086
Less: Adjusted Debt @ Q4-2016			(5,634)	(2,243)	(4,096)	(3,387)	(11,264)
Add: Choice REIT Class C LP Units Held by Loblaw			883				883
Add: Cash @ Q4-2016			1,555				1,555
Add: Cash Distributions from REIT in 2017 & 2018			468				468
Less: Preferred Shares and NCI @ Q4-2016			(247)				(247)
Net Cash (Debt)			(2,975)	(2,243)	(4,096)	(3,387)	(8,604)
Equity Value			27,523	803	6,235	5,156	33,482
Shares Outstanding (mlns.)			405	405	405	405	405
NAV per Share			\$68	\$2	\$15	\$13	\$83
10% Holding Company Discount						(\$1.3)	(\$1.3)
<b>Discounted NAV per Share</b>			<b>\$68</b>	<b>\$2</b>		<b>\$11</b>	<b>\$81</b>

Sources: Company reports and Veritas estimates

Loblaw remains a BUY.



## APPENDIX A

### GROCERY PRICE SURVEY RESULTS

#### QUARTERLY GROCERY PRICE SURVEY RESULTS, APRIL 2015 TO JULY 2017

Regular Prices	Walmart	No Frills (L)	FreshCo (EMP.a)	Food Basics (MRU)	Loblaw (L)	Sobeys (EMP.a)	Metro (MRU)
Apr-15	\$131	\$124	\$132	\$135	\$141	\$150	\$149
Jul-15	\$126	\$130	\$131	\$136	\$139	\$150	\$152
Oct-15	\$126	\$128	\$131	\$140	\$149	\$152	\$152
Jan-16	\$124	\$132	\$132	\$136	\$144	\$150	\$153
Apr-16	\$121	\$126	\$132	\$138	\$138	\$154	\$150
Jul-16	\$118	\$121	\$135	\$139	\$148	\$153	\$152
Nov-16	\$115	\$118	\$131	\$133	\$136	\$140	\$142
Jan-17	\$115	\$115	\$128	\$136	\$138	\$141	\$148
Apr-17	\$115	\$116	\$122	\$134	\$133	\$140	\$146
Jul-17	\$116	\$121	\$128	\$136	\$138	\$146	\$145
<b>Y-o-Y Price reduction</b>	<b>(2%)</b>	<b>0%</b>	<b>(5%)</b>	<b>(2%)</b>	<b>(6%)</b>	<b>(5%)</b>	<b>(5%)</b>
Apr-15		(5%)	0%	3%	7%	14%	13%
Jul-15		3%	4%	8%	10%	19%	20%
Oct-15		2%	4%	12%	18%	21%	21%
Jan-16		7%	7%	10%	16%	21%	23%
Apr-16		5%	10%	14%	14%	27%	24%
Jul-16		2%	14%	17%	25%	30%	29%
Nov-16		3%	14%	16%	18%	22%	24%
Jan-17		1%	11%	19%	21%	23%	29%
Apr-17		1%	6%	17%	16%	22%	27%
Jul. 2017		5%	10%	18%	20%	27%	26%
Discount Prices	Walmart	No Frills	FreshCo	Food Basics	Loblaw	Sobeys	Metro
Apr-15	\$124	\$117	\$126	\$117	\$138	\$133	\$132
Jul-15	\$120	\$126	\$125	\$117	\$133	\$127	\$130
Oct-15	\$124	\$124	\$124	\$121	\$131	\$143	\$144
Jan-16	\$122	\$128	\$121	\$123	\$128	\$141	\$141
Apr-16	\$118	\$114	\$123	\$123	\$123	\$136	\$133
Jul-16	\$116	\$120	\$124	\$126	\$135	\$133	\$142
Nov-16	\$109	\$115	\$119	\$115	\$131	\$132	\$131
Jan-17	\$112	\$113	\$116	\$115	\$126	\$131	\$131
Apr-17	\$112	\$111	\$116	\$119	\$115	\$131	\$130
Jul-17	\$109	\$117	\$117	\$129	\$118	\$140	\$130
<b>Y-o-Y Price reduction</b>	<b>(5%)</b>	<b>(2%)</b>	<b>(6%)</b>	<b>3%</b>	<b>(12%)</b>	<b>6%</b>	<b>(8%)</b>
Price Spread Compared to Walmart Supercentre							
Apr-15		(6%)	2%	(6%)	11%	7%	6%
Jul-15		5%	4%	(2%)	11%	6%	8%
Oct-15		(0%)	(0%)	(3%)	6%	15%	16%
Jan-16		5%	(0%)	1%	5%	16%	16%
Apr-16		(3%)	4%	4%	4%	15%	13%
Jul-16		4%	7%	9%	17%	15%	23%
Nov-16		5%	10%	5%	20%	21%	20%
Jan-17		1%	3%	3%	12%	17%	16%
Apr-17		(2%)	3%	5%	3%	16%	16%
Jul-17		7%	7%	18%	8%	28%	19%

Sources: Veritas Grocery Price Surveys in Ontario.

## QUARTERLY GROCERY PRICE SURVEY RESULTS, APRIL 2015 TO JULY 2017

% Discount	Walmart	No Frills	FreshCo	Food Basics	Loblaw	Sobeys	Metro
Apr-15	5%	6%	4%	13%	2%	11%	11%
Jul-15	5%	2%	5%	14%	4%	16%	15%
Oct-15	2%	3%	6%	14%	12%	6%	5%
Jan-16	2%	4%	8%	10%	11%	6%	7%
Apr-16	3%	10%	7%	11%	11%	12%	11%
Jul-16	2%	1%	8%	9%	8%	14%	7%
Nov-16	5%	3%	9%	14%	4%	6%	8%
Jan-17	2%	2%	9%	15%	9%	7%	12%
Apr-17	2%	4%	5%	12%	13%	7%	11%
Jul-17	5%	3%	8%	5%	14%	4%	10%
# of Discounts	Walmart	No Frills	FreshCo	Food Basics	Loblaw	Sobeys	Metro
Apr-15	2	9	4	15	3	12	11
Jul-15	4	3	7	12	9	14	13
Oct-15	1	4	3	10	11	8	8
Jan-16	1	7	5	9	12	10	6
Apr-16	3	7	7	9	10	13	11
Jul-16	3	3	8	9	12	13	8
Nov-16	4	4	8	9	6	6	10
Jan-17	3	4	9	11	10	9	10
Apr-17	2	5	3	9	13	5	12
Jul-17	6	3	7	7	11	5	12

Sources: Veritas Grocery Price Surveys in Ontario

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