Loblaw Companies Limited

NEWS RELEASE

Loblaw Reports 2023 First Quarter Results

BRAMPTON, ONTARIO May 3, 2023 Loblaw Companies Limited (TSX: L) ("Loblaw" or the "Company") announced today its unaudited financial results for the first quarter ended March 25, 2023[1].

Loblaw's sales and earnings growth continued to reflect its focus on retail excellence. Drug Retail sales were led by continued strength in higher margin beauty and cough and cold products. Drug Retail sales growth rates were further magnified by lapping Omicron related lockdowns last year. Food Retail sales growth accelerated through the quarter, after lapping lockdown related benefits in the first part of 2022. This was the case in both Market and Discount stores, though the latter continued to outperform, benefiting from the heightened consumer focus on price. Total Retail gross margin increased due to higher sales growth in more profitable front-store sales in drug stores, offsetting a slight decline in Food Retail gross margin as costs continued to increase faster than prices. Higher sales and cost control leverage drove earnings in the quarter.

"In the face of ongoing inflation, we are working hard to deliver the value and choice Canadians are looking for," said Galen G. Weston, Chairman and President, Loblaw Companies Limited. "I'm pleased that customers are responding positively to the breadth of our offerings including our diverse store formats, market leading prices, private label brands, and loyalty offers."

2023 FIRST QUARTER HIGHLIGHTS

- Revenue was $12,995 million, an increase of $733 million, or 6.0%.
- Retail segment sales were $12,735 million, an increase of $690 million, or 5.7%.
  - Food Retail (Loblaw) same-stores sales increased by 3.1%, including the negative impact of 1.1% related to the timing of New Year's Day.
  - Drug Retail (Shoppers Drug Mart) same-store sales increased by 7.4%, with front store same-store sales growth of 10.3% and pharmacy same-store sales growth of 4.7%.
- E-commerce sales decreased by 1.1%, lapping elevated online sales due to lockdowns last year.
- Operating income was $769 million, an increase of $31 million, or 4.2%.
- Adjusted EBITDA[2] was $1,448 million, an increase of $105 million, or 7.8%.
- Retail segment adjusted gross profit percentage[2] was 31.3%, an increase of 20 basis points.
- Net earnings available to common shareholders of the Company were $418 million, a decrease of $19 million or 4.3%. Diluted net earnings per common share were $1.29, a decrease of $0.01, or 0.8%. The decrease was primarily driven by a prior year gain related to a favourable Court ruling.
- Adjusted net earnings available to common shareholders of the Company[2] were $505 million, an increase of $46 million, or 10.0%.
- Adjusted diluted net earnings per common share[2] were $1.55, an increase of $0.19 or 14.0%.
- Repurchased for cancellation 3.3 million common shares at a cost of $383 million and invested $208 million in capital expenditures, net of proceeds from property disposals. Free cash flow[2] used in the Retail segment was $81 million.
- Twelfth consecutive annual increase to the quarterly common share dividend from $0.405 per common share to $0.446 per common share, an increase of 10%.
- The Company just announced the release of its 2022 Environmental, Social and Governance ("ESG") Report**.**

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

CONSOLIDATED AND SEGMENT RESULTS OF OPERATIONS

The following table provides key performance metrics for the Company by segment.

				2023 (12 weeks)				2022 (12 weeks)
For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars except where otherwise indicated)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$12,735**	**$ 326**	**$ (66)**	**$12,995**	$12,045	$ 274	$ (57)	$12,262
Adjusted gross profit[(2)]	$3,980	$ 293	$ (66)	$ 4,207	$ 3,743	$ 241	$ (57)	$ 3,927
Adjusted gross profit %[(2)]	31.3 %	N/A	— %	32.4 %	31.1 %	N/A	— %	32.0 %
Operating income	**$ 726**	**$ 43**	**$ —**	**$ 769**	$ 690	$ 48	$ —	$ 738
Adjusted operating income[(2)]	844	43	—	887	781	48	—	829
Adjusted EBITDA[(2)]	$ 1,390	$ 58	$ —	$ 1,448	$ 1,285	$ 58	$ —	$ 1,343
Adjusted EBITDA margin[(2)]	10.9 %	N/A	— %	11.1 %	10.7 %	N/A	— %	11.0 %
Net interest expense and other financing charges	**$ 150**	**$ 31**	**$ —**	**$ 181**	$ 126	$ 16	$ —	$ 142
Adjusted net interest expense and other financing charges[(2)]	150	31	—	181	137	16	—	153
Earnings before income taxes	**$ 576**	**$ 12**	**$ —**	**$ 588**	$ 564	$ 32	$ —	$ 596
Income taxes				$ 151				$ 123
Adjusted income taxes[(2)]				182				181
Net earnings attributable to non-controlling interests				$ 16				$ 33
Prescribed dividends on preferred shares in share capital				3				3
Net earnings available to common shareholders of the Company				**$ 418**				$ 437
Adjusted net earnings available to common shareholders of the Company[(2)]				505				459
Diluted net earnings per common share ($)				**$ 1.29**				$ 1.30
Adjusted diluted net earnings per common share[(2)] ($)				$ 1.55				$ 1.36
Diluted weighted average common shares outstanding (in millions)				**324.8**				336.7

The following table provides a breakdown of the Company's total and same-store sales for the Retail segment.

For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars except where otherwise indicated)	**2023 (12 weeks)**		2022 (12 weeks)	
	Sales	**Same-store sales**	Sales	Same-store sales
Food retail	**$ 9,011**	**3.1 %**	$ 8,682	2.1 %
Drug retail	**3,724**	**7.4 %**	3,363	5.2 %
Pharmacy and healthcare services	**1,924**	**4.7 %**	1,724	6.8 %
Front store	**1,800**	**10.3 %**	1,639	3.6 %

RETAIL SEGMENT

- Retail segment sales were $12,735 million, an increase of $690 million, or 5.7%.
  - Food Retail (Loblaw) sales were $9,011 million and Food Retail same-store sales grew by 3.1% (2022 – grew by 2.1%), including the negative impact of 1.1% related to the timing of New Year's Day. Food retail same-store sales were also negatively impacted by higher than normal eat-at-home levels in the prior year.
    - The Consumer Price Index as measured by The Consumer Price Index for Food Purchased From Stores was 10.5% (2022 – 7.5%) which was generally in line with the Company's internal food inflation; and
    - Food Retail traffic increased and basket size decreased.
  - Drug Retail (Shoppers Drug Mart) sales were $3,724 million, and Drug Retail same-store sales grew by 7.4% (2022 – 5.2%), with pharmacy and healthcare services same-store sales growth of 4.7% (2022 – 6.8%) and front store same-store sales growth of 10.3% (2022 – 3.6%). Pharmacy and healthcare services sales include Lifemark Health Group ("Lifemark") revenues of $118 million. Lifemark revenues are excluded from same-store sales.
    - On a same-store basis, the number of prescriptions dispensed decreased by 1.9% (2022 – increased by 5.8%) and the average prescription value increased by 6.0% (2022 – 0.4%).
- Operating income was $726 million, an increase of $36 million, or 5.2%.
- Adjusted gross profit[(2)] was $3,980 million, an increase of $237 million, or 6.3%. The adjusted gross profit percentage[(2)] of 31.3% increased by 20 basis points (2022 – increased by 80 basis points), primarily driven by growth in higher margin Drug Retail front store categories, partially offset by a slight decrease in Food Retail margins.
- Adjusted EBITDA[(2)] was $1,390 million, an increase of $105 million, or 8.2%. The increase was driven by an increase in adjusted gross profit[(2)], partially offset by an increase in SG&A. SG&A as a percentage of sales was 20.3%, a favourable decrease of 10 basis points. The favourable decrease of 10 basis points was primarily due to operating leverage from higher sales.
- Depreciation and amortization was $660 million, an increase of $39 million or 6.3%, primarily driven by an increase in depreciation of IT assets, leased assets, accelerated depreciation of $10 million (2022 – nil) due to the reassessment of the estimated useful life of certain IT assets and accelerated depreciation of $7 million (2022 – nil) as a result of network optimization. Included in depreciation and amortization was and the amortization of intangible assets related to the acquisitions of Shoppers Drug Mart Corporation ("Shoppers Drug Mart") and Lifemark of $114 million (2022 – $117 million).
- The Company recorded charges of $15 million associated with network optimization, which include accelerated depreciation of $7 million as described above, and other charges.
- In the first quarter of 2023, the Company disposed of sixteen real estate properties for proceeds of $87 million (2022 – $13 million). Real estate disposition proceeds will be used to partially fund increased capital investments.

FINANCIAL SERVICES SEGMENT

- Revenue was $326 million, an increase of $52 million or 19.0%. The increase was primarily driven by higher interest income from growth in credit card receivables, higher interchange income and other credit card related revenue from an increase in customer spending.
- Earnings before income taxes were $12 million, a decrease of $20 million. The decrease in earnings was mainly driven by the year-over-year impact of the expected credit loss provision from lapping the prior year release of $5 million versus the current quarter increase of $6 million, higher costs from an increase in customer spending and the growth in credit card portfolio which includes an increase in funding costs, partially offset by the higher revenue as described above.

OUTLOOK(3)

Loblaw will continue to execute on retail excellence while advancing its growth initiatives in 2023. The Company's businesses remain well placed to service the everyday needs of Canadians. However, the Company cannot predict the precise impacts of global economic uncertainties, including the inflationary environment, on its 2023 financial results.

For the full-year 2023, the Company continues to expect:

- its Retail business to grow earnings faster than sales;
- adjusted net earnings per common share(2) growth in the low double digits;
- to increase investments in our store network and distribution centres by investing a net amount of $1.6 billion in capital expenditures, which reflects gross capital investments of approximately $2.1 billion offset by approximately $500 million of proceeds from real estate dispositions; and
- to return capital to shareholders by allocating a significant portion of free cash flow to share repurchases.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

The Company just issued its 2022 ESG Report. For the first time, the report aligns with all three of the following: Global Reporting Initiatives (GRI) standards, Sustainability Accounting Standards Board (SASB) disclosures and the Taskforce for Climate-Related Financial Disclosure (TCFD). The report highlights many significant 2022 achievements including reducing the carbon emissions of enterprise operations by 8% since 2020, achieving multiple inclusion and representation goals ahead of schedule, and contributing more than $110 million in community funds to support research, charities and non-profits.

In the quarter, Loblaw collected and donated 7 million pounds of food for local food banks in support of its new Feed More Families™ pledge, began the final phase of eliminating front-end single-use bags, and launched the rebrand of LOVE YOU by Shoppers Drug Mart™ program to the Shoppers Foundation for Women's Health™, with a strengthened focus on supporting women's health equity.

NORMAL COURSE ISSUER BID PROGRAM

From time to time, the Company participates in an automatic share purchase plan ("ASPP") with a broker in order to facilitate the repurchase of the Company's common shares under its NCIB. During the effective period of the ASPP, the Company's broker may purchase common shares at times when the Company would not be active in the market.

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 ("IT") systems implementations. These specific forward-looking statements are contained throughout this News Release including, without limitation, in the "Consolidated and Segment 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 estimates, beliefs and assumptions are inherently subject to significant business, economic, competitive and other uncertainties and contingencies regarding future events 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 Company's 2022 Annual Report - Financial Review and Section 4 "Risks" of the Company's 2022 Annual Information Form for the year ended December 31, 2022.

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.

DECLARATION OF DIVIDENDS

Subsequent to the end of the first quarter of 2023, the Board of Directors declared a quarterly dividend on Common Shares and Second Preferred Shares, Series B.

Common Shares	$0.446 per common share, payable on July 1, 2023 to shareholders of record on June 15, 2023.
Second Preferred Shares, Series B	$0.33125 per share, payable on July 1, 2023 to shareholders of record on June 15, 2023.

EXCERPT OF NON-GAAP AND OTHER FINANCIAL MEASURES

The Company uses non-GAAP and other financial measures, as reconciled and fully described in Appendix 1 "Non-GAAP and Other Financial Measures" of this News Release.

These measures do not have a standardized meaning prescribed by International Financial Reporting Standards ("IFRS" or "GAAP") as issued by the International Accounting Standards Board ("IASB"), 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.

The following table provides a summary of the differences between the Company's consolidated GAAP and Non-GAAP and other financial measures, which are reconciled and fully described in Appendix 1.

For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars except where otherwise indicated)			**2023 (12 weeks)**			2022 (12 weeks)
	GAAP	**Adjusting Items**	**Non-GAAP(2)**	GAAP	Adjusting Items	Non-GAAP(2)
EBITDA	**$ 1,444**	**$ 4**	**$ 1,448**	$ 1,369	$ (26)	$ 1,343
Operating income	**$ 769**	**$ 118**	**$ 887**	$ 738	$ 91	$ 829
Net interest expense and other financing charges	**181**	**—**	**181**	142	11	153
Earnings before income taxes	**$ 588**	**$ 118**	**$ 706**	$ 596	$ 80	$ 676
Deduct (add) the following:						
Income taxes	**151**	**31**	**182**	123	58	181
Non-controlling interests	**16**	**—**	**16**	33	—	33
Prescribed dividends on preferred shares	**3**	**—**	**3**	3	—	3
Net earnings available to common shareholders of the Company(i)	**$ 418**	**$ 87**	**$ 505**	$ 437	$ 22	$ 459
Diluted net earnings per common share ($)	**$ 1.29**	**$ 0.26**	**$ 1.55**	$ 1.30	$ 0.06	$ 1.36
Diluted weighted average common shares (millions)	**324.8**	**—**	**324.8**	336.7	—	336.7

(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.

The following table provides a summary of the Company's adjusting items which are reconciled and fully described in Appendix 1.

For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars except where otherwise indicated)	**2023 (12 weeks)**	2022 (12 weeks)
Operating income	**$ 769**	$ 738
Add (deduct) impact of the following:		
Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**$ 114**	$ 117
Fair value adjustment on fuel and foreign currency contracts	**3**	(14)
Loss on sale of non-operating properties	**1**	—
Lifemark transaction costs	**—**	3
Restructuring and other related recoveries	**—**	(15)
Adjusting items	**$ 118**	$ 91
Adjusted operating income[2]	**$ 887**	$ 829
Net interest expense and other financing charges	**$ 181**	$ 142
Add the impact of the following:		
Recovery related to Glenhuron	**—**	11
Adjusted net interest expense and other financing charge[2]	**$ 181**	$ 153
Income taxes	**$ 151**	$ 123
Add the impact of the following:		
Tax impact of items included in adjusted earnings before taxes	**$ 31**	$ 25
Recovery related to Glenhuron	**—**	33
Adjusting items	**$ 31**	$ 58
Adjusted income taxes[2]	**$ 182**	$ 181

CORPORATE PROFILE

2022 Annual Report and 2023 First Quarter Report to Shareholders

The Company's 2022 Annual Report and 2023 First 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 May 3, 2023 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: 498499#. 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.

Annual Meeting of Shareholders

The 2023 Annual Meeting of Shareholders of Loblaw Companies Limited will be held on Thursday, May 4, 2023 at 11:00 a.m. (ET). This year's meeting will be held as a virtual meeting, by way of a live webcast. Shareholders will be able to listen, participate and vote at the meeting in real time through a live webcast online at https://web.lumiagm.com/290698688 (meeting password: loblaw2023). See "How do I attend and participate in the Meeting?" in the Management Proxy dated March 24, 2023, which can be viewed online at www.loblaw.ca or under Loblaw's SEDAR profile at www.sedar.com, for detailed instructions on how to attend and vote at the meeting.

Please refer to the "Events and Presentations" or "Shareholders Services" page at loblaw.ca for additional details on the virtual meeting.

News Release Endnotes

(1) This News Release contains forward-looking information. See "Forward-Looking Statements" section of this News Release and the Company's 2023 First 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 "Non-GAAP and Other Financial Measures" section in Appendix 1 of this News Release, 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 2023 First Quarter Report to Shareholders.

APPENDIX 1: NON-GAAP AND OTHER FINANCIAL MEASURES

The Company uses the following non-GAAP and other financial measures and ratios: Retail segment gross profit; Retail segment adjusted gross profit; Retail segment adjusted gross profit percentage; adjusted earnings before income taxes, net interest expense and other financing charges and depreciation and amortization ("adjusted EBITDA"); adjusted EBITDA margin; adjusted operating income; adjusted net interest expense and other financing charges; adjusted income taxes; adjusted effective tax rate; adjusted net earnings available to common shareholders; adjusted diluted net earnings per common share, and free cash flow. The Company believes these non-GAAP and other financial measures and ratios provide useful information to both management and investors in measuring the financial performance and financial condition of the Company for the reasons outlined below.

Management uses these and other non-GAAP and other 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 adjusts for these 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.

Retail Segment Gross Profit, Retail Segment Adjusted Gross Profit and Retail Segment Adjusted Gross Profit Percentage The following tables reconcile adjusted gross profit by segment to gross profit by segment, which is reconciled to revenue and cost of sales measures as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that Retail segment gross profit and Retail segment adjusted gross profit are useful in assessing the Retail segment's underlying operating performance and in making decisions regarding the ongoing operations of the business.

Retail segment adjusted gross profit percentage is calculated as Retail segment adjusted gross profit divided by Retail segment revenue.

				2023 (12 weeks)				2022 (12 weeks)
For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**	**Total**	Retail	Financial Services	Eliminations	Total
Revenue	**$ 12,735**	**$ 326**	**$ (66)**	**$ 12,995**	$ 12,045	$ 274	$ (57)	$ 12,262
Cost of sales	**8,755**	**33**	**—**	**8,788**	8,302	33	—	8,335
Gross profit	**$ 3,980**	**$ 293**	**$ (66)**	**$ 4,207**	$ 3,743	$ 241	$ (57)	$ 3,927
Adjusted gross profit	**$ 3,980**	**$ 293**	**$ (66)**	**$ 4,207**	$ 3,743	$ 241	$ (57)	$ 3,927

Adjusted Operating Income, Adjusted EBITDA and Adjusted EBITDA Margin The following tables reconcile adjusted operating income and adjusted EBITDA to operating income, which is reconciled to net earnings attributable to shareholders of the Company as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted EBITDA is useful in assessing the performance of its ongoing operations and its ability to generate cash flows to fund its cash requirements, including the Company's capital investment program.

Adjusted EBITDA margin is calculated as adjusted EBITDA divided by revenue.

			2023 (12 weeks)			2022 (12 weeks)
For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Total**	Retail	Financial Services	Total
Net earnings attributable to shareholders of the Company			**$ 421**			$ 440
Add (deduct) impact of the following:						
Non-controlling interests			**16**			33
Net interest expense and other financing charges			**181**			142
Income taxes			**151**			123
Operating income	**$ 726**	**$ 43**	**$ 769**	$ 690	$ 48	$ 738
Add (deduct) impact of the following:						
Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**$ 114**	**$ —**	**$ 114**	$ 117	$ —	$ 117
Fair value adjustment on fuel and foreign currency contracts	**3**	**—**	**3**	(14)	—	(14)
Loss on sale of non-operating properties	**1**	**—**	**1**	—	—	—
Lifemark transaction costs	**—**	**—**	**—**	3	—	3
Restructuring and other related recoveries	**—**	**—**	**—**	(15)	—	(15)
Adjusting items	**$ 118**	**$ —**	**$ 118**	$ 91	$ —	$ 91
Adjusted operating income	**$ 844**	**$ 43**	**$ 887**	$ 781	$ 48	$ 829
Depreciation and amortization	**660**	**15**	**675**	621	10	631
Less: Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**(114)**	**—**	**(114)**	(117)	—	(117)
Adjusted EBITDA	**$1,390**	**$ 58**	**$ 1,448**	$ 1,285	$ 58	$ 1,343

In addition to the items described in the Retail segment adjusted gross profit section above, when applicable, adjusted EBITDA was impacted by the following:

Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark The acquisition of Shoppers Drug Mart in 2014 included approximately $6,050 million of definite life intangible assets, which are being amortized over their estimated useful lives. Annual amortization associated with the acquired intangibles will be approximately $500 million until 2024 and will decrease thereafter.

The acquisition of Lifemark in 2022 included approximately $299 million of definite life intangible assets, which are being amortized over their estimated useful lives.

Fair value adjustment on fuel and foreign currency contracts The Company is exposed to commodity price and U.S. dollar exchange rate fluctuations. In accordance with the Company's commodity risk management policy, the Company enters into exchange traded futures contracts and forward contracts to minimize cost volatility relating to fuel prices and the U.S. dollar exchange rate. These derivatives are not acquired for trading or speculative purposes. Pursuant to the Company's derivative instruments accounting policy, changes in the fair value of these instruments, which include realized and unrealized gains and losses, are recorded in operating income. Despite the impact of accounting for these commodity and foreign currency derivatives on the Company's reported results, the derivatives have the economic impact of largely mitigating the associated risks arising from price and exchange rate fluctuations in the underlying commodities and U.S. dollar commitments.

Loss on sale of non-operating properties In the first quarter of 2023, the Company recorded a loss related to the sale of non-operating properties of $1 million (2022 – nil).

Lifemark transaction costs In connection with the acquisition of Lifemark during 2022, the Company recorded acquisition costs of $3 million in operating income in the first quarter of 2022.

Restructuring and other related (recoveries) costs The Company continuously evaluates strategic and cost reduction initiatives related to its store infrastructure, distribution networks and administrative infrastructure with the objective of ensuring a low cost operating structure. Only restructuring activities that are publicly announced related to these initiatives are considered adjusting items.

In the first quarter of 2023, the Company did not record any restructuring and other related recoveries or charges (2022 – recovery of $15 million). The recoveries recognized in 2022 were mainly in connection to the previously announced closure of two distribution centres in Laval and Ottawa. The Company invested to build a modern and efficient expansion to its Cornwall distribution centre to serve its food and drug retail businesses in Ontario and Quebec and volumes have been transferred.

Adjusted Net Interest Expense and Other Financing Charges The following table reconciles adjusted net interest expense and other financing charges to net interest expense and other financing charges as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted net interest expense and other financing charges is useful in assessing the Company's underlying financial performance and in making decisions regarding the financial operations of the business.

For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars)		**2023 (12 weeks)**		2022 (12 weeks)
Net interest expense and other financing charges	**$**	**181**	$	142
Add: Recovery related to Glenhuron		**—**		11
Adjusted net interest expense and other financing charges	**$**	**181**	$	153

Recovery related to Glenhuron Bank Limited ("Glenhuron") In 2021, the Supreme Court ruled in favour of the Company on the Glenhuron matter. As a result of related reassessments received during the first quarter of 2022, the Company reversed $35 million of previously recorded charges, of which $2 million was recorded as interest income and $33 million was recorded as an income tax recovery, and an additional $9 million, before taxes, was recorded in respect of interest income earned on expected cash tax refunds.

Adjusted Income Taxes and Adjusted Effective Tax Rate The following table reconciles adjusted income taxes to income taxes as reported in the consolidated statements of earnings for the periods ended as indicated. The Company believes that adjusted income taxes is useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

Adjusted effective tax rate is calculated as adjusted income taxes divided by the sum of adjusted operating income less adjusted net interest expense and other financing charges.

For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars except where otherwise indicated)	**2023** **(12 weeks)**	2022 (12 weeks)
Adjusted operating income[(i)]	**$ 887**	$ 829
Adjusted net interest expense and other financing charges[(i)]	**181**	153
Adjusted earnings before taxes	**$ 706**	$ 676
Income taxes	**$ 151**	$ 123
Add impact of the following:		
Tax impact of items included in adjusted earnings before taxes[(ii)]	**31**	25
Recovery related to Glenhuron	**—**	33
Adjusted income taxes	**$ 182**	$ 181
Effective tax rate	**25.7 %**	20.6 %
Adjusted effective tax rate	**25.8 %**	26.8 %

(i) See reconciliations of adjusted operating income and adjusted net interest expense and other financing charges in the tables above.

(ii) See the adjusted operating income, adjusted EBITDA and adjusted EBITDA margin table and the adjusted net interest expense and other financing charges table above for a complete list of items included in adjusted earnings before taxes.

Adjusted Net Earnings Available to Common Shareholders and Adjusted Diluted Net Earnings Per Common Share The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted net earnings attributable to shareholders of the Company to net earnings attributable to shareholders of the Company and then to net earnings available to common shareholders of the Company for the periods ended as indicated. The Company believes that adjusted net earnings available to common shareholders and adjusted diluted net earnings per common share are useful in assessing the Company's underlying operating performance and in making decisions regarding the ongoing operations of its business.

For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars except where otherwise indicated)	**2023** **(12 weeks)**	2022 (12 weeks)
Net earnings attributable to shareholders of the Company	**$ 421**	$ 440
Prescribed dividends on preferred shares in share capital	**(3)**	(3)
Net earnings available to common shareholders of the Company	**$ 418**	$ 437
Net earnings attributable to shareholders of the Company	**$ 421**	$ 440
Adjusting items (refer to the following table)	**87**	22
Adjusted net earnings attributable to shareholders of the Company	**$ 508**	$ 462
Prescribed dividends on preferred shares in share capital	**(3)**	(3)
Adjusted net earnings available to common shareholders of the Company	**$ 505**	$ 459
Diluted weighted average common shares outstanding (millions)	**324.8**	336.7

The following table reconciles adjusted net earnings available to common shareholders of the Company and adjusted diluted net earnings per common share to net earnings available to common shareholders of the Company and diluted net earnings per common share for the periods ended as indicated.

For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars/Canadian dollars)	**2023 (12 weeks)** **Net Earnings Available to Common Shareholders of the Company**	**2023 (12 weeks)** **Diluted Net Earnings Per Common Share**	2022 (12 weeks) Net Earnings Available to Common Shareholders of the Company	2022 (12 weeks) Diluted Net Earnings Per Common Share
As reported	**$ 418**	**$ 1.29**	$ 437	$ 1.30
Add (deduct) impact of the following:				
Amortization of intangible assets acquired with Shoppers Drug Mart and Lifemark	**$ 84**	**$ 0.26**	$ 87	$ 0.25
Fair value adjustment on fuel and foreign currency contracts	**2**	**—**	(11)	(0.03)
Loss on sale of non-operating properties	**1**	**—**	—	—
Lifemark transaction costs	**—**	**—**	2	0.01
Restructuring and other related recoveries	**—**	**—**	(14)	(0.04)
Recovery related to Glenhuron	**—**	**—**	(42)	(0.13)
Adjusting items	**$ 87**	**$ 0.26**	$ 22	$ 0.06
Adjusted	**$ 505**	**$ 1.55**	$ 459	$ 1.36

Free Cash Flow The following table reconciles, by reportable operating segments, free cash flow to cash flows from operating activities. The Company believes that free cash flow is the appropriate measure in assessing the Company's cash available for additional financing and investing activities.

	2023 (12 weeks)				2022 (12 weeks)			
For the periods ended March 25, 2023 and March 26, 2022 (millions of Canadian dollars)	**Retail**	**Financial Services**	**Eliminations**[i]	**Total**	Retail	Financial Services	Eliminations[i]	Total
Cash flows from (used in) operating activities	**$ 652**	**$ 237**	**$ 26**	**$ 915**	$ 748	$ 103	$ 12	$ 863
Less:								
Capital investments[ii]	**306**	**9**	**—**	**315**	182	4	—	186
Interest paid	**80**	**—**	**26**	**106**	70	—	12	82
Lease payments, net	**347**	**—**	**—**	**347**	282	—	—	282
Free cash flow[2]	**$ (81)**	**$ 228**	**$ —**	**$ 147**	$ 214	$ 99	$ —	$ 313

(i) Interest paid is included in cash flows from operating activities under the Financial Services segment.

(ii) Capital investments are the sum of fixed asset additions and intangible asset additions as presented in the Company's condensed consolidated statements of cash flows.

Same-Store Sales Same-store sales are retail segment sales for stores in operation in both comparable periods, including relocated, converted, expanded, contracted or renovated stores. The Company believes this metric is useful in assessing sales trends excluding the effect of the opening and closure of stores.