

Empire Company reaches agreement to acquire Farm Boy – Ontario's fastest growing food retailer

Transaction increases Ontario footprint and furthers Empire's urban expansion strategy

- Adds one of the most exciting and fastest growing formats in Canadian retail
- Advances Empire's urban strategy, accelerating Ontario presence and GTA growth
- Co-CEOs Jean-Louis Bellemare and Jeff York continue as leaders of Farm Boy
- Double digit growth and high margin format expected to continue to drive strong free cash flow generation
- Extraordinary customer loyalty driven by exceptional private label, broad assortment of chef-inspired prepared foods and a unique fresh market feel
- Empire will accelerate Farm Boy's growth and unlock non-customer facing operational synergies
- Attractive returns and EPS accretion in the first full fiscal year of ownership

STELLARTON, NS, Sept. 24, 2018 /CNW/ - Empire Company Limited (Empire) (TSX: EMP.A) announced today that it has signed an agreement to acquire Farm Boy, one of the most exciting, fastest growing and successful food retailers in the country, with 26 locations in Ontario and many more on the way, for a total enterprise value of \$800 million.

Farm Boy's outstanding fresh format is an excellent fit with Empire's Sobeys and FreshCo banners in Ontario, a region where Empire is under-penetrated. Farm Boy is a highly scalable platform, with industry leading growth and metrics, and will enable Empire to accelerate growth in urban markets.

Farm Boy's Founder and co-CEO, Jean-Louis Bellemare, who opened the first Farm Boy grocery store in Ottawa in 1981, and Jeff York, who has been co-CEO of Farm Boy since 2009, will continue in their roles for the long-term, managing the business separately from Empire's broader operations and reporting directly to Empire President and CEO, Michael Medline. The co-CEOs of Farm Boy will ramp up expansion plans and continue to cultivate Farm Boy's unique and compelling brand. Although managed separately, Farm Boy will benefit from Empire's infrastructure and capabilities, in areas such as real estate, sourcing and logistics, providing certain non-customer facing synergies and enabling faster and even more effective store expansion.

Rollout of the Farm Boy concept in the Greater Toronto Area (GTA) and continuing the existing expansion plans in southwestern Ontario will be early priorities, through a combination of new site builds and conversions of some existing Sobeys locations. As well, Farm Boy will boost Empire's GTA penetration by adding their exceptional private label products to Sobeys' new Ocado-based e-commerce business, the world's most advanced online grocery platform, which will launch in 2020 in the GTA.

"Farm Boy is a superb strategic and financial acquisition. It strengthens our reach in the key Ontario and GTA markets, it will be a growth vehicle in urban and suburban markets, and its very strong private label program will bolster our Ocado-driven e-commerce business," said Michael Medline, President and CEO of Empire. "Farm Boy has a best-in-class brand with stellar customer loyalty. Its fresh, ready-to-eat and private label offerings are particularly appealing to urban and suburban consumers – it truly is 'all about the food' at Farm Boy. We believe we will be able to build on their historical industry leading same-store sales growth of 5.3% and five-year EBITDA CAGR of 21% to double the size of the business in the next five years."

"This is a great addition to our portfolio at a time when we are moving from defence to offence. We believe that with the leadership of our new colleagues, current CEOs Jean-Louis Bellemare and Jeff York, we can turbo-charge Farm Boy's growth. We intend to enable the leadership team of Farm Boy to do what they do best – grow a highly successful retail format at double digit rates," added Medline. "As we continue to make excellent progress with Project Sunrise and emerge from the heavy-lifting phase, we are excited to advance our growth agenda with this powerful and proven concept."

From co-CEO Jean-Louis Bellemare: "As you prepare for the next phase of growth, you don't just team up with anyone. Empire understands what it will take, shares our vision for the brand, and in President and CEO Michael Medline, and CFO Mike Vels, we have access to executive leadership with deep experience in making acquisitions like this successful. We had many choices, but our trust and confidence in Empire and its dedication to our brand and its growth made this the perfect partnership."

Farm Boy co-CEO Jeff York commented: "What an extraordinary opportunity for Farm Boy. Together with Empire, an iconic Canadian brand with a national grocery presence, Farm Boy will significantly accelerate its growth agenda. We will strengthen the already strong Farm Boy brand, starting with urban and suburban markets in Ontario and eventually rolling out to other areas of Canada. We are particularly excited by the eventual reach of the Ocado e-commerce platform and can't wait to showcase our high-quality, local products to many more Canadians."

Since opening its first store in 1981 in Ottawa, Farm Boy has grown to 26 locations across southeastern Ontario, most recently opening its first stores in the Greater Toronto Area earlier this year. The 27th location is set to open in Oakwoods Centre in Oakville in winter 2018. Farm Boy focuses on a robust private label and fresh food assortment, with an emphasis on local fresh produce, meat and a wide-range of restaurant quality ready-to-eat food prepared in-store.

Transaction terms

Empire, through a subsidiary, will acquire Farm Boy from Berkshire Partners and Farm Boy's management shareholders based on a total enterprise value of \$800 million. Farm Boy will be set up as a separate company within Empire's structure and Farm Boy's co-CEOs have agreed, in connection with the transaction, to reinvest in return for a 12% interest of the continuing Farm Boy business.

Under Empire's ownership and based on a total enterprise value of \$800 million, this represents a 14.1x multiple of Farm Boy's estimated EBITDA in Empire's fiscal 2020 (which includes growth related to same-store sales and new store openings). Empire intends to finance the transaction through a combination of cash on hand and debt.

The close of the transaction is subject to customary closing conditions, including review by the Canadian Competition Bureau. The acquisition is expected to close at the beginning of 2019.

Greenhill & Co. Canada Ltd., Scotiabank and KPMG LLP acted as financial advisors to Empire Company Limited. Stewart McKelvey, Stikeman Elliott LLP, and Paul, Weiss, Rifkind, Wharton & Garrison LLP acted as legal advisors.

Conference Call

Empire Company Limited (the Company) will hold a conference call for analysts and investors today (September 24, 2018) at 9:00 a.m. (Eastern Daylight Time) to discuss this announcement in further detail. To join this conference call, dial (888) 390-0546 outside the Toronto area or (416) 764-8688 from within the Toronto area. To secure a line, please call 10 minutes prior to the conference call; you will be placed on hold until the conference call begins. The media and investing public may access this conference call via listen mode only. You may also listen to a live audiocast of the conference call by visiting the Company's website located at www.empireco.ca.

Presentation slides for the conference call will be made available on the Company's website located at www.empireco.ca.

Replay will be available by dialing (888) 390-0541 and entering access code 579422 until midnight October 8, 2018, or on the Company's website for 90 days following the conference call.

About Empire Company Limited

Empire Company Limited (TSX: EMP.A) is a Canadian company headquartered in Stellarton, Nova Scotia. Empire's key businesses are food retailing and related real estate. With approximately \$24.4 billion in annualized sales and \$8.7 billion in assets, Empire and its subsidiaries, franchisees and affiliates employ approximately 120,000 people.

About Farm Boy

Farm Boy fresh market stores have been providing a fun and friendly, fresh market shopping experience for over 36 years with legions of loyal fans in Brantford, Cambridge, Cornwall, Hamilton, Kingston, Kitchener, London, Ottawa, Pickering, Toronto (Etobicoke) and Whitby. Farm Boy currently operates 26 stores in Ontario, all of which are brimming with wholesome, healthy, tasty food choices.

Forward-Looking Information

This document contains forward-looking statements which are presented for the purpose of assisting the reader to understand management's expectations regarding the Company's strategic priorities, objectives and plans. These forward-looking statements may not be appropriate for other purposes. Forward-looking statements are identified by words or phrases such as "expects", "intends", "may", "plans", "will", and other similar expressions or the negative of these terms.

These statements include those relating to: (i) timing of the acquisition which may be impacted by regulatory approval and closing conditions; (ii) timing and magnitude of growth (including same-store-sales, rollout and additional penetration in GTA, our expectations for additional stores by the end of fiscal 2020 and doubling the size of the business in five years) which may be impacted by customer demand, increased competition, the real estate opportunities available, the pace of new store openings, and the amount of time it will take new stores to ramp up; (iii) returns, accretion, free cash flow generation and projected fiscal 2020 EBITDA expected from the acquisition which may be impacted by the points noted in (ii) above and whether new stores are able to attain historical profitability levels, the ability of the Company to predict and adapt to changing consumer tastes, preferences and spending patterns, future general economic and market conditions, legislative and regulatory environment in which the Company operates, and the effectiveness of integration efforts; and (iv) the timing of e-commerce roll-out which may be impacted by the overall customer response to the service and the performance of its business partner, Ocado.

Additional risks are described in detail from time to time in documents filed by the Company with securities regulatory authorities in Canada. By its nature, forward-looking information requires the Company to make assumptions and is subject to inherent risks, uncertainties and other factors which may cause actual results to differ materially from forward-looking statements made.

For more information on risks, uncertainties and assumptions that may impact the Company's forward-looking statements, please refer to the Company's materials filed with the Canadian securities regulatory authorities, including the "Risk Management" section of the fiscal 2018 annual Management's Discussion and Analysis.

Non-GAAP Financial Measures

There are measures included in this news release that do not have a standardized meaning under generally accepted accounting principles (GAAP) and therefore may not be comparable to similarly titled measures presented by other publicly traded companies. The Company includes these measures because it believes certain investors use these measures as a means of assessing financial performance. Empire's definition of earnings before interest, taxes, depreciation and amortization (EBITDA) is calculated as net earnings before finance costs, income tax expense, and depreciation and amortization. Same-store sales are sales from stores in the same location in both reporting periods.

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