THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

L.TO - Q4 2017 Loblaw Companies Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 22, 2018 / 3:00PM GMT

OVERVIEW:

Co. reported adjusted EPS of CAD1.13.

CORPORATE PARTICIPANTS

Darren G. Myers *Loblaw Companies Limited - CFO & Member of Management Board*

Galen G. Weston *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Roy MacDonald

CONFERENCE CALL PARTICIPANTS

Christopher Li *Macquarie Research - Research Analyst*

Irene Ora Nattel *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

James Durran *Barclays PLC, Research Division - MD, Head of Canadian Equity Research, and Senior Analyst*

Keith Howlett *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

Mark Robert Petrie *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Michael Van Aelst *TD Securities Equity Research - Research Analyst*

Patricia A. Baker *Scotiabank Global Banking and Markets, Research Division - Analyst*

Peter Sklar *BMO Capital Markets Equity Research - Analyst*

Vishal Shreedhar *National Bank Financial, Inc., Research Division - Analyst*

PRESENTATION

Operator

Good morning. My name is Michelle, and I will be your conference operator today. At this time, I would like to welcome everyone to Loblaw Companies Limited Fourth Quarter Results. (Operator Instructions)

I would now like to turn the call over to Roy MacDonald. Please go ahead.

Roy MacDonald

Thanks very much, Michelle, and good morning, everybody. Welcome to Loblaw Companies Limited Fourth Quarter 2017 Results Call.

I'm joined in the room here by Galen Weston, our Chairman and CEO; and Darren Myers, our CFO.

And before I begin today's call, I want to remind you that today's discussion will include forward-looking statements, as such the -- such as the company's beliefs and expectations regarding certain aspects of its financial performance in 2018 and in future years. These statements are based on certain assumptions and reflect management's current expectations and are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from our expectations. These risks and uncertainties are disclosed in the company's materials filed with the Canadian regulators. Any forward-looking statements speak only as of the date they are made. The company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than what's required by law. Also, certain non-GAAP financial measures may be discussed or referred to today. So please refer to our annual report and other materials filed with the Canadian Securities Regulation -- Regulators for a reconciliation of each of these measures to the most directly comparable GAAP financial measures.

And before I turn the call over to Darren, I would like to note that on December 19, 2017, Loblaw announced actions taken to address its role in an industrywide price-fixing arrangement involving certain packaged bread products. The company continues to cooperate fully with the Competition Bureau. And as such, please note that we will not provide future comments at this time.

And with that, I'll turn the phone over to Darren.

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

Thank you, Roy, and good morning, everyone.

We ended 2017 with yet another solid quarter where we delivered against our financial framework with our focus on stable trading and creating efficiencies to drive operating leverage. In the fourth quarter, on an adjusted consolidated basis, our reported revenue declined 0.9%, while we delivered growth in EBITDA of 6%, net earnings of 12.2% and fully diluted earnings per share of 16.5%. Adjusting for the impact of the gas bar business, revenue grew by 2.3%, EBITDA grew by 8.2% and adjusted fully diluted earnings per share grew by 20%.

We continue to drive positive same-store sales with growth of 0.5% in food retail and 3.6% in drug retail. Drug retail same-store sales growth was supported by Front Store growth of 3.5% and pharmacy growth of 3.9%.

Retail gross margin was 28.9%, an improvement of 170 basis points from the same quarter last year. Our retail gross margin improved 40 basis points year-over-year after excluding a favorable 70 basis points from the impact of the gas bar business and a favorable 60 basis points from the impact of the consolidation of franchises. Improvements in retail gross margin were mainly driven by drug retail, Front Store, while food retail trading margin showed a slight improvement. Retail SG&A as a percentage of sales, as reported, was 20.1% or 110 basis points worse than the prior year. Our retail SG&A rate improved 10 basis points year-over-year after excluding a 70 basis point impact from the consolidation of franchises and 50 basis points from the impact of the gas bar business.

On an IFRS basis, net earnings available to common shareholders were $19 million, a decrease of $182 million compared to last year. In the quarter, the companies have net charges of $422 million, primarily driven by the launch of the PC Optimum program, restructuring activities previously announced and the Loblaw Card program. On an adjusted basis, net earnings available to common shareholders were $441 million, an increase of $48 million or 12.2% compared to last year. Adjusted earnings per share were $1.13 in the quarter, representing a 20% year-over-year increase when excluding the impact of the gas bar business.

Free cash flow was $515 million in the quarter, and we continued to return capital to our shareholders, buying back 2.3 million shares at a total cost of $154 million. For the fiscal year 2017, we generated $1.479 billion in free cash flow, we grew dividends by 3.9% and we returned $1.139 billion in capital to our shareholders through our share buyback program. The buybacks represented over 4% of our shares outstanding.

2017 represented another strong year. Adjusting for the gas bar business, we delivered consolidated revenue growth of 2.3%, adjusted EBITDA of 7.5% and adjusted earnings per share of approximately 13.5%. Our core businesses are strong, we have a solid financial framework, a clear strategy and we continue to invest in the future.

As we head into 2018, we are facing significant headwinds. We previously highlighted $190 million increase in our labor costs this year as a result of changes to minimum wage rates. In January, the PCPA announced details related to additional healthcare reform. We now estimate a cumulative negative impact of $250 million in our 2018 operating income from total healthcare reform. Combined, these 2 items represent just over 10% of the company's full year 2017 adjusted EBITDA.

It's worth noting that over the last 3 years, we have more than offset drug reform headwinds in the range of $70 million to $80 million annually compared to the $250 million we expect in 2018.

We expect the underlying business to continue to perform well, delivering both positive sales and meaningful earnings growth. And we have the plans in place to significantly mitigate the impact of the headwinds. Our actions include the previously announced restructuring activities as well as the increase to our supply chain handling fee. In addition, we have a strong program of initiatives underway designed to improve processes, lower costs and drive incremental value for our customers. We remain focused on our long-term financial framework and are continuing to invest for the future.

In 2018, on a full year comparative basis, normalized for the disposition of the gas bar business, the company expects to deliver positive same-store sales and stable gross margin in its Retail segment; deliver essentially flat adjusted net earnings growth with positive adjusted earnings per share growth based on our share buyback program; invest approximately $1.3 billion in capital expenditures, including $1 billion in its Retail segment; and return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

At this point, I'll turn over the call to Galen.

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Thank you, Darren.

We're pleased with the underlying strength of our business and our performance in the fourth quarter where we delivered solid financial results in an increasingly competitive market. We grew our food retail same-store sales by 0.5% in a market that saw intensely competitive pricing. Our internal price index inflated marginally higher than CPI of 1%. And although traffic declined in the quarter, we saw a strong growth in our average basket. In our market division, we performed well, gaining share in the segment. In discount, we saw some very aggressive promotional activity and we intentionally chose not to lap unproductive investments from last year. As a result, we lost some tonnage in specific product categories. We were satisfied with our performance in the quarter as we maintained stable margins and delivered same-store sales growth.

In our drug retail business, we delivered same-store sales growth of 3.6%, anchored by continued strength of our Front Store operations, which grew at plus 3.5% and was led by a strong performance in cosmetics, HABA and OTC. Pharmacy grew at plus 3.9% as prescription count growth continued to outpace declines in the average value of prescriptions in 2017.

I'm also pleased with the performance against our financial plan in 2017. Despite divesting our gas bar business, we grew revenues 0.7% and increased EPS by almost 12%. We returned capital to shareholders, paying more than $430 million in dividends and buying back $1.1 billion of shares. More importantly, with our store count and square footage relatively unchanged in 2017, we still invested $1.3 billion of capital in our future, better positioning our business to meet the evolving needs of our customers. We continue to scale our 4 e-commerce businesses, giving Canadians more beauty, apparel, pharmacy and food product by mail, personal delivery and our rapidly expanding click-and-collect business. This increasingly compelling program is now rolling out at a rate of more than 1 store each day.

Our strategic investments are unlocking value across our existing assets. This is best illustrated by the creation and launch of PC Optimum, where we combined Canada's 2 best loyalty programs and made them better together. Three weeks since the launch of the new program, we are tracking very well. Customers clearly share our enthusiasm with over 6 million members having already converted to the new program. They have earned and redeemed points more than 32 million times with only -- with over 1 million visits daily to our new websites and app.

In a future defined by those who understand their customers best, a personalized loyalty program with which millions of Canadians get engaged every day, represents a unique opportunity by offering us a single view of our customers all across our retail stores, services and digital platforms. Looking forward, we expect the underlying business to continue to perform well. I'm delighted with the headway we've made against our strategic initiatives and the momentum that they bring into the coming year. I'm equally pleased with the progress our teams have made in offsetting the exceptional external headwinds we are facing. Even if 2018 falls short of our long-term earnings growth ambitions for the business, we remain committed towards the financial framework and continued value creation for our shareholders.

I'll now turn the call over to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Mark Petrie from CIBC.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Galen, wondering if you could just comment about sort of the early signs in the market that you're seeing today as everyone's battling these sort of minimum wage labor and costs -- cost increases as well as pressures on -- or expected costs on drug reform. Just wondering if you could comment about sort of the overall pricing attitude in the market relative to the end of last year.

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. Look, it continues to be very intense. People are investing, lowering prices, increasing promotional intensity. And there's no sign at this point of that letting up.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

And with regards to the Loblaw performance in terms of how you guys balanced sales growth and margin performance through the course of 2017. Were you satisfied with how you struck that balance? And looking forward, how do you think about that for 2018?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So we're actually really pleased with the way we struck the balance over the course of the year. And we're also reasonably comfortable with our tonnage performance in Q4. It's important to remember last year, we had a very strong tonnage quarter. And this year, as I said in my earlier remarks, we intentionally pulled back on some specific and unproductive investments. That coincided with the significant ramping up of competitive intensity in terms of Q4. So that amplified the impact on our internal tonnage. But if you look at that in the broader context of our stable trading range and how we think about tonnage, we were still very comfortable. In terms of looking forward, we will continue to focus on improving the efficiency of our promotions. And this is being enabled by a significantly improving set of analytical capabilities and the ramping up and launch of a new promotional tool. So we're -- the way to think about that is we may lose tonnage in certain categories as we did in Q4, and we'll be watching it very closely. Our expectation is to continue to trade at the lower end of our stable trading range for tonnage through the year but not go below that.

Operator

Your next question comes from Irene Nattel from RBC Capital Markets.

Irene Ora Nattel - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

Sticking with the commentary around promotional activity. Presumably, PC Optimum is going to become an increasingly powerful tool in terms of personalized promotions. Can you walk us through when we should start to kind of see all of that?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So you're absolutely right. That's a -- that was a big investment of ours. And we have -- we see very, very significant potential by bringing the programs together. So it's early stages. We haven't ramped up the full promotional engine. We're focusing right now on making sure that we migrate our customers into the combined program as quickly, as effectively and as seamlessly as possible. But we do expect it to have a positive influence on our top line sales and a positive influence on the efficiency that I mentioned earlier in terms of how we deliver promotions to our customers. So let's, sort of broad-based, expect the impact at the end of -- to start ramping up at the end of Q1 and Q2. But don't expect us to have the kind of top line impact that a net new loyalty program would have because this is about bringing together 2 programs that already have a very significant install base and already are operating with a high level of personalized [conditions].

Irene Ora Nattel - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

Yes. Understood, Galen. One of the questions that everyone had going into this was, what really is the overlap between the Optimum cardholders and the PC Plus cardholders? Do you have any visibility on that yet?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

We do have visibility. I'm not going to comment on the number specifically. But suffice to say, the overlap is significant. And one of the opportunities that we see is customers who may shop at Loblaw's who don't shop at Shoppers, we now have the opportunity to engage them in that combined proposition. And the reverse is true for people who shop at Shoppers and don't shop in our food stores. So that is certainly part of the equation that we identify as a source of potential upside.

Irene Ora Nattel - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

That's great. One final question sticking with the same theme. Late last year, you rolled out the pilot of PC Insider, which, to me, was a really, really interesting way of bundling your offerings to deliver real value to consumers. Is there anything you can tell us about the uptake on that program, the success of that program? And how we should be thinking about that as a model for how you come to market on a go-forward basis?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So I'm glad you mentioned that. It's a -- that's a little project that I'm also quite enthusiastic about. So it is a pilot program. It's been in the market just for a couple of months. And suffice to say, we are tracking just a little bit ahead of our expectations in terms of adoption in that pilot. And right now, we're learning. So we're trying to understand what elements of the proposition customers value most, what impact does it have on their shopping behavior. And we are seeing some really interesting and quite promising results in terms of our ability to encourage those engaged consumers to expand the breakfast categories that they are shopping in, inside our network. So very promising. Ultimately, as you can imagine, that program really has the most significant opportunity for scale when you combine it with the PC Optimum program. And so the way to think about the pilot is that we will continue to operate it. We will continue to learn. We will continue to optimize the value proposition. And at some point when the PC Optimum conversion is stable and we are comfortable with the way the core program is operating, it's at that point that we would consider launching PC Insiders in a wider manner.

Operator

Your next question comes from Jim Durran from Barclays.

James Durran - *Barclays PLC, Research Division - MD, Head of Canadian Equity Research, and Senior Analyst*

Just want to talk about drug reform for a second. So you've identified $250 million for this year. Would you -- given that the government has suggested that there'll be a step up in that expense next year, would you expect that $250 million to also lift for you in 2019?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So one of the things that we'll expect is we'll get the full year impact in 2019. So that will -- there'll be an incremental aspect to that. And look, as we've pointed out on a number of occasions, there is a steady and relentless incremental impact from drug reform. We call it out at about $70 million to $80 million a year. And we expect that sort of run rate to continue in '19 and '20 and beyond. But not something at this stage that we are aware of that would be significantly incremental to that.

James Durran - *Barclays PLC, Research Division - MD, Head of Canadian Equity Research, and Senior Analyst*

And in terms of the offsets that you have in place for minimum wage and drug reform, can you give us some idea of some of the initiatives that you've added to the list to deal with the outsized drug reform pain in 2018?

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

Yes. Jim, it's Darren. Yes. Overall, I mean, certainly, the largest items are the ones we've talked about, which is the restructuring and the supply chain handling fee. But in addition to that, there are a number of programs throughout the organization, whether it's on merchandising effectiveness, promotional effectiveness or just the relentless pursuit of continuous improvement throughout our support function. So there really isn't one. There's no silver bullet. But I would say it's more of a cultural mindset and everybody is targeting a number of things to keep making improvements to offset that. And I think when you look at 2017, it's a great example of the company delivering that with the 50 basis points improvement in our margin year-over-year, which is just becoming just how we have to operate in this business.

James Durran - *Barclays PLC, Research Division - MD, Head of Canadian Equity Research, and Senior Analyst*

And is the merger of the Loyalty program a net positive contributor from a cost standpoint in 2018?

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

It -- not from a significant point of view, no. I mean, it's really about the value of the 2 programs together is the reason for it.

James Durran - *Barclays PLC, Research Division - MD, Head of Canadian Equity Research, and Senior Analyst*

Okay. And last question just on e-commerce. You talked about adding more than 1 store per day. Can you give us some ideas as to how many stores you expect will be click-and-collect enabled by 2018?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

We've debated a lot whether or not we're actually going to put that number out. So I think, as scripted, we're not putting the number out just yet. But what we do intend to do is we intend to do a little bit more of an expansive review of what's going on in our e-commerce businesses in an upcoming quarter. So if you don't mind if I can leave it to that. And there's -- and you get a reasonably good feel by saying 1 store per day across our network. And we are definitely scaling it up in 2018.

James Durran - *Barclays PLC, Research Division - MD, Head of Canadian Equity Research, and Senior Analyst*

So maybe I can ask the question a little bit differently and hopefully you can give me some directional answer. As we sit here today and you look at sort of the most likely e-commerce affected market, so presumably mostly urban center, like how great is your coverage as we stand here today? Are we saying that of your retail sales, that x percent is enabled from a click-and-collect standpoint today? Or by the end of 2018, you would hope that x percent is covered?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. I mean, again, that is the number that we're not planning to make public just yet. But look, we believe very strongly that digital grocery shopping is going to be an essential part of the future competitive landscape. We believe that we have a very clear and compelling strategy. It's worth noting that there is no distinct difference between the attractiveness of the click-and-collect proposition in an urban environment and in a rural environment. So there is a lot of interest in some of our outlying rural stores in click-and-collect, which is interesting. And then our announcement of vis-à-vis Instacart is a very intentional complement to click-and-collect, recognizing that there are customers who really value the control and convenience of a click-and-collect proposition, and there are also others who are very interested in paying a premium for the home delivery option. And our objective is to make sure that as many customers in Canada as possible have access to both those value propositions.

Operator

Your next question comes from Vishal Shreedhar from National Bank.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

I saw that one rating agency changed its view slightly on Loblaw after the choice deal. And with your charges that you've taken and the ongoing investments and the more flattish growth in 2018, I'm wondering if management is going to focus on strengthening the balance sheet more in 2018 more so than 2017 if that has any implication on the amount of stock you'll buy back.

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

Vishal, it's Darren here. No. I think we have a very, very healthy balance sheet. It's been prudently managed. And from all metrics, it's -- probably errs in the side of conservatism if anything. So I think we have certainly the financial liquidity, flexibility to continue on our path on the buyback program. I feel good about where we are and what we're doing.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Great. When management does buy back stock, does it look at price as a signal of when to buy it and buy opportunistically? Or is it more of an automatic program?

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

There's always an element of price. But generally, it's a program that's mechanical and ongoing and that you can always change things as you go slightly. But it's more of an ongoing program.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Okay. And so I guess that does answer my next question, which was if the share price does get weaker, the program is set and it's not like management will commit more capital to that buyback if they deem it to be a great investment.

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

We can always be opportunistic and move things up and down. But right now, we're looking at just a regular program.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And just switching gears here a little bit to Shoppers Drug Mart with a question I think you get every once in a while. On generic drugs, following the new drug reforms that are anticipated that are coming down in a few months, will a generic prescription drug, on average, make more gross profit dollars than the branded equivalent? In the past, I believe that was the case.

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. We're not going to provide the specifics on how things are priced in the margins on those, Vishal.

Operator

Your next question comes from Michael Van Aelst from TD Securities.

Michael Van Aelst - *TD Securities Equity Research - Research Analyst*

I was hoping you could provide us an update on some of the other technology initiatives you have, whether it's shop and scan, or self checkout, and where you stand on a broader rollout of some of these programs.

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So we are continuing to invest in productivity tools as part of our process and efficiencies and continuous improvement initiative. So we have now expanded our friends and family pilot for scan and go at our Queen and Portland store to the wider store customer base. And we will continue to pilot that. And when we are comfortable, we will look at opportunities how and where to roll that out. It's really a supplemental surface proposition for customers at this point. And I don't expect to see that in the short term improving efficiency. And then in terms of self scan, so we talked about this before, self scan has been an enormous success in the Shoppers Drug Mart business. I think we have over 80 -- self scans deployed in over 80 stores in Shoppers, and we will continue to ramp that up. We get very, very positive customer service feedback when we implement them and we get a high level of penetration in those self-scan units. So expect that to continue. And that is delivering real improvements and efficiency across the Shoppers Drug Mart network.

Michael Van Aelst - *TD Securities Equity Research - Research Analyst*

And then you talked about the minimum wage and the drug reform pressures. But what's -- what are you seeing as far as transportation costs are concerned? Is it anywhere near as big of an issue as it is in the states right now?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Not at this point, no.

Operator

Your next question comes from Patricia Baker from Scotiabank.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Galen, I have a few questions for you. But the first one is, I want to talk about Q4 and the balance between the margin and the top line, and you referenced the work that you are doing and the quite important work on promotional effectiveness. If you'd had the analytical capabilities in place in Q4 to really drive a more effective promotions, would you have done more promotional activity in Q4?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So yes, we probably would have. I mean, it's a journey when you start to take your analytical decision-making to the next level, which is what we are doing now. The easiest thing to do in this process is to identify the promotional investments that you've made that are not worth the dollar investment even if they are driving tonnage. And so the first thing you tend to do is you pull back in those categories. The slightly more difficult thing and it takes a little bit more time and learning to get good at is to replace that tonnage with good tonnage. And in some cases, you don't replace it. You're giving up bad sales, you're giving up bad tonnage and so you're building, in some respects, from a new base. So our view is that we can manage this transition inside a particular sort of tonnage trading range that's consistent with our approach to stable trading. I've called out that we see that as being at the lower end of the range going forward, but we have a limited tolerance for how much tonnage or share we're prepared to lose on that journey. And right now, we feel pretty good about how we're striking the balance and we'll continue to comment on that as we get more data.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. That's quite helpful because you gave us a lot more backdrop on that. It's -- and I'll just -- a slight follow-up to that very question. Is there a difference in the efficacy or the effectiveness of promotional campaigns at Shoppers versus Loblaw? Or there's (inaudible)?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

There's always opportunity to improve, especially as analytical tools get stronger and more effective at processing large volumes of data, which is really what's happening now. But it's also worth calling out that Shoppers is probably 4 or 5 years further on this journey. And it's their approach, the predictability of their promotional programs that we've been -- that we have found so interesting and attractive. And it is those principles that we are now applying and embedding inside the food merchandising teams. And it should be no coincidence that Mike Motz, who was the President of Shoppers, is now the Chief Operating Officer responsible for all of the retail businesses. And that's one of the things that he's working very closely with Sarah on sort of deploying. He has high conviction, high experience, and we're very encouraged in the (inaudible) stages by what we are seeing.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Perfect. Just on the PC Optimum. And you indicated that you're at a $6 million sign-up rate. Is that -- two questions. Is that where you thought you would be at this point? And then I'm just curious whether from -- whether you're seeing more Optimum members sign up for the new card or more on sign-ups coming from the PC Plus side?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So first and foremost, yes, we are on track. We are very happy with the way it's going. And this is a massive technological conversion process taking place with millions of people in a very, very short period of time. So at the fringes, there's no question we've had some disappointed customers, processes that have been more complex than we would certainly like for them. But as a whole, our customers have been really happy and the process for conversion has going -- has been going extremely well. The nature of the conversion process is such that if you are a PC Plus customer, you are already in the program and what you are actually doing is you are adding your Optimum card. And so as a result of that, there are more PC Optimum -- sorry, more PC Plus users in the conversion process today. But that's not really a reflection of a level of enthusiasm from one side or the other. It just is taking a little bit more time (technical difficulty) level of conversion to take place with the Optimum card. So I would say, if you're asking, is there any difference between the level of enthusiasm between the 2 sets of customers, the answer is no. There's equal enthusiasm across the board.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. And just on the click-and-collect, getting back to Jim's line of inquiry. Can you tell us how many stores in the entire network had click-and-collect capability at -- by the end of Q4 2017?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. I think we can tell you that. So 300.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. Good. That's a start. And then just lastly, probably for Darren. Is it too early for you to give us any indication about what the size of the buyback, how much cash you might put to a buyback in 2018?

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

Yes. I think -- Patricia, you should just think about it as consistent with what we've been doing in the past few years. We're not going to give an absolute number, but it's going to -- it'll be significant again and similar to what we did this year.

Operator

Your next question comes from Keith Howlett from Desjardins Securities.

Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

I wondered if you could speak about your plans for store growth or square footage growth in 2018 and whether you've got any new formats that you'll be introducing.

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

So I think as we've comment on a number of occasions over the last couple of years, we don't see the biggest source of sales growth for our retail network today coming from new square footage. We are adding new stores in very specific opportunistic markets where there's potential for high incremental sales. So the bulk of our retail capital is going into the existing retail network, investing in technology to improve the efficiency, to improve the customer proposition and upgrading the consumer value proposition in terms of service, fresh food and the like. So no, don't expect meaningful square footage growth. And in fact, if you think about it relative to previous years, it's probably a little bit less.

Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

And then I was just wondering if you can share what you think the minimum wage impact is in 2019.

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

Keith, I don't have that view right now.

Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

And just wondering just on the Optimum program. And I don't know if you really want to share this, but I'm wondering what percentage of transactions at Shoppers Drug Mart utilize the Optimum card.

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

And so you're right, we're not comfortable sharing that at this point. But it's high. And it's also high at PC Plus. So we expect that penetration to grow. Certainly, that's part of our view, but it's already at a very satisfactory level.

Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

And just on the click-and-collect, just so I don't get the facts wrong. Is it 1 per day that you're hoping?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

That's right. Approximately 1 per day.

Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

And do you have any -- do you feel that a 2-hour -- is it possible to offer a 2-hour pickup window on click-and-collect? Or is that sort of unrealistic? I know it's not that way now, but...

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. It is possible. And -- so there are 2 things that are going on in click-and-collect at the moment. One is scaling up the number of pickup points all across the country. And the second is to continue to improve the value proposition that is available through click-and-collect. And one of the things that the team is looking at is the speed of turnaround from order to pick up. And we can talk about that more later as well.

Operator

Your next question comes from Peter Sklar from BMO Capital Markets.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Galen, on the recent generic drug reform agreement that was reached with the provinces. I'm just wondering what -- was your management team surprised by the magnitude of the price reduction in generic drug prices? And also, given the magnitude of the impact on your business, has that blunted your enthusiasm for pharmacy at all?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

No. I mean, look, we've always -- we have a very specific long-term view of the sort of drug and healthcare reform environment. We certainly felt that the 2018 lump was -- it's a lot to take in 1 year, and I wouldn't say that was part of our long-term outlook. But in terms of the specific outcome, we were -- let's say, we were optimistic that it might be a little bit less. But we were not surprised with where it ended up landing.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

And does your outlook account for the -- for that business, contemplate that the federal government will get around to brand-name drugs and then impair your profitability for brand-name drugs as well?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. Look, I think it's -- it'd be inappropriate for us to speculate at this stage on what's going on in what sort of the governments are talking about their national pharmacare program and so on, so forth. These are things that have been on the radar for a number of years. We are continuing to track them closely and we are engaged in constructive dialogue at all levels. And so we'll continue to report on that as soon as things start to take a more meaningful shape.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Okay. On the Ontario minimum wage. Can you comment on how your Ontario franchisees are coping with that? Because that would be, I would think, a meaningful negative impact for them, so that really cuts into franchisee economics. So how are you finding that they're reacting?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Well, we're working very constructively with our franchisees. And we have an economic relationship with them where we share in the economic upside and the economic downside. And we are providing the same tools, the same level of emphasis to support those franchisees in improving the efficiency in all of their store operations the same way that we would do with corporate stores. So think about it as a difficult circumstance, but no meaningful difference between the way that we are approaching it with our franchisee partners or our corporate stores.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Okay. And then just lastly, just in terms of your strategy with respect to e-commerce, with Ocado coming to Canada, and given that they will construct this fulfillment center in the GTA, I would assume that they are able to achieve some level of capacity with that fulfillment center that would give them a cost advantage over a store picking model. You may or may not agree with that. And so, I'm just wondering how that is -- how you're thinking about that as your plans unfold? And would Loblaw also consider a fulfillment model?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Well, again, I think it would be inappropriate to speculate on other retailer's strategies. Suffice to say, we have a high level of conviction around the attractiveness of the click-and-collect proposition. If you look around the world, it is a significant and meaningful part of online grocery shopping in pretty much every region and every country. And it obviously, has a set of benefits in the way that it leverages the existing asset base. This is a -- this is sort of a fully costed asset-base. And we think there are other long-term strategic advantages, too, as technology evolves and customer needs evolve. So we have commented that we think home delivery is an important complementary part of our strategy and Instacart is an example of how we're pursuing that. So we feel pretty good. Things will change and we will respond. But our long-term outlook is that picking from stores is a very important and attractive part of the e-commerce proposition.

Operator

The next question comes from Chris Li from Macquarie.

Christopher Li - *Macquarie Research - Research Analyst*

First question is, the winding down of the PC Financial banking services that you did last year, do you expect to have a material EBITDA impact?

Darren G. Myers - *Loblaw Companies Limited - CFO & Member of Management Board*

No, Chris. We do not expect a material impact from that.

Christopher Li - *Macquarie Research - Research Analyst*

Okay. And then another question, just if you can provide an update just on the company's dispute with the CRA with respect to Glenhuron Bank. I noticed in your press release, you flagged that. The hearing is supposed to start in Q2 of this year. Is there anything else you can provide with respect to timing? When do you expect this to resolve? And any comment would be helpful.

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes, Chris. For obvious reasons, I can't give a lot of details. But suffice it to say, it is expected. It is going to the court in the second quarter. And we'd expect an outcome from that towards the end of the year. But it's difficult to say when the decision will ultimately be made. But we feel we have a very, very strong case and we are vigorously defending it.

Christopher Li - *Macquarie Research - Research Analyst*

Is it fair to assume, let's say, there's a negative outcome for the company. It sounds like from your previous answers to share buyback that there is bit of a buffer, that you can still kind of attain your goal of share buyback similar to last year despite any potential negative outcome. Is that fair to say?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

I mean, ultimately, I don't want to hypothesize on the outcome of the case. I would say that we have a strong cash position and very good liquidity. And we're comfortable with what we're planning to do with the buybacks.

Operator

Your next question comes from Keith Howlett from Desjardins Securities.

Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

I just had a question on the health and wellness strategy. Just what you should be working on to blend nutrition and prescription drugs and OTC and, presumably, the new PC Optimum program. I don't know if that's legally possible, but just what you're thinking on the broader health and wellness strategy?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

Yes. So -- sort of -- we call it connected healthcare. That is a significant strategic pillar for the company looking forward. We have a very powerful combination of assets when you include our nutritional record, our pharmacy record and the acquisition of QHR, which is the largest single platform electronic medical record software provider in Canada. And so we have an excellent team of folks who are working with those assets to bring to market a set of customer services and also healthcare practitioner services that we believe will represent a meaningful part of the emerging digital healthcare space. Having said that, this is a very ill-formed space. We know that digital healthcare is going to be a really important part of the Canadian healthcare system in the coming years, but it has not yet been defined. And so you shouldn't expect meaningful positive impacts to the overall financial performance coming from that part of the strategy for a few more years.

Operator

(Operator Instructions) Your next question comes from Irene Nattel from RBC Capital Markets.

Irene Ora Nattel - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

Just a quick follow-up. In terms of your discussions with suppliers who themselves are facing minimum wage increase. What's sort of the overall tone? I mean, I know you have your initiatives in place, but are they coming back and saying, hey, like we're facing this and we need some increases on pricing here?

Galen G. Weston - *Loblaw Companies Limited - Chairman, CEO & Member of Management Board*

So, listen, the supply chain charges have been part of the operating business model in Loblaw for many, many years. We made significant investments in the productivity of our distribution system over the last number of years without putting through any increases in the charges or sort of fees to vendors. This was a catch-up that was prompted by the financial headwinds. But we think it's a proper reflection of the value that our supply chain offers to those vendors who use it and benefit from using it. In terms of the cost of goods, that's an entirely different area of discussion and emphasis. That is a conversation that continues on -- every day of every week of every month of every year. And I wouldn't say that there is a meaningful point of difference in 2018 versus prior years in that regard.

Operator

I have no further questions in queue. I turn the call back over to the presenters for closing remarks.

Roy MacDonald

Thank you, everybody, for joining the call today. This concludes our call. If you have follow-up questions, I am available at my desk. And mark your calendars for May 2 when we will discuss our Q1 results. Thanks very much, Michelle.

Operator

You're very welcome. Thank you, everyone. This will conclude today's conference call. You may now disconnect.