Loblaw Companies Ltd.
L-TSX
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Consumer Products & Retail

Loblaw’s Loyalty Target(s)

Event
We are initiating coverage of Loblaw Companies (L-TSX) with an Outperform rating and a $44.00 target price.

Action
We recommend investors accumulate shares of Loblaw at current levels.

Analysis
Loblaw, the market leader in the increasingly competitive and concentrated Canadian grocery retail space has, in our opinion, been competing with one hand tied behind its back, as a function of its massive and ongoing restructuring initiatives. These initiatives are (finally) nearing completion, and Loblaw will have its first store go live in late 2012, with the rollout completed by 2014.

The scheduled completion of this critical but arduous journey dovetails with a step-function change in the competitive dynamics of the Canadian retail landscape (of a magnitude not seen since the arrival of Wal-Mart) that is the 2013 arrival of Target. The Loblaw of tomorrow (not a day too soon) is, in our opinion, better positioned and will be better able to make a target of Target rather than simply be a target, than at any point in its history.

Within an ever more voraciously competitive landscape, every basis point of market share necessarily counts, highlighting the strategic imperative that, we believe, is a complete rethink (not simply refresh) of Loblaw’s loyalty offering.

The reality, in our opinion, is that not only is Loblaw a distinct laggard in the Canadian grocery loyalty space, but also that despite recent competitor launches, the Canadian grocery loyalty space remains in the dark ages (relative to the industry leaders in the UK (Sainsbury’s) and Europe (DIA)). The opportunity for Loblaw, in our opinion, is to lead a revolution versus an evolution of the Canadian grocery loyalty space with a coalition program, tiered membership, and a stand-alone card (versus the MasterCard only card) program. A significantly more nimble and agile Loblaw will likely prove a rude awakening for its competitors, in our view.

Valuation
Our $44.00 target price equates to 14.0x 2012E EPS and an EV/2012E EBITDA multiple of 8.0x. Our target P/E multiple is at a discount to Loblaw’s 5-year average of 16.0x, which we believe is prudent given the inflection point in Loblaw’s model and the Canadian grocer landscape, while our 8.0x target EV/EBITDA multiple is in-line with its 5-year average of 8.1x. We are initiating coverage of Loblaw with an Outperform rating and a target price of $44.00.

<table>
<thead>
<tr>
<th>EPS</th>
<th>1Q (Mar)</th>
<th>2Q (Jun)</th>
<th>3Q (Sep)</th>
<th>4Q (Dec)</th>
<th>Full Year</th>
<th>Revenues (mln)</th>
<th>EBITDA (mln)</th>
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<tr>
<td>2010A</td>
<td>C$0.45</td>
<td>C$0.64</td>
<td>C$0.70</td>
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<td>C$1,993</td>
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<td>2011E</td>
<td>0.56A</td>
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<td>0.83A</td>
<td>0.67</td>
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<td>2012E</td>
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<td>0.74</td>
<td>0.93</td>
<td>0.73</td>
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<td>31,707</td>
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Source: Raymond James Ltd., Thomson One
Table of Contents

Investment Overview.......................................................................................................................... 3
Company Overview............................................................................................................................. 4
Investment Thesis............................................................................................................................... 6
Macro Overview, Key Themes and Industry Drivers................................................................. 15
Competitive Landscape....................................................................................................................... 23
Financial Analysis & Outlook............................................................................................................... 32
Valuation & Recommendation ........................................................................................................... 33
Appendix A: Financial Statements ...................................................................................................... 35
Appendix B: Management & Board of Directors ................................................................................ 38
Risks .................................................................................................................................................... 39
Investment Overview

Market Leader Among Canadian Grocers is a “Target”

Loblaw Companies Ltd. (Loblaw), with in excess of 1,000 stores and a 29.9% grocery market share in Canada continues to dominate the grocery landscape, dwarfing its nearest national competitor Empire and its Sobeys chain with a 14.4% share and Metro with a 10.9% market share.

In 2005, Loblaw launched an ambitious, and in our opinion critical, restructuring of its supply chain, merchandising, procurement and operations groups. While cognizant of the risks associated with the final ERP integration, we believe that the Loblaw of 2013 will be better positioned than at any point in the last decade to finally bring the fight to existing and new competitors (Target in 2013) in the Canadian grocery market.

Untapped Opportunity in (Premium) Private Label

Loblaw’s early investment in Private Label and the continued evolution of its strategy has secured it an enviable position within the Canadian market. Despite 2010A private label sales of $8.2 bln for a Canadian leading market share of 26.9% and the #1 and #2 consumer package brands in Canada in President’s Choice and no name, the untapped opportunity in private label remains significant.

While Premium Private Label is, in our opinion, a critical evolution of Loblaw’s private label strategy, the monetization of its leadership in the space will only be realized through truly granular consumer insights. Mainstream private label (President’s Choice) is expected to see growth leakage into both the premium (President’s Choice Black Label) and value segments (no name), in our view. In order to reach the private label penetration levels of Tesco and Sainsbury’s (adjusted for the inclusion of Meat and Produce), a proactive private label strategy driven by differentiation (value, mainstream, and premium private label) and consumer loyalty is necessary.

Monetized Loyalty Through Data Analytics

Loblaw’s PC Points loyalty program with 2 mln customer accounts running over the MasterCard network (and attached to the PC Financial MasterCard, which we are of the opinion negatively impacts the perceived value of the currency), is increasingly an anomaly in the Canadian loyalty landscape.

The opportunity for Loblaw, in our opinion, is not simply to refresh its loyalty offering, but to launch a generation next loyalty program that will move Loblaw from loyalty laggard to loyalty leader. The granular consumer insights and realisable market share gains from these insights will more than offset the incremental investment required to again lead the Canadian grocer loyalty landscape. In order to redefine the loyalty space, Loblaw will likely need to both re-launch and rebrand PC Points with its own dedicated card, from which it can derive the attach rates and insights to facilitate a tiered loyalty program (black is the new platinum) to drive a recovery of Loblaw’s market share.

New Canadian Shopper

An estimated 70% of Canadian consumer spending growth in the next decade is expected to come from visible minorities. From a retailer’s point of view, attracting young ethnic consumers becomes a priority as this is a relatively untapped sizable market segment with double-digit growth potential longer-term. Loblaw will, per management’s comments, place higher emphasis on attracting customers from a broader ethnic base by refining merchandising strategies targeting this large, growing and key demographic.
Company Overview

Loblaw Companies Ltd. is the largest Canadian-based grocer with in excess of 1,000 corporate (576) and franchised (451) stores, operating 22 banners through 4 distinct store formats, of which George Weston Limited is the controlling shareholder (~60% interest). Loblaw, with 2010A sales of $31.0 bn, in excess of 1,000 stores and a 29.9% grocery market share in Canada continues to dominate the grocery landscape. The Canadian grocery market, as reflected in the 55.2% market share of the big three, is both concentrated and relatively mature.

Loblaw’s largest company-owned and franchise banners are The Real Canadian Superstore with 110 stores, and No Frills with 191, which are run through 24 company-operated and 6 third-party-operated distribution centres. Loblaw’s key store formats are Superstores, Conventional, Hard Discount and Wholesale, and its two divisions are Conventional and Discount/Superstore.

While the company’s largest banners are the Real Canadian Superstore (superstore format) and No Frills (hard discount), the overall footprint remains weighted toward the Conventional format, which represents in excess of 55% of store count (42% of corporate stores and 58% of franchise stores). Exhibit 1 details Loblaw’s store banners, formats and ownership by geographic segment.

Exhibit 1: Loblaw Stores by Ownership and Geography

<table>
<thead>
<tr>
<th></th>
<th>West</th>
<th>Ontario</th>
<th>Quebec</th>
<th>Atlantic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>162</td>
<td>155</td>
<td>191</td>
<td>68</td>
</tr>
<tr>
<td>Franchise</td>
<td>60</td>
<td>291</td>
<td>48</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: Loblaw Companies Ltd., Raymond James Ltd.

A key differentiator of Loblaw’s model is its private label (control brand) positioning, leadership and real estate ownership.

With $8.2 bn in private label sales in 2010, which represented 26.9% of Loblaw’s sales and 67% of Canadian private label sales (estimated by Nielsen at $11.4 bn), the fact that Loblaw’s President’s Choice and no name private label brands are the #1 and #2 consumer packaged brands in Canada is not surprising.

This dominance, in our opinion, reflects not only Loblaw leading the Canadian market with the introduction of no name in 1978 followed by President’s Choice in 1984, but also the continued product innovation and private label strategy evolution, the consolidation of the Canadian grocery retailing landscape, and solid execution.

The evolution of Loblaw’s private label strategy is reflected in the launches of Exact (1985), Club Pack and PC GREEN (1989), PC Financial (1998), which offers a full-suite of financial services (anchored by its PC credit card franchise), PC Organics (2001), PC Home line (2002), Blue Menu (2005), PC Mobile (2005), which offers mobile services and prepaid long distance, Joe Fresh (2006) and most recently its premium private label offering, President’s Choice Black Label, which launched on September 22, 2011 with 213 products in 140 Loblaw stores in Ontario, Quebec, and Nova Scotia.

PC Black Label represents affordable indulgence and targets the so-called cross shopping between Loblaw stores, which range in price point and selection from hard discount (No Frills) to mass merchant (Real Canadian Superstores) and Loblaw conventional stores, and high-end specialty grocers the likes of Whole Foods Market, Pusateri’s and Urban Fare. Exhibit 2 details Loblaw’s total and private label sales through our forecast window.

Source: Loblaw Companies Ltd.
Loblaw, in contrast to its key Canadian peers, owns the majority of its real estate. As at the end of 2010, Loblaw owned 74% of its corporate and 46% of its franchise store real estate, which gives it incremental flexibility in managing its footprint (in addition to an asset with a carrying value of $5.9 bln).

The Financial Services segment, under the President’s Choice Financial banner, is a small (with estimated 2010 revenues of $523 mln, ~1.8% of total revenues) but critical element of Loblaw’s business, complete with the PC Financial® MasterCard® and the PC® Points rewards program. The President’s Choice Financial MasterCard is provided by President’s Choice Bank, while banking services are provided by the direct banking division of CIBC. PC Financial has 2 mln MasterCard customers. Loblaw’s Loyalty program (PC Points) is embedded in PC Financial, a reality we explore further in this initiation report.
Investment Thesis

Market Leader Among Canadian Grocers

Loblaw, with 2010A sales of $31.0 bln, in excess of 1,000 stores and a 29.9% grocery market share in Canada continues to dominate the grocery landscape, dwarfing its nearest national competitor Empire and its Sobeys chain with sales of $15.8 bln in F2011, 1,334 stores and a 14.4% market share. Metro is the third largest player in Canada with sales of $11.4 bln in F2011, 564 stores and 257 pharmacies, and a 10.9% market share (which is impressive in the context of its Quebec and Ontario only footprint). Wal-Mart Canada, with an estimated $4.4 bln in foods sales is the sixth largest player, behind both Safeway (Canada) and Costco. Exhibit 3 details the top ten food retailers in Canada based on their 2010A sales.

Exhibit 3: Sales of the Top Ten Canadian Grocers

<table>
<thead>
<tr>
<th>Retailer</th>
<th>Sales</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loblaw</td>
<td>$30.9 bln</td>
<td>29.9%</td>
</tr>
<tr>
<td>Empire</td>
<td>$15.8 bln</td>
<td>14.4%</td>
</tr>
<tr>
<td>Metro</td>
<td>$11.3 bln</td>
<td>10.9%</td>
</tr>
<tr>
<td>Safeway (Canada)</td>
<td>$6.4 bln</td>
<td>6.2%</td>
</tr>
<tr>
<td>Costco</td>
<td>$5.8 bln</td>
<td>5.6%</td>
</tr>
<tr>
<td>Wal-Mart Canada</td>
<td>$4.4 bln</td>
<td>4.3%</td>
</tr>
<tr>
<td>Co-ops</td>
<td>$3.4 bln</td>
<td>3.3%</td>
</tr>
<tr>
<td>Overwaitea Foods</td>
<td>$3.1 bln</td>
<td>3.0%</td>
</tr>
<tr>
<td>Couche-Tard</td>
<td>$1.3 bln</td>
<td>1.2%</td>
</tr>
<tr>
<td>Shoppers Drug Mart</td>
<td>$0.7 bln</td>
<td>0.7%</td>
</tr>
<tr>
<td>The North West Company</td>
<td>$0.7 bln</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Source: Company Reports, Canadian Grocer, Raymond James Ltd.

While Loblaw continues to dominate the grocery landscape, its market share has been under siege, with Wal-Mart Canada’s continued expansion and Empire and Metro’s refinements of their private label offerings, distribution efficiency improvements and banner consolidation, during a period in which Loblaw was (and remains) in the midst of a massive restructuring program. In a mature grocery business, where every basis point of share counts and driving efficiency through the network is critical, Loblaw had become vulnerable, in our opinion. Loblaw simply did not have the systems necessary to provide the data required to drive customer incremental insight into its core customers, or the infrastructure and systems to drive efficiencies in its store network.

In 2005, Loblaw launched an ambitious, and in our opinion critical, restructuring of its supply chain, merchandising, procurement and operations groups. Where previously capital expenditures had been concentrated on real estate grab and square footage growth, the focus shifted to infrastructure and systems.

Are We There Yet? Are We There Yet?

With some 263 systems, versus an industry norm of 80-plus systems, and with 160 supply chain restructuring milestones achieved in 2010 alone, the enormity and the imperative, that is the restructuring commenced in 2005, is glaring. As long and arduous as the road, which is now within 12-months of destination Target, proved to be, we believe the early wins are noteworthy, and the longer-term strategic and tactical value material. Loblaw’s scheduling efficiency, promotional forecasting, and availability have improved materially.
In 2005, the company initiated the execution of several transformative changes to its business including the restructuring of its supply chain network, reorganizations of its merchandising, procurement and operations groups, the establishment of a new national head office and Store Support Centre in Brampton, Ontario, which opened in the third quarter of 2005, and the relocation of general merchandise operations from Calgary, Alberta to the new head office and Store Support Centre. In 2005, Loblaw invested $62 mln in its supply chain restructuring and $24 mln in its merchandising, procurement, and operations groups.

In 2006, Loblaw closed 19 underperforming Quebec stores, mainly within the Provigo banner, 24 wholesale outlets, and 8 stores in the Atlantic region, resulting in a $35 mln fixed asset impairment, store closure, and employee termination costs charge. In addition, Loblaw invested a further $8 mln in its supply chain restructuring and $1 mln in the reorganization of merchant, procurement, and operations groups.

In 2007, Loblaw launched Project Simplify, which resulted in significant changes to the company’s structure and business processes, enhanced management’s ability to identify cost reduction opportunities in shrink, store labour, supply chain, and administrative expenses. A total of $197 mln was invested in Project Simplify, involving restructuring and streamlining of merchandising and store operations, of which $139 mln related to employee termination benefits including severance, additional pension costs resulting from the termination of employees and retention costs, and $58 mln largely for consulting. A further $9 mln was invested in the ongoing restructuring of the supply chain network and $16 mln in connection with the previously announced closure of certain stores in the Quebec and Atlantic markets and in the wholesale network that were part of store operations restructuring activities. Despite the magnitude of the 2007 restructuring investments, further cost reductions are required to help reverse the reduction in margins resulting from price promotional activities in an increasingly competitive grocery landscape.

In 2008, Loblaw invested $3 mln in Project Simplify (substantially completed in 2007) relating to the restructuring and streamlining of merchandise and store operations and $4 mln relating to supply chain and store closure restructuring initiatives.

In 2009, Loblaw invested an incremental $73 mln in its information technology supply chain initiatives. Through 2009, Loblaw had renovated and refreshed 267 stores, increased distribution capacity by 800,000 square feet, implemented warehouse management systems (WMS) and transport management systems (TMS), and an ERP system.

In 2010, with a number of key milestones reached, Loblaw committed an additional $185 mln to further ramp its supply chain and information technology capabilities and deploy its ERP solution, investing $142 mln during the year.

While the arduous road that is the Loblaw restructuring is now entering its final phases, with investments year-to-date of $137 mln and $23 mln in supply chain and distribution capabilities, respectively, they are also perhaps among the most critical. In 1Q11, Loblaw streamlined its ERP and significant systems implementations. In 2Q11, the next waves of the ERP implementation were rolled out, with one-third of its categories going live on the system. In 3Q11, Loblaw ran 70% of its volumes through its WMS and converted all merchandising category listings to SAP (i.e. the master SKU data is now on the system and retail pricing is now sourced from SAP). Loblaw will integrate merchandising and supply chain SAP functionality for its first store to go live in late 2012.
That Loblaw, despite the enormity and complexity of the restructuring initiatives undertaken since 2005, has not witnessed a more marked deterioration of its market share, speaks to both the strength of the franchise and its critical best-in-Canada private label portfolio, in our view. While cognizant of the risks associated with the final ERP integration, we believe that the Loblaw of 2013 will be better positioned than at any point in the last decade to bring the fight to existing and new competitors (Target in 2013) in the Canadian grocery market. Exhibit 4 details the market share of the top three grocers in Canada, and highlights how, after peaking at an estimated 32.3% in 2006, Loblaw’s market share declined to 29.9% through 2010.

**Exhibit 4: Market Share of Canada’s Top Three Grocers**

![Market Share Chart]

Source: Company Reports, Statistics Canada, Raymond James Ltd.

**President’s Choice and the Sophistication of Black**

With $8.2 bln private label sales in 2010, which represented 26.9% of Loblaw’s sales and 67% of Canadian private label sales (estimated by Nielsen at $11.4 bln), Loblaw’s President’s Choice and no name private label brands are the number one and two consumer packaged brands in Canada.

Globally, private label relative to National Brand share is positively correlated to grocer concentration levels, with share growth tailing consolidation. In Canada, where Loblaw commands a 29.9% market share and the top three grocers, combined, command a 55.2% market share, private label unit share penetration at 24.0% is well above the weighted global average of 14.9%, but significantly below that of the global leaders in Switzerland at 46%, the UK at 43%, and Germany at 32%, according to a March 2011 report by Nielsen, titled *The Rise of the Value-Conscious Shopper*.

A point worth noting is that in the UK meat and fresh produce are included in the definition of private label, whereas in Canada these categories are excluded. While including these categories in Canada would significantly narrow the delta versus the UK, the opportunity for further private label penetration remains material in Canada. Exhibit 5 details Private Label as a percentage of Loblaw’s sales through our forecast window, and Exhibit 9 details both the leading global grocers’ private label penetration and illustrates the potential opportunity for Loblaw.
Loblaw’s early investment in Private Label and the continued evolution of its strategy have secured it an enviable position within the Canadian market. Leveraging Loblaw’s best-in-Canada President’s Choice and no name banners, Loblaw’s subsidiary T&T Supermarket launched its own mainstream private label on October 14, 2011, which offers over 60 Asian cooking ingredients and home meal solutions. While Loblaw’s private label positioning is impressive, leading the Canadian market at 26.9%, the untapped opportunity in private label remains significant as evidenced by private label penetration rates of 52% in UK supermarkets according to the Nielsen report.

That grocery shoppers remain value focused, against even the relative strength of the Canadian economic recovery, is hardly surprising given the global headline contagion. According to the recently published report by Nielsen detailed above, 60% of Canadians indicated that their purchase of private label products increased during the recession, while 95% indicated that they will continue purchasing private label products post-recession. Exhibit 6 below depicts both Canadian and American consumer perception and purchase intent of private label products.

Exhibit 6: Consumer Perception of Private Label

Source: The Nielsen Company, Raymond James Ltd.
Loblaw’s private label products (with more than 8,000 products marketed under President’s Choice, no name, Blue Menu, Mini Chefs, etc.) have traditionally performed well, accounting for 26.9% of the company’s sales in 2010. Loblaw continues in its strategy to leverage its private label capabilities and scale with the launch of its Black Label line.

While, at first blush, *premium private label* sounds like an oxymoron, the reality (as evidenced most notably by Tesco’s success in the UK) is that it is the fastest growing segment within the private label category. Mainstream private label (President’s Choice) is expected to see growth leakage into both the premium (President’s Choice Black Label) and value segments (no name), in our view. In order to reach the 50% plus private label penetration levels of Tesco and Sainsbury’s, a proactive private label strategy driven by differentiation (value, mainstream, and premium private label) and consumer loyalty is necessary. In our opinion, managing and driving consumer loyalty in the grocery business is in the midst of a sea-change.

Loyalty is not simply about having a rewards program (more detailed discussion on loyalty programs can be found on page 13), but rather in the customer insights gleaned from the loyalty data and the laser focus that it provides to loyalty inducing incentives and programs.

The rapid expansion of discount/superstore, with $20 bln or two-thirds of Loblaw’s business at the lowest price point and with consumers cross shopping more on increased price sensitivity driving reduced banner loyalty (there is that word again, loyalty) gives further impetus to private label penetration and the imperative that is a tiered (value, mainstream, premium) private label portfolio strategy.

On September 13, 2011, Loblaw announced the launch of its premium private label banner, Black Label. The new line consists of 213 products marketed in 140 selected Loblaw stores in Ontario, Quebec, and Nova Scotia starting September 22, 2011. In our opinion, the billion dollar question on Black Label is: **Why did it take so long?**

PC Black Label represent affordable indulgence and targets the so-called *cross shopping* between Loblaw stores, which range in price point and selection from hard discount (*No Frills*) to mass merchant (*Real Canadian Superstores*) and Loblaw conventional stores, and high-end specialty grocers the likes of Whole Foods Market, Pusateri’s, and Urban Fare.

Given Loblaw’s leadership of the Canadian private label space and the proxy for the growth vector that is premium private label, as highlighted by the impressive growth in *Tesco Finest* provided since its launch in 1998, calling the launch *overdue* is polite, in our opinion. In F2001, *Tesco Finest* brand was a £350 mln business for Tesco; in F2011 (year-ended February 26, 2011), it was a £1.1 bln business for a 10-year CAGR of 12.1%.

In F2011, against the backdrop of the weak UK economy growth, *Tesco Finest* outpaced that of other areas of Tesco’s food range, with a 6.3% increase in sales. *Tesco Finest* (premium private label) and Value (budget private label) are the two largest food brands in the UK (larger than Coca-Cola), each with annual sales in excess of £1 bln. Tesco brand is Tesco’s mainstream private label offering for what is essentially a 3-tier strategy. Exhibit 7 details UK food and beverage brand sales.
Exhibit 7: Tesco’s Private Label versus National Brands Sales

<table>
<thead>
<tr>
<th>Product</th>
<th>UK Sales (£'bln) - 2010</th>
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</thead>
<tbody>
<tr>
<td>Tesco Finest</td>
<td>£1.1</td>
</tr>
<tr>
<td>Tesco Value</td>
<td>£1.1</td>
</tr>
<tr>
<td>Coca-Cola</td>
<td>£1.0</td>
</tr>
<tr>
<td>Warburtons</td>
<td>£0.7</td>
</tr>
<tr>
<td>Walkers Crisps</td>
<td>£0.5</td>
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</tbody>
</table>

Source: Tesco plc, Raymond James Ltd.

Premium private label (President’s Choice Black Label) is priced at a premium to national brands, leveraging not only the supermarket’s brand but also the unique attributes of the product (higher quality, regional appeal, seasonal nature). Through premium private label, Loblaw’s ultimate goal is primarily to drive increased customer loyalty, with the incremental margins from the offering being secondary, in our opinion (i.e. market share gains trump short-term margin gains). The launch of Black Label provided a much needed premium private label offering to Loblaw’s private label portfolio, and we believe has put in play a step change in the Canadian private label market dynamics. In the mainstream and budget private label world of old, the private label penetration rates of market leading grocers in Switzerland, the UK and Germany, seemed a step too far for Loblaw, as private label penetration appeared to have at best plateaued on a unit volume basis.

Despite Loblaw’s increased dollar value and maintenance of its leadership position in the private label market, and both Empire and Metro’s headway with their private label initiatives, private label dollar share in the broader market has been declining in Canada (highlighting the imperative that is the premium private label launch by Loblaw) since 2005, according to Nielsen. Exhibit 8 details the dollar value private label share in the Canadian market, which has declined from 19.3% in 2005 to 18.1% in 2010.

Exhibit 8: Percentage Market Share of Private Label Products

Source: The Nielsen Company, Raymond James Ltd.
Private label market share in the US has, in stark contrast, increased from 15.3% in 2005 to 17.4% in 2010. According to The PLMA Yearbook (a report published by Private Label Manufacturers Association), private label sales in US supermarkets increased by $1.2 bln in 2010, while national brand sales in the supermarket channel declined by $149 mln, highlighting that US consumers’ positive experience with private labels through the recession lead to increased store brand loyalty, driving gross margin expansion.

While, despite the declines, private label dollar share in Canada at 18.1% is above the global average, the trend is at odds with the increasing market share in most European and North American markets. The market share delta within the Canadian grocery retail space (with Loblaw at 26.9%), the big three Canadian grocers average of 22.9%, and the national average of 18.1%, highlights both the time in market of these banners (Loblaw launched no name in 1978) and the degree of concentration in Canadian grocery retailing with the top three commanding a 55.2% market share. Exhibit 9 details private label penetration of key global grocers.

**Exhibit 9: Grocer Private Label Penetration**

While premium private label is, in our opinion, a critical evolution of Loblaw’s private label strategy, the monetization of its leadership in the space will only be realized through truly granular consumer insights. These insights can only be achieved on a best in class ERP deployment, dovetailing with a refresh in Loblaw’s loyalty offering.

The monetization and leveraging of Loblaw’s loyalty, private label and market share positions, necessitates, in our opinion, a fundamental shift in Loblaw’s thinking around PC Points and the realization that in next generation loyalty programs, the value for Loblaw is in the data and for Loblaw’s customers in a free floating social (loyalty) currency. We believe that as the systems constraints lighten through our forecast window, Loblaw will be in a position to deliver a material refresh to its loyalty offering and consumer analytics offering.
PC Points Woefully Non-Presidential

Loblaw’s PC Points loyalty program with 2 mln MasterCard customer accounts, and $125 mln in PC Point rewards redeemed on an annual basis, is increasingly an anomaly in the Canadian loyalty landscape. While key competitors have both either recently introduced generation next loyalty programs (metro&moi) or refreshed their programs with conversion capabilities (Club Sobeys), PC points continues to: (1) require a customer to bank with PC Financial to become a member, (2) remain a monoline program with no conversion capability, and (3) lag in the analytics (and insight) component. Exhibit 10 details the big three grocer and Shoppers Drug Mart loyalty programs.

Exhibit 10: Canadian Grocer Loyalty Landscape

| Source: Company Reports, Raymond James Ltd. |

Loblaw’s PC Points loyalty program running over the MasterCard network (and attached to the PC Financial MasterCard), due in part, we believe, to the inherent previous systems limitations, made sense as it leveraged the integrity and integration of the MasterCard systems and network. However, we are of the opinion that the limitation to membership negatively impacts the perceived value of the currency. With Loblaw’s systems build and rollout (thankfully now finally inching closer to completion), it will finally have the systems to implement what, we believe, is a critical and long overdue evolution of the program allowing loyalty program (hopefully fully revisited) membership without being a PC Financial customer. This evolution, while critical, will not in and of itself restore the program’s lustre.
In our opinion, in order to restore the program’s lustre and insulate it against the imputed risks to the model of the interchange issues under review by the competition tribunal, Loblaw will need to, at a minimum, (1) offer a stand-alone PC Points Card, (2) consider currency conversion options into leading coalition loyalty programs, and (3) monetize the loyalty business through granular consumer insights.

Canadian grocers continue, in our opinion, to dramatically lag best-in-class loyalty offerings of key peers the likes of Tesco with its ClubCard and Sainsbury’s with its Nectar programs. Not only are Canadian programs on balance still focused on the currency not the data (i.e. limited analytics and monetization), but they are also laggards on the technology front (both Tesco and Nectar have smartphone loyalty in market). Tesco, in addition to good customer insights through its relationship with Dunhumby, has a large coalition partner network, which includes the conversion of ClubCard vouchers into Avios (British Airways’ rebranded Executive Club) points and a significant number of hotel chains. Sainsbury’s, in addition to good customer insights through its relationship with Intelligent Shopper Solutions (ISS) (the former Insight & Communication platform) of Aimia’s UK subsidiary, has a large coalition loyalty program under the Nectar banner.

As impressive as both the Tesco and Sainsbury’s loyalty and analytics offerings are, we believe that Dia’s (the low-cost Spanish grocery chain spun-off by Carrefour on July 5, 2011) is perhaps the best differentiated loyalty offering in the grocery space with a tiered (think frequent flyer) program and one that we suspect Loblaw’s CEO is intimately familiar with, given his Carrefour heritage.

In terms of Dia’s tiered loyalty program, customers allocating the greatest share of their grocery wallet to Dia are rewarded with incremental benefits and offers. While unlike Super Elite or Elite frequent flyers, Dia customers may not get to enter the store first, they will certainly have priority access to top tier offers and promotions not available to the occasional flyer (sorry grocery customer). The effectiveness of the program against the likes of Aldi and Lidl is evident in Dia’s market share data, which has proved resilient in the face of the entry of the discount giants. Perhaps the most surprising element of tiered grocery loyalty is that it is not the industry benchmark, which in our opinion likely reflects either relatively low loyalty attachment within grocers’ customer base, or less than optimal insights and analytics. The opportunity for Loblaw, in our opinion, is to redefine the Canadian grocery loyalty landscape, versus simply playing catch-up with key competitors in Sobeys, Metro, and looking into 2013, Target’s REDcard.

In our view, Loblaw should not just simply refresh its loyalty offering, but instead launch a next generation loyalty program that will move Loblaw from loyalty laggard to loyalty leader. The granular consumer insights and realisable market share gains from these insights will more than offset the incremental investment required to again lead the Canadian grocer loyalty landscape. In order to redefine the loyalty space, Loblaw will likely need to both re-launch and rebrand PC Points with its own dedicated card, from which it can derive the attach rates and insights to facilitate a tiered loyalty program (black is the new platinum) to drive a recovery of Loblaw’s market share. A Black Card for Loblaw’s most loyal customers would tie in nicely with the Black Label initiative, and provide a certain degree of cachet that would help drive share of wallet in the high-end of an increasingly high-low grocery market in Canada.

The challenges for Loblaw, we believe, are (1) the incremental cost (the current program is interchange funded), (2) the reality that the data from a stand-alone card might not be as rich as the data from the current MasterCard product, and (3) the reality that the grocery loyalty space is significantly more sophisticated and competitive in Canada than previously (hence the imperative to reinvent, not simply refresh).
Macro Overview, Key Themes and Industry Drivers

**Food Industry in Canada**

According to a recently published report by The Conference Board of Canada, *Valuing Food: The Economic Contribution of Canada’s Food Sector*, food expenditure constituted an estimated 16.4% of total Canadian consumption spending in 2010, which is roughly equivalent to $4,500 per person. Domestic food consumption also contributes to 7.4% of Canadian GDP.

In addition, Conference Board of Canada reported that in 2010, approximately $103.6 bln was spent on food and beverages, over 70% (or an estimated $73.7 bln) of which was attributed to supermarket and other grocery stores. Canadian food and beverage sales (including supermarkets and other grocery stores, convenience stores, specialty food stores, as well as liquor stores) represented 23.8% of total retail trade in 2010, as detailed in Exhibit 11.

**Exhibit 11: Food & Beverages as % of Retail Trade**

![Chart showing food & beverages as % of retail trade from 2005 to 2010](chart_image)

Source: Statistics Canada, Raymond James Ltd.

While Loblaw, Empire, and Metro command an impressive 55.2% market share, approximately $11.7 bln of food retail sales is attributed to convenience and specialty food stores. Despite the dominance of the top three players in the Canadian grocery space, non-traditional retailers’ entry into market has been facilitated by shifts in consumer preferences and convenience as a priority in the past decade.

Wal-Mart Canada has managed to lure consumers into its stores by lowering its prices and offering an increasingly convenient shopping experience, while other general merchandisers and drug stores have progressively increased their food offerings to capture a larger market share.

The Conference Board of Canada reported that in 2010, the share of Canadian food sales through general merchandise stores, drug stores, and gas stations was at 11.4%, 1.7% and 2.7%, respectively. Exhibit 12 details Loblaw’s share of Canadian retail sales and relative sales growth.
Total food store sales in Canada have experienced a steady rise over the past 10 years. Grocery chains’ share of overall revenue has increased from 57.2% in 2000 to 60.2% in 2010E (a 10-year 4.5% CAGR), while independents’ share has decreased from 42.8% to 39.8% (a 10-year 3.3% CAGR).

Pricing Paramount; Price Wars Problematic

Canadian consumers are price conscious when it comes to grocery shopping. In a survey conducted by the Conference Board of Canada, Canadians listed price as the single most important factor in purchasing both groceries and dining out. With the overall increases in food prices, the move towards the expansion of discount stores signifies the grocers’ response to consumers’ shift to lower-priced products.

Given the economic uncertainty that has led to significant changes in consumers’ behaviour and their purchasing patterns, pricing and brand management have become increasingly important for grocers.
According to a 2010 report by Agriculture and Agri-Food Canada, the North American grocery market experienced a 6% growth rate (CAGR) from 2003 to 2008, while the hypermarket channel experienced a 14% CAGR in the same 5-year period. Large format hypermarkets the likes of Costco and Wal-Mart Canada generated an estimated $8.0 bln in grocery sales for an estimated 7% share of Canada’s grocery retail sales in 2009.

Notwithstanding a highly promotional environment that has become the new normal in the past few years, some retailers have chosen to scale down their discounting activities. To offset the competitive forces, however, retailers moved towards enhancing their product offerings and customer service. Several grocers have revitalized their model to implement format diversification and channel variation to accommodate different demographics.

The headwinds of the changing face of the Canadian consumer, reduced brand loyalty, and ramp of key competitors’ food and general merchandise offerings, has dovetailed with, and further compounded, an already difficult pricing environment. While real disposable income per capita in Canada has experienced a 10-year CAGR of 3.3% as illustrated in Exhibit 15, the 5-year CAGR of 3.1% and the 3-year CAGR of 1.6% better reflect the competitive challenges that grocery retailers in particular are facing.
With real disposable income growth at a tepid 3.1% 5-year CAGR, the inflation sweet spot is more critical to hit, and ever harder to manage. Retailers on balance, and grocers in particular have been either unwilling (market share) or unable (competitive and promotional activity) to fully pass through pricing to consumers on inflationary pressures. Further compounding the challenges for grocers is that inflation in fresh, one of the most fiercely contested (and few growth nodes), continues to outpace the broader market, and transportation costs continue to climb.

Food from Stores Consumer Price Index (CPI) data imputes a 3.2% increase in food retail prices year-to-date, while the most recent comps from the three major grocers tell a story of a value-focused consumer and highly promotional environment. In Loblaw’s 3Q11 (ended October 8, 2011), with CPI of 4.9%, Loblaw reported SSS growth of 1.3% on estimated internal food inflation of 1.8% for a real SSS decrease of 0.5% (which reconciles with management’s commentary that while tonnage trends were slightly down, the trend was improving). Metro, in the quarter ended September 28, 2011 (its F4Q11) reported SSS growth of 3.2% on estimated internal food inflation of 2.5% for a real SSS increase of 0.7% (which reconciles with management commentary of increased tonnage). Empire, in the quarter ended November 5, 2011 (its F2Q12) reported SSS growth of 1.9% on estimated internal food inflation of 1.5%. Exhibit 16 details food CPI in Canada and SSS growth of the big three grocers, on a calendar-adjusted basis.

Exhibit 16: Food CPI and Big 3 Grocer SSS Growth

The challenge for the grocers is that despite grocery prices, per Statistics Canada, increasing 5.7% in November 2011 as consumers saw double-digit increases for such basics as fresh vegetables and bread, grocers’ internal food inflation on aggressive promotional activity continues to lag quite dramatically. This dynamic is further exacerbated in Loblaw’s case, where its trailing last twelve months internal food deflation has averaged approximately 0.5% versus Metro’s inflation at approximately 0.7%, due both to its continued market share losses (reduced grocery tonnage) and the higher percentage of discount (low price) sales (relative to Metro) competing head-to-head with Wal-Mart, which limits its ability to pass through price increases.

We believe Loblaw’s market share losses reflect the relative and absolute traction of Metro’s recent loyalty initiatives, and granular consumer insights (targeted promotions) against which Loblaw in the short- to medium-term does not have the tools to adequately respond, rather than Metro being a fundamentally better or more astute merchandiser.
The *New Canadian* Shopper and the *New* Canadian Shopper

The average Canadian consumer’s taste has evolved significantly over time. The proliferation of ethnic restaurants and supermarkets in larger cities, on the back of a growing number of immigrants, highlights the change in Canadian culinary culture. The strong influence of an immigrant-friendly culture has also paved the way for many new ethnic food products to be accepted and sold in Canada. The penchant for international cuisine has resulted in the mass population appreciation of ethnic ingredients and spices. Younger Canadians are becoming increasingly immersed into ‘world cuisine’ and accept and appreciate the diversity of food culture more readily than their parents’ generation. According to a report commissioned by Agriculture and Agri-Food Canada, titled *Canadian Food Trends to 2020*, Generation Y consumers (born in the 80s and early 90s) are more interested in the newest and most innovative products, and less focused on brand loyalty compared to their baby boomer parents.

Of note, Canada’s food guide is being revised to include more ethnic products to reflect the population diversity of more than 200 ethnic groups. Supermarket shelves are filled with Asian sauces and marinades as well as ethnic inspired ready-made dinners. While a number of these offerings are sometimes ‘westernized’ to meet the taste of the mass consumer, there is a fine line between developing and manufacturing private label ethnic products that can satisfy both natives and non-natives and ones that would tarnish the brand’s perception for those with a developed taste. The increasing demand for ethnic food in Canada provides a strong incentive for private label manufacturers to tap into this growing market. For instance, Canadian Grocer’s statistics suggest that Chinese Canadians source and consume about 20% of their meals out-of-home, while the national average lingers around 15%.

As such, it would be beneficial for grocers with established private label footprints (the likes of Loblaw), to further focus on offering packaged and prepared food that meets the needs of this growing segment of the population. On the 3Q11 conference call, management highlighted not only the expansion of its ethnic food offerings but also the migration of a select number of the top 50 Asian food items from T&T Supermarkets into other Loblaw banners. Under Statistics Canada’s reference scenario, the visible minority population will likely reach 7.7 mln by 2017 (or 22.2% of Canada’s population); by 2031, the number is expected to increase to 33%. Chinese and South Asians represent the largest visible minority group in Canada. Exhibit 17 below depicts the distribution of the foreign-born population by continent of birth.

**Exhibit 17: Distribution of the Foreign-Born Population by Continent of Birth**

![Exhibit 17](image)

Source: Statistics Canada, Raymond James Ltd.
In addition, Chinese and South Asian households are generally larger than the average Canadian household. According to Canadian Grocer, the average Canadian household has an estimated 2.6 people, while a Chinese Canadian household has 3.5 people and South Asian Canadian household 3.4 people. The dominance of these two minority groups, as illustrated in Exhibit 18, along with further increases in population of other minority groups provide strong incentives for national grocers like Loblaw to fight for bigger ethnic market share.


- **2006 - 32.5 mln**
  - Rest of the population, 83.7%
  - Visible Minority, 16.2%
  - Chinese, 3.9%
  - South Asian, 4.1%
  - Filippino, 1.3%
  - Latin American, 1.0%
  - Southeast Asian, 0.8%
  - Black, 2.5%
  - Arab, 0.8%

- **2031 - 42.1 mln**
  - Rest of the population, 69.4%
  - Visible Minority, 30.6%
  - Chinese, 6.4%
  - South Asian, 8.7%
  - Filippino, 2.4%
  - Latin American, 1.7%
  - Southeast Asian, 1.1%
  - Black, 4.3%
  - Arab, 2.2%
  - West Asian, 0.5%
  - Korean, 0.5%
  - Japanese, 0.3%
  - Other visible minorities, 0.7%

Source: Statistics Canada, Raymond James Ltd.

Concurrent with the arrival of Loblaw’s new President and CEO, Vicente Trius, Loblaw will, per management’s comments, place higher emphasis on attracting customers from a broader ethnic base by refining merchandising strategies targeting this large, growing, and key demographic.

An estimated 70% of Canadian consumer spending growth in the next decade is expected to come from visible minorities. In addition, given the strong emphasis on multiculturalism in Canada, visible minorities are less likely to conform to a Western diet or alter their food preferences. However, the challenge to attain and retain ethnic consumers lies in the minority group’s penchant to go to their local independent ethnic stores, where they can communicate their needs to the owner.

Of note, according to a report by USDA, titled *Canada Food Trends*, independent ethnic grocery stores account for between $4 bln and $5 bln of Canada’s $80 bln food industry. While some studies suggest that certain immigrant groups prefer to purchase ethnic food products at their ethnic community stores, and purchase other products at traditional supermarkets, with gas prices at current levels, consumers will likely try to avoid multiple supermarkets, if their needs are adequately met at their first stop supermarket.

According to Canadian Grocer (through a research study conducted by Solutions Research Group Consultants), Chinese Canadians purportedly spend approximately $136 on groceries weekly (~9% more than the average shopper in Toronto and Vancouver) while South Asian Canadians spend approximately 23% more than the average Canadian shoppers in metropolitan centres.

The visible minority groups are relatively younger than the general population (with median age around 33 versus general population median age of 39), as illustrated in Exhibit 19. From a retailer’s point of view, attracting these young ethnic consumers becomes a priority as this is a relatively untapped sizable market segment with double-digit growth potential longer-term.
Interestingly, based on a survey conducted by the Marketing Mirror titled *Grocery Shopping Habits of South Asian-Canadians*, an estimated 57% of South Asians purchase groceries at No Frills, followed by 36% at Food Basics, and 33% at Wal-Mart, as illustrated in Exhibit 20.

Loblaw's September 28, 2009 acquisition of Asian grocery chain T&T for $225 mln (approximately $180 mln of which was considered goodwill) confirmed Loblaw's commitment to capitalize on this growing demographic. Established in 1993 in Richmond, British Columbia, T&T has 21 stores nationwide as of September 2011 (8 in BC, 4 in AB, and 9 in ON).

As Canada's largest Asian food retailer with average store sizes of 35,000 sqft – 45,000 sqft, T&T offers primarily Chinese and Asian food products, as well as running an in-house bakery, Asian deli, and sushi and Chinese barbeque departments. Leveraging Loblaw’s real estate expertise and strong cash flow, T&T’s mandate to open additional stores in urban centres with the highest concentration of Asian population remains intact.
Population Growth & Diversity

Per Statistics Canada’s projections, Canada’s population will likely grow by 16.9% from 34.3 mln (as of 1Q11) to 40.1 mln by 2036 under a low-growth scenario (and 27.6% to 43.8 mln under the medium-growth scenario). Not surprisingly, Ontario and British Columbia’s population growth rates are expected to surpass Canada’s growth rate; Ontario will likely see its population grow 21% from 13.3 mln to 16.1 mln in 2036 (accounting for approximately 45% of national population growth), while British Columbia’s population is expected to grow 26% from 4.6 mln to 5.8 mln in 2036. The Canadian population is also aging; as the number of Canadians over the age of 65 is projected to reach 6.5 mln by 2020, food retailers will have to cater to older, more value-conscious customers with stricter dietary needs. However, according to a report commissioned by Agriculture and Agri-Food Canada titled *Canadian Food Trends to 2020*, the millennial generation (born in the 80s and the early 90s) is expected to significantly impact the Canadian food trends within the next 10 years.

Generation Y’s culinary taste and preferences will likely shape the future of the food landscape in Canada, as their penchant for reliable food information, healthy diet, as well as exotic and ethnic food would impact how food retailers change their marketing strategies going forward. In addition, the report also suggests that not only will millennial consumers be responsible for purchasing food for their newly formed families in the next decade, they will also view cooking and in-home dining as a hobby or social event rather than a mundane daily chore, which will in turn influence their grocery shopping behavior. Generation Y’s loyalty to a brand is more characterized as “an expression of individualism and lifestyle interest, not status.” While the latter has a positive implication for private label brands, as they will no longer be perceived as sub-brand, with the abundance of competitively priced ethnic, organic and exotic food products available in the market today, the challenge will, in our opinion, be to continuously revamp and recalibrate product.

Given the influx of warehouse stores and discount mass merchandisers into the Canadian market, traditional grocers’ mix of store formats as well as local assortments has changed dramatically. According to a 2010 study by the Nielsen Company, “product assortments, shopping ease and good value for money” are the top three categories that Canadians consider when it comes to selecting a supermarket. Exhibit 21 depicts the relationship between these attributes.

### Exhibit 21: Ranking of Supermarket Store Attributes

![Exhibit 21: Ranking of Supermarket Store Attributes](image-url)

Source: The Nielsen Company, Raymond James Ltd.
Competitive Landscape

Players in North American Food Retailing

Loblaw, with a 29.9% market share, dominates the Canadian grocery landscape. While key domestic competitors continue to take modest share (as illustrated by Metro’s tonnage increases versus Loblaw’s tonnage decrease) and the incremental competitive threat of Target are noteworthy headwinds, the reality in our opinion is that Loblaw has at its disposal a more impressive arsenal than is widely appreciated. The Canadian grocery retail and general merchandise industry has been undergoing significant changes since the launch of Wal-Mart Canada in 1994, a challenge which has been compounded by the increased focus by non-food retailers (i.e. drug store chains, gas stations, etc.) on offering more grocery and general merchandise items.

Exhibit 22: L-TSX - Historical Forward EV/EBITDA and Forward P/E

Source: Capital IQ, Raymond James Ltd.

According to the Conference Board of Canada, an estimated 11.4% of Canada’s food sales in 2010 came from the general merchandise channel, 2.7% through gas stations and 1.7% through drug stores. Below, we detail key competitors, milestones in the evolution of the grocery retail landscape, and chart their 5-year EV/EBITDA and PE multiples.

Empire (EMP.A-TSX)

Empire owns Sobeys and 51 Empire movie theatres in addition to a large commercial and residential real estate portfolio through Crombie REIT (40.4% ownership on a fully diluted basis) and Genstar Development partnership (~40% ownership). Sobeys operates over 1,300 stores nationwide under several banners including Sobeys, IGA, IGA extra, Thrifty Foods, Foodland, and FreshCo, as well as Lawtons Drug Stores. Subsequent to the purchase of the IGA franchise in 1998, Sobeys became the country’s second largest retailer, rivaling Loblaw. In F2011, 98% of Empire’s revenue was attributed to food retail sales, while the remaining 2% was attributed to real estates and other investments.

In terms of private label, Sobeys’ multi-tiered private label Compliment, which was launched in 2005, consists of several sub-categories including Sensations by Compliments (premium-tier launched in November 2005), Compliment (which is the national-brand equivalent) and Signal (lower-price brand which replaced Compliments Value in 2010). The brand also includes a number of sub-brands, namely Compliments Balance, Compliments Organic, Compliments Collection, Compliments Green Care, and Compliments Junior. Sobeys rebranded its own private label Our Best subsequent to the acquisition of Oshawa Group (IGA) and adopted IGA’s Our Compliments brand.
Metro operates a network of over 600 food stores under a number of banners (including Metro, Metro Plus, Super C, and Food Basics) in addition to 250 drugstores (under the Brunet, The Pharmacy, and Drug Basics banners). With the majority of the stores concentrated in Ontario and Quebec, Metro is the third largest Canadian grocer after Loblaw and Empire.


Metro’s portfolio of private brands now consists of two main brands, Irresistibles and Selection, with more than 4,000 products. Irresistibles brand include organic, health, gluten-free and certified peanut-free products, while the Life Smart/Mieux-être line (as part of Irresistibles) claims that its products contain prebiotics, probiotics, Omega-3, inulin and antioxidants, adhering to certain health guidelines.

The Selection line, which consists of over 2,000 items, offers health and beauty products under eco brand. In addition, a variety of pharmaceutical products, including over-the-counter medications and personal hygiene products, are sold under the Selection brand.

Metro’s loyalty program, metro&moi, in terms of which points are earned at the rate of 1 point for every dollar spent by either swiping your card or fob, are automatically converted every 3 months into rewards in the form of coupons mailed directly to members by Metro or reward dollars loaded onto metro&moi member cards. While the rewards are only valid for 12 months from the date issued, which drives low breakage, we believe it is proving effective in securing incremental market share (i.e. the dollar versus point denominated reward resonates with customers). In addition, Metro in partnering with Dunhumby, has a compelling data analytics capability (further supporting market share gains) within the Canadian grocer space. The program, since its launch in April of 2010, has enjoyed considerable traction securing in excess of 1 mln members and issuing in excess of $26 mln in reward coupons.
Wal-Mart (WMT-NYSE)

Wal-Mart Canada was established through the 1994 acquisition of Woolco’s 122 stores and as of October 31, 2011, had 150 Supercentres and 179 discount stores in Canada (discount stores’ sizes range from 51,000 sqft to 150,000 sqft, with an average store size of approximately 102,000 sqft). An estimated 50% of Wal-Mart Canada’s 333 stores include a full grocery offering. On September 23, 2011, Wal-Mart Canada announced that it had completed the acquisition from Target Canada of the leases for 39 store locations (19 in Ontario, 8 in Quebec, 6 in Alberta, 1 in BC and 5 in Maritimes) currently occupied by Zellers, which will open as Wal-Mart stores in late 2012, with a mix of discount stores and full-grocery Supercentres. On June 15, 2010, Wal-Mart Canada Bank (WMCB) was launched, competing with President’s Choice Financial and Canadian Tire Financial Services.

In June of 2011, Wal-Mart Canada announced the launch of its new store format Urban 90, which is essentially a smaller version of its supercentre format, following the company’s success in the US with its Wal-Mart Express and smaller 42,000 sqft “Neighbourhood Market” store formats. Urban 90 stores, with a focus on urban centres and specific community needs, are expected to be approximately 15,000 sqft in size. That Wal-Mart’s fresh food presence is having a real impact on the fresh food business is well documented. Wal-Mart’s strategy in Canada entails increasing market share through aggressive ramp-up and square footage growth, as well as driving traffic on a more frequent basis through fresh food offering at the expense of its competitors. However, despite the plan to launch these smaller format stores, the majority of Wal-Mart Canada’s growth will be spurred by further development of its larger, Supercentres stores. As part of its pricing strategy, Wal-Mart Canada tracks the price of an estimated 2,000 products on a weekly basis and compares them against 56 different competitors, to adhere to its popular “Everyday Low Prices” strategy, which according to Canadian Grocer, translates into average Wal-Mart pricing approximately 12% lower than industry prices.

In terms of private label products, Wal-Mart markets an array of the company brands, whose sales have grown increasingly over the years. Per management, Wal-Mart Canada will further focus on private labels, which will likely experience a double-digit growth in the coming years. Wal-Mart’s two-tiered grocery private brands include the top tier Sam’s American Choice brand (introduced in 1991), and the larger second tier Great Value brand (introduced in 1993) as national brand equivalent. Sam’s Choice products are primarily offered at a price comparable to national brands’ and often in
categories dominated by iconic national brands. In contrast, the company’s top-selling Great Value brand’s strategy principally focuses on the pricing of the discounted staple items (not manufactured by Wal-Mart).

Exhibit 25: WMT-NYSE - Historical Forward EV/EBITDA and Forward P/E

![Graph showing historical Forward EV/EBITDA and Forward P/E for WMT-NYSE]

Source: Capital IQ, Raymond James Ltd.

**Target (TGT-NYSE)**

Target Corporation operates more than 1,750 stores in the US (with an average size of ~115,000 square feet), including 240 SuperTarget stores (which feature grocery, in-store bakery, deli, meat and produce sections). In addition, Target also has a new store prototype (about 100 stores in the US with a focus on more fresh food in the general merchandise stores, which offers basic essentials including fresh produce and fresh meat, comprehensive dry, dairy and frozen food assortments). Target’s launch in Canada will further pressure existing merchandisers given consumers’ affinity for the Targèt brand, in our view.

On September 23, 2011, Target announced its plans to partner with Sobeys, in which Sobeys will supply Target with various national brand and private label products (including frozen, dairy, and dry grocery products) through its Canadian network of 23 distribution centres to facilitate Target’s entry into the Canadian market (Target is expected to open 125 to 135 stores in Canada starting March 2013). The arrival of Target in 2013 represents a step-function change in the competitive dynamics of the Canadian retail landscape, of a magnitude not witnessed since the 1994 arrival of Wal-Mart. On January 5, 2012, Target announced the location of its first 24 stores in Ontario, which are expected to open in March or early April of 2013 (with an estimated $11 mln remodeling cost). The majority of Target’s planned stores will be located within a 5 km radius of Loblaw-affiliated stores as depicted in Exhibit 26.
Competing for a larger share of the grocery market, Target will likely set up its Canadian store in a PFresh format, which is currently being rolled out in the US and offers a limited number of core food products (versus its SuperTarget format which has a broader selection of food products and is generally larger in size). The PFresh store prototype, developed in 2009 is a smaller supermarket which excludes in-house bakery or deli, (while carrying a small number of baked goods and pre-packed deli items). PFresh products were heavily concentrated on Target's owned-brand products such as Archer Farms and Market Pantry. Based on the initial prototypes introduced by Target, a PFresh store is, on average, approximately 1,500 sqft larger than an average Target store. Target's other private label banners include up & up, Sutton & Dodge, and electronics brand Trutech.

Target, which has had its own credit cards for years, introduced a 5% discount for REDcard holders as it works on increasing shopper loyalty and getting them to buy more when they visit. In excess of 9% of sales now come from REDcard holders, and that could rise to more than 12% in 2013 according to management. Interestingly, more than 30,000 Canadians already have REDcards despite the fact that Target’s first Canadian store will only open in 2013. Exhibit 26 below illustrates Target’s historical Forward EV/EBITDA and historical P/E.
Exhibit 27: TGT-NYSE - Historical Forward EV/EBITDA and Forward P/E

Source: Capital IQ, Raymond James Ltd.

Kroger (KR-NYSE)

Kroger is the largest grocery store chain in the US (and only second to Wal-Mart in retail sales) with 2,439 supermarkets, 796 convenience stores, 363 jewelry stores, 1,067 Supermarket fuel centres, and 1,964 pharmacies as of November 5, 2011.

Kroger Supermarkets (~86% of base) are most commonly combination stores, featuring complete supermarkets and pharmacies. The average size for these supermarkets is usually 60,000 sqft to 65,000 sqft. Multi-department stores (5% of base) are operated under the Fred Meyer banner, which average around 165,000 sqft in size, offer food, apparel and home products under one roof. Marketplace stores (~3% of base) are generally smaller than multi-department stores at 100,000 sqft to 130,000 sqft on average and exclude apparel departments. Price-impact warehouse stores (~6% of store base) are on average 57,000 sqft in size.

While Kroger carries inventories of a variety of regional and national brand products, it also has over 20,000 private label products constituting approximately 27% of Kroger’s grocery dollar sales and approximately 35% of grocery unit sales. Kroger’s private label strategy has three tiers (mirroring that of leading global grocers) under: (1) Kroger Value Brand, (2) Banner Brands, and (3) Private Selection, which is comparable to gourmet brands. Exhibit 26 illustrates Kroger’s historical Forward EV/EBITDA.
Exhibit 28: KR-NYSE Historical Forward EV/EBITDA

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Source: Capital IQ, Raymond James Ltd.

Safeway (SWY-NYSE)

Safeway is the second largest grocery chain in North America (only second to Kroger) with 1,724 stores across the US and Canada. Safeway also operates GroceryWorks.com, which is an online grocery channel, conducting business under Safeway.com, Vons.com, and Genuardis.com. In addition, the company operates an estimated 156 supermarket in Western Mexico, through its 49% ownership interest in Casa Ley, S.A. de C.V.

With nearly 13% of its store network in Canada (mostly concentrated in Alberta and British Columbia), Safeway established a valuable footprint in the Western Canadian market (largely through the 179 stores acquired from Piggly Wiggly in 1935). Safeway’s private label penetration is among the highest in the North American market, thanks to its signature private label, Safeway Select. In addition, Safeway launched a new private label line, O Organics, offering organically grown and processed products. Exhibit 29 below illustrates Safeway’s historical Forward EV/EBITDA.

Exhibit 29: SWY-NYSE Historical Forward EV/EBITDA

<table>
<thead>
<tr>
<th>Jan-07</th>
<th>Jan-08</th>
<th>Jan-09</th>
<th>Jan-10</th>
<th>Jan-11</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward EV/EBITDA</td>
<td>Avg</td>
<td>High</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>LTM</td>
<td>5.0x</td>
<td>5.6x</td>
<td>4.3x</td>
<td></td>
</tr>
<tr>
<td>3-Year</td>
<td>5.4x</td>
<td>5.9x</td>
<td>4.3x</td>
<td></td>
</tr>
<tr>
<td>5-Year</td>
<td>6.1x</td>
<td>7.8x</td>
<td>4.3x</td>
<td></td>
</tr>
</tbody>
</table>

Source: Capital IQ, Raymond James Ltd.
Supervalu (SVU-NYSE)

Supervalu is the third largest supermarket in the US, behind Kroger and Safeway, with 1,113 traditional retail stores (including 805 in-store pharmacies), 1,280 hard-discount stores (899 of which are franchise stores), and 2,700 independent locations. The traditional retail food stores (operated under various banners including the Acme, Albertsons, Cub Foods, Farm Fresh, Hornbacher’s, Jewel-Osco, Lucky, Shaw’s, Shop ‘n Save, Shoppers Food & Pharmacy, and Star Market) range in size from 40,000 sqft to 60,000 sqft, offering grocery, general merchandise, beauty care, pharmacy and fuel.

Supervalu’s multi-tiered private brand product line include >5,000 items in food and general merchandise with multiple price points. Certain brands like Shoppers Value are entry-level private brands, while an array of other national brand equivalent private brands will be replaced with a single national private brand Essential Everyday on a rolling basis. Supervalu has also a top-tier private brand family that includes Wild Harvest, Culinary Circle, Java Delight and Stockman & Dakota. Exhibit 30 below illustrates Supervalu’s historical Forward EV/EBITDA.

Exhibit 30: SVU-NYSE Historical Forward EV/EBITDA

Source: Capital IQ, Raymond James Ltd.

Whole Foods Market (WFM-NASDAQ)

Whole Foods Market chain focuses on offering natural and organic food in the US, Canada and the UK, and is considered one of the world’s largest natural and organic supermarkets. Whole Foods’ growth strategy relied on its ability to differentiate itself from other grocers by offering a unique value proposition, leveraging the growing demand for organic products in the past two decades, as US sales of organic food and beverages grew from US$1 bln in 1990 to US$26.7 bln in 2010, according to Organic Trade Association’s 2011 Organic Industry Survey.

Despite the rising food prices, the latest Annual Food Shopping Trends Tracker Survey conducted in August of 2011 found that about three quarter of respondents said that they “would not compromise on the quality of the food they buy”. With more than 2,000 SKUs, Wholefood’s private labels, 365 Everyday Value and 365 Organic Everyday Value, offer a wide variety of product categories and less expensive organic choices. In addition, through its Whole private brands, the company targets ethnic consumers.
Exhibit 31: WFM-NASDAQ Historical Forward EV/EBITDA and Forward P/E

Source: Capital IQ, Raymond James Ltd.
Financial Analysis & Outlook

Through our forecast window, we expect continued solid earnings growth from Loblaw. We believe the top-line growth on the back of Loblaw’s leading market share could be further accelerated by higher food prices through our forecast window to 2013E. We further believe that Loblaw has a strong balance sheet and solid free cash flow generation.

Sales

Our sales estimates of $31.1 bln, $31.7 bln and $32.4 bln in 2011E, 2012E and 2013E, respectively, are underpinned by our sales growth assumption of 0.9%, 1.9% and 2.1%, respectively, and same-store sales growth of 0.5%, 1.5% and 1.7%, respectively.

Gross Margins

Our gross margin estimates are at 23.8%, 24.1%, and 24.5%, in 2011E, 2012E, and 2013E, respectively. Our gross margin estimates drive gross profit of $7.4 bln, $7.6 bln, and $7.9 bln in 2011E, 2012E, and 2013E, respectively. Our gross margins assumptions reflect our expectation for the implementation of the ERP system to have a favourable impact on gross margins commencing 1H12E.

EBITDA

Our 2011E, 2012E, and 2013E EBITDA estimates are $2.1 bln, $2.2 bln, and $2.4 bln, respectively, which are based on EBITDA margins of 4.5%, 4.7% and 5.1%, respectively, representing year-over-year growth of 6.3%, 5.4% and 7.5% through our forecast window.

Through our forecast window to 2013E, we expect EBITDA margins to further improve based on the operational efficiencies, as the company’s IT infrastructure initiatives gain traction. Our SG&A dollars for 2011E, 2012E and 2013E are $6.0 bln, $6.1 bln, and $6.3 bln for SG&A margins of 19.3%, 19.3%, and 19.4%, respectively.

EPS

Our diluted EPS estimates for 2011E, 2012E and 2013E are $2.76, $3.01 and $3.46, respectively, based on an assumed 28% effective tax rate in 2011 and 27% effective tax rate through our forecast window.

Dividends

Loblaw paid an annual dividend of $0.84/share for the past five years. While Loblaw’s current dividend yield of 2.3% is higher than its competitors (Metro at 1.5% and Empire at 1.6%), its dividend per share growth rate (0% over the past 5 years) significantly lags Metro’s 5-year CAGR of 10.7% and Empire’s 6.4%. While management’s objective is to maintain its dividend payment ratio in the range of 20% - 25% of the prior year EPS, we believe that there is a potential for further dividend increases.
Valuation & Recommendation

Our Loblaw valuation is derived from the average of our 14.0x P/E and 8.0x EV/2012E EBITDA valuations of $42.14 and $46.42, respectively, which imputes a $44.28 valuation on Loblaw. We initiate coverage of Loblaw with an Outperform rating and a 6-12 month target price of $44.00.

P/E Valuation Methodology

We apply a target P/E multiple of 14.0x our 2012E EPS estimate of $3.01, which is essentially in-line with both peers (Empire and Metro), but at a modest discount to Loblaw’s 5-year average of 16.0x. In our opinion the discount versus the 5-year average is appropriate given the inflection point in Loblaw’s model and the risks associated with the final ERP integration.

Exhibit 32: Loblaw Forward P/E Valuation

![Graph showing forward P/E valuation over time]

Source: Capital IQ, Raymond James Ltd.

Exhibit 33 depicts our sensitivity matrix for a range of P/E multiples from 13.0x to 15.0x for imputed valuations of $39.13 - $45.15 based on our 2012E EPS of $3.01.

Exhibit 33: P/E Sensitivity Matrix

<table>
<thead>
<tr>
<th>EPS ($)</th>
<th>13.0x</th>
<th>13.5x</th>
<th>14.0x</th>
<th>14.5x</th>
<th>15.0x</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.91</td>
<td>$37.83</td>
<td>$39.29</td>
<td>$40.74</td>
<td>$42.20</td>
<td>$43.65</td>
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<tr>
<td>$2.96</td>
<td>$38.48</td>
<td>$39.96</td>
<td>$41.44</td>
<td>$42.92</td>
<td>$44.40</td>
</tr>
<tr>
<td><strong>$3.01</strong></td>
<td><strong>$39.13</strong></td>
<td><strong>$40.64</strong></td>
<td><strong>$42.14</strong></td>
<td><strong>$43.65</strong></td>
<td><strong>$45.15</strong></td>
</tr>
<tr>
<td>$3.06</td>
<td>$39.78</td>
<td>$41.31</td>
<td>$42.84</td>
<td>$44.37</td>
<td>$45.90</td>
</tr>
<tr>
<td>$3.11</td>
<td>$40.43</td>
<td>$41.99</td>
<td>$43.54</td>
<td>$45.10</td>
<td>$46.65</td>
</tr>
</tbody>
</table>

Source: Raymond James Ltd.

EV/EBITDA Valuation Methodology

While we are cautious on the magnitude of further EBITDA margin expansion (given the risks associated with the implementation of the key initiatives), we do however believe that Loblaw can increase its EBITDA margins. Our 8.0x multiple (essentially in-line with the 5-year average of 8.1x) is, we believe, prudent. On this basis, applying an 8.0x multiple to our 2012E EBITDA of $2,234 mln imputes a valuation on Loblaw of $46.42.
Exhibit 34: Loblaw Forward EV/EBITDA

Source: Capital IQ, Raymond James Ltd.

We have provided a sensitivity table in Exhibit 35 for a range of EBITDA multiples from 7.0x - 9.0x for imputed valuations of $38.72 - $54.13 based on our 2012E EBITDA of $2,234 mln.

Exhibit 35: EV/EBITDA Sensitivity Matrix

<table>
<thead>
<tr>
<th>EBITDA (S$m)</th>
<th>7.0x</th>
<th>7.5x</th>
<th>8.0x</th>
<th>8.5x</th>
<th>9.0x</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2,214</td>
<td>$38.23</td>
<td>$42.05</td>
<td>$45.87</td>
<td>$49.69</td>
<td>$53.51</td>
</tr>
<tr>
<td>$2,224</td>
<td>$38.48</td>
<td>$42.31</td>
<td>$46.15</td>
<td>$49.98</td>
<td>$53.82</td>
</tr>
<tr>
<td>$2,234</td>
<td>$38.72</td>
<td>$42.57</td>
<td>$46.42</td>
<td>$50.28</td>
<td>$54.13</td>
</tr>
</tbody>
</table>

Source: Raymond James Ltd.

Exhibit 36: Peer Group Comparison

Source: Capital IQ, Raymond James Ltd.

We have provided a sensitivity table in Exhibit 35 for a range of EBITDA multiples from 7.0x - 9.0x for imputed valuations of $38.72 - $54.13 based on our 2012E EBITDA of $2,234 mln.

Exhibit 35: EV/EBITDA Sensitivity Matrix

<table>
<thead>
<tr>
<th>EBITDA (S$m)</th>
<th>7.0x</th>
<th>7.5x</th>
<th>8.0x</th>
<th>8.5x</th>
<th>9.0x</th>
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</thead>
<tbody>
<tr>
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<td>$42.05</td>
<td>$45.87</td>
<td>$49.69</td>
<td>$53.51</td>
</tr>
<tr>
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<td>$42.31</td>
<td>$46.15</td>
<td>$49.98</td>
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<tr>
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<td>$42.57</td>
<td>$46.42</td>
<td>$50.28</td>
<td>$54.13</td>
</tr>
</tbody>
</table>

Source: Raymond James Ltd.

Exhibit 36: Peer Group Comparison

Source: Capital IQ, Raymond James Ltd.

We have provided a sensitivity table in Exhibit 35 for a range of EBITDA multiples from 7.0x - 9.0x for imputed valuations of $38.72 - $54.13 based on our 2012E EBITDA of $2,234 mln.

Exhibit 35: EV/EBITDA Sensitivity Matrix

<table>
<thead>
<tr>
<th>EBITDA (S$m)</th>
<th>7.0x</th>
<th>7.5x</th>
<th>8.0x</th>
<th>8.5x</th>
<th>9.0x</th>
</tr>
</thead>
<tbody>
<tr>
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<td>$38.23</td>
<td>$42.05</td>
<td>$45.87</td>
<td>$49.69</td>
<td>$53.51</td>
</tr>
<tr>
<td>$2,224</td>
<td>$38.48</td>
<td>$42.31</td>
<td>$46.15</td>
<td>$49.98</td>
<td>$53.82</td>
</tr>
<tr>
<td>$2,234</td>
<td>$38.72</td>
<td>$42.57</td>
<td>$46.42</td>
<td>$50.28</td>
<td>$54.13</td>
</tr>
</tbody>
</table>

Source: Raymond James Ltd.

Exhibit 36: Peer Group Comparison

Source: Capital IQ, Raymond James Ltd.
### Appendix A: Financial Statements

#### Exhibit 37: Loblaw Income Statement (C$ ‘mln)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>30,735</td>
<td>30,836</td>
<td>6,872</td>
<td>7,278</td>
<td>9,727</td>
<td>7,251</td>
<td>31,128</td>
<td>31,707</td>
<td>32,374</td>
</tr>
<tr>
<td><strong>Cost of Merchandise Inventories Sold</strong></td>
<td>23,539</td>
<td>23,534</td>
<td>5,203</td>
<td>5,533</td>
<td>7,494</td>
<td>5,493</td>
<td>23,723</td>
<td>24,072</td>
<td>24,449</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>7,196</td>
<td>7,302</td>
<td>1,669</td>
<td>1,745</td>
<td>2,233</td>
<td>1,757</td>
<td>7,404</td>
<td>7,635</td>
<td>7,925</td>
</tr>
<tr>
<td><strong>Gross Margins %</strong></td>
<td>23.4%</td>
<td>23.7%</td>
<td>24.3%</td>
<td>24.0%</td>
<td>23.0%</td>
<td>24.2%</td>
<td>23.8%</td>
<td>24.1%</td>
<td>24.5%</td>
</tr>
<tr>
<td><strong>Selling, General and Administrative Expenses</strong></td>
<td>5,402</td>
<td>5,955</td>
<td>1,366</td>
<td>1,400</td>
<td>1,812</td>
<td>1,419</td>
<td>5,997</td>
<td>6,129</td>
<td>6,266</td>
</tr>
<tr>
<td><strong>Operating Income</strong></td>
<td>1,205</td>
<td>1,177</td>
<td>303</td>
<td>345</td>
<td>421</td>
<td>339</td>
<td>1,408</td>
<td>1,506</td>
<td>1,659</td>
</tr>
<tr>
<td><strong>Depreciation &amp; Amortization</strong></td>
<td>589</td>
<td>646</td>
<td>152</td>
<td>159</td>
<td>218</td>
<td>182</td>
<td>711</td>
<td>728</td>
<td>743</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>1,794</td>
<td>1,993</td>
<td>455</td>
<td>504</td>
<td>639</td>
<td>52I</td>
<td>2,119</td>
<td>2,234</td>
<td>2,402</td>
</tr>
<tr>
<td><strong>EBITDA Margin %</strong></td>
<td>3.9%</td>
<td>3.8%</td>
<td>6.6%</td>
<td>6.9%</td>
<td>6.6%</td>
<td>7.2%</td>
<td>4.5%</td>
<td>4.7%</td>
<td>5.1%</td>
</tr>
<tr>
<td><strong>SG&amp;A Margin %</strong></td>
<td>17.6%</td>
<td>19.3%</td>
<td>19.9%</td>
<td>19.2%</td>
<td>18.6%</td>
<td>19.6%</td>
<td>19.3%</td>
<td>19.3%</td>
<td>19.4%</td>
</tr>
<tr>
<td><strong>Interest expense and other financing charges</strong></td>
<td>(273)</td>
<td>(450)</td>
<td>(104)</td>
<td>(103)</td>
<td>(132)</td>
<td>(82)</td>
<td>(421)</td>
<td>(421)</td>
<td>(403)</td>
</tr>
<tr>
<td><strong>Interest and Investment Income</strong></td>
<td>8</td>
<td>81</td>
<td>31</td>
<td>25</td>
<td>37</td>
<td>12</td>
<td>105</td>
<td>110</td>
<td>119</td>
</tr>
<tr>
<td><strong>Net Interest Exp.</strong></td>
<td>(269)</td>
<td>(353)</td>
<td>(73)</td>
<td>(78)</td>
<td>(95)</td>
<td>(70)</td>
<td>(316)</td>
<td>(311)</td>
<td>(285)</td>
</tr>
<tr>
<td><strong>EBT Excl. Unusual Items</strong></td>
<td>936</td>
<td>1,640</td>
<td>230</td>
<td>267</td>
<td>326</td>
<td>269</td>
<td>1,092</td>
<td>1,195</td>
<td>1,374</td>
</tr>
<tr>
<td><strong>Restructuring Charges</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Impairment of Goodwill</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other Unusual Items</strong></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>EBT Incl. Unusual Items</strong></td>
<td>936</td>
<td>1,640</td>
<td>230</td>
<td>267</td>
<td>326</td>
<td>269</td>
<td>1,092</td>
<td>1,195</td>
<td>1,374</td>
</tr>
<tr>
<td><strong>Income Tax Expense</strong></td>
<td>269</td>
<td>319</td>
<td>68</td>
<td>70</td>
<td>90</td>
<td>74</td>
<td>302</td>
<td>332</td>
<td>371</td>
</tr>
<tr>
<td><strong>Earnings from Cont. Ops.</strong></td>
<td>667</td>
<td>1,321</td>
<td>162</td>
<td>197</td>
<td>236</td>
<td>195</td>
<td>790</td>
<td>873</td>
<td>1,003</td>
</tr>
<tr>
<td><strong>Effective Tax Rate %</strong></td>
<td>28.7%</td>
<td>19.5%</td>
<td>29.6%</td>
<td>26.2%</td>
<td>27.6%</td>
<td>27.5%</td>
<td>27.7%</td>
<td>27.0%</td>
<td>27.0%</td>
</tr>
<tr>
<td><strong>Minority Interests</strong></td>
<td>(11)</td>
<td>(18)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net Income</strong></td>
<td>656</td>
<td>681</td>
<td>162</td>
<td>197</td>
<td>236</td>
<td>195</td>
<td>790</td>
<td>873</td>
<td>1,003</td>
</tr>
<tr>
<td><strong>Basic EPS</strong></td>
<td>$2.39</td>
<td>$2.43</td>
<td>$0.58</td>
<td>$0.70</td>
<td>$0.84</td>
<td>$0.69</td>
<td>$2.81</td>
<td>$3.10</td>
<td>$3.56</td>
</tr>
<tr>
<td><strong>Diluted EPS</strong></td>
<td>$2.38</td>
<td>$2.38</td>
<td>$0.56</td>
<td>$0.69</td>
<td>$0.83</td>
<td>$0.67</td>
<td>$2.76</td>
<td>$3.01</td>
<td>$3.46</td>
</tr>
</tbody>
</table>

Source: Loblaw Companies Ltd., Raymond James Ltd.
### Exhibit 38: Loblaw Statement of Cash Flows (C$ ‘mln)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>665</td>
<td>665</td>
<td>790</td>
<td>873</td>
<td>1,003</td>
</tr>
<tr>
<td>Income taxes</td>
<td>-</td>
<td>243</td>
<td>228</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Net interest expense and other financing charges</td>
<td>-</td>
<td>270</td>
<td>246</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>589</td>
<td>629</td>
<td>711</td>
<td>728</td>
<td>743</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>-</td>
<td>(217)</td>
<td>(162)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest received</td>
<td>(33)</td>
<td>74</td>
<td>42</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Change in non-cash working capital</td>
<td>707</td>
<td>296</td>
<td>(182)</td>
<td>(520)</td>
<td>(646)</td>
</tr>
<tr>
<td>Fixed assets and other related impairments</td>
<td>36</td>
<td>69</td>
<td>9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>14</td>
<td>20</td>
<td>(22)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cash Flows from Operating Activities</strong></td>
<td>1,978</td>
<td>2,049</td>
<td>1,660</td>
<td>1,081</td>
<td>1,100</td>
</tr>
</tbody>
</table>

| **Investing Activities** |       |       |       |       |       |
| Fixed asset purchases | (971) | (1,206) | (990) | (900) | (900) |
| Short term investments | (181) | (394) | (33) | - | - |
| Proceeds from fixed asset sales | 27 | 90 | 51 | - | - |
| Franchise investments and other receivables | - | (17) | 3 | - | - |
| Security deposits | - | (109) | 177 | - | - |
| Other | 103 | (22) | - | - | - |
| Cash acquisitions | (204) | - | - | - | - |
| Sale (purchase) of intangible assets | 6 | 2 | - | - | - |
| Investment in marketable & equity securities | (181) | (215) | - | - | - |
| Net (increase) decrease in loans originated/sold | 8 | (138) | - | - | - |
| Other investing activities | 103 | (1) | - | - | - |
| **Cash Flows used in Investing Activities** | (138) | (2,010) | (792) | (900) | (900) |

| **Financing Activities** |       |       |       |       |       |
| Bank Indebtedness | - | (15) | (10) | - | - |
| Short-Term Debt | 409 | (85) | 370 | - | - |
| Long-Term Debt Issued | 370 | 18 | 320 | - | - |
| Long-Term Debt Retired | (157) | (315) | (913) | (100) | (80) |
| Interest Paid | - | (306) | (277) | - | - |
| Dividends paid | (112) | (65) | (252) | (64) | (64) |
| Issuance of Common Stock | - | - | 19 | - | - |
| Common shares | (56) | - | (3) | - | - |
| Issuance of Pref. Stock | - | - | - | - | - |
| Common Dividends Paid | - | - | - | - | - |
| Common and/or Pref. Dividends Paid | (112) | (15) | - | - | - |
| **Cash Flows from (used in) Financing Activities** | (15) | (15) | (765) | (164) | (144) |
| Foreign Exchange Rate Adjustments | (27) | 7 | 5 | - | - |
| **Change in Cash and Cash Equivalents** | 1,798 | 31 | 108 | 17 | 56 |
| | 731 | 857 | 965 | 982 | 1,038 |

Source: Loblaw Companies Ltd., Raymond James Ltd.
Exhibit 39: Loblaw Balance Sheet (C$ ‘mln)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and equivalents</td>
<td>731</td>
<td>857</td>
<td>965</td>
<td>982</td>
<td>1,038</td>
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<tr>
<td>Short-term investments</td>
<td>663</td>
<td>754</td>
<td>820</td>
<td>820</td>
<td>820</td>
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<tr>
<td>Accounts receivable</td>
<td>367</td>
<td>366</td>
<td>500</td>
<td>510</td>
<td>690</td>
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<td>Credit card receivables</td>
<td>2,095</td>
<td>1,997</td>
<td>2,034</td>
<td>2,073</td>
<td>2,114</td>
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<td>Income taxes recoverables</td>
<td>-</td>
<td>8</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Inventories</td>
<td>1,982</td>
<td>1,956</td>
<td>1,983</td>
<td>1,890</td>
<td>2,230</td>
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<td>Prepaid expenses and other assets</td>
<td>101</td>
<td>83</td>
<td>152</td>
<td>152</td>
<td>152</td>
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<tr>
<td>Assets held for sale</td>
<td>56</td>
<td>71</td>
<td>30</td>
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<td><strong>Total Current Assets</strong></td>
<td>5,995</td>
<td>6,092</td>
<td>6,484</td>
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<td><strong>Fixed assets</strong></td>
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<td>8,377</td>
<td>8,654</td>
<td>8,826</td>
<td>8,983</td>
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<td>Investment properties</td>
<td>75</td>
<td>74</td>
<td>75</td>
<td>75</td>
<td>75</td>
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<tr>
<td>Goodwill &amp; intangible assets</td>
<td>1,023</td>
<td>1,026</td>
<td>1,023</td>
<td>1,023</td>
<td>1,023</td>
</tr>
<tr>
<td>Deferred income taxes</td>
<td>258</td>
<td>227</td>
<td>224</td>
<td>224</td>
<td>224</td>
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<tr>
<td>Security deposits</td>
<td>250</td>
<td>354</td>
<td>184</td>
<td>184</td>
<td>184</td>
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<td>Franchise loans receivable</td>
<td>344</td>
<td>314</td>
<td>316</td>
<td>316</td>
<td>316</td>
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<tr>
<td>Other assets</td>
<td>330</td>
<td>377</td>
<td>269</td>
<td>269</td>
<td>269</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>16,090</td>
<td>16,841</td>
<td>17,229</td>
<td>17,373</td>
<td>18,149</td>
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<tr>
<td><strong>LIABILITIES</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Bank indebtedness</td>
<td>10</td>
<td>10</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Short-term debt</td>
<td>1,225</td>
<td>535</td>
<td>905</td>
<td>905</td>
<td>905</td>
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<tr>
<td>Trade payables &amp; other liabilities</td>
<td>3,372</td>
<td>3,522</td>
<td>3,570</td>
<td>3,006</td>
<td>2,922</td>
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<tr>
<td>Income taxes payable</td>
<td>42</td>
<td>-</td>
<td>10</td>
<td>10</td>
<td>10</td>
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<tr>
<td>Long term debt due within one year</td>
<td>312</td>
<td>902</td>
<td>86</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>Provisions</td>
<td>62</td>
<td>62</td>
<td>48</td>
<td>48</td>
<td>48</td>
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<tr>
<td><strong>Total Current Liabilities</strong></td>
<td>5,023</td>
<td>5,031</td>
<td>4,619</td>
<td>4,055</td>
<td>3,971</td>
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<td>Provisions</td>
<td>44</td>
<td>43</td>
<td>49</td>
<td>49</td>
<td>49</td>
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<tr>
<td>Long-term Debt</td>
<td>5,041</td>
<td>5,198</td>
<td>5,445</td>
<td>5,345</td>
<td>5,265</td>
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<tr>
<td>Deferred income taxes</td>
<td>27</td>
<td>35</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td>Capital securities</td>
<td>220</td>
<td>221</td>
<td>221</td>
<td>221</td>
<td>221</td>
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<tr>
<td>Other liabilities</td>
<td>655</td>
<td>710</td>
<td>844</td>
<td>844</td>
<td>844</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>11,010</td>
<td>11,238</td>
<td>11,204</td>
<td>10,540</td>
<td>10,376</td>
</tr>
<tr>
<td>Common share capital</td>
<td>1,308</td>
<td>1,475</td>
<td>1,540</td>
<td>1,540</td>
<td>1,540</td>
</tr>
<tr>
<td>Contributed surplus</td>
<td>-</td>
<td>1</td>
<td>45</td>
<td>45</td>
<td>45</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>3,771</td>
<td>4,122</td>
<td>4,435</td>
<td>5,244</td>
<td>6,183</td>
</tr>
<tr>
<td>Accumulated other comprehensive income</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Common Equity</strong></td>
<td>5,080</td>
<td>5,603</td>
<td>6,025</td>
<td>6,834</td>
<td>7,773</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td>5,080</td>
<td>5,603</td>
<td>6,025</td>
<td>6,834</td>
<td>7,773</td>
</tr>
<tr>
<td><strong>Total Liabilities And Equity</strong></td>
<td>16,090</td>
<td>16,841</td>
<td>17,229</td>
<td>17,373</td>
<td>18,149</td>
</tr>
</tbody>
</table>

Source: Loblaw Companies Ltd., Raymond James Ltd.
Appendix B: Management & Board of Directors

As of January 3, 2012, the directors and executive officers, as a group, directly or indirectly owned ~2.6 mln common shares, representing approximately 1% of shares outstanding, while institutions and hedge funds owned approximately 11.3% of the shares outstanding.

Exhibit 40: Senior Management Profiles

<table>
<thead>
<tr>
<th>Senior</th>
<th>Position</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Galen Weston</td>
<td>Executive Chairman</td>
<td>Mr. Weston is the Chairman of Selfridges Group Limited. He served as Senior Vice President of Corporate Development at Loblaw Companies Ltd. and as Vice President of No Frills division and also as Senior Director of e-Commerce Development. He has been Executive Chairman of Loblaw Companies Sep-19-06. In addition, he served as a Non-Independent Director of George Weston Ltd. from 2003 to 2006. Educationally, he holds a B.A. degree from Harvard University and an MBA from Columbia University.</td>
</tr>
<tr>
<td>Vicente Trius</td>
<td>President</td>
<td>Mr. Trius serves as President of Loblaw Companies Ltd. Prior to joining Loblaw, he served as Executive Director of Europe at Carrefour SA from May-03-10 to May-01-11. Prior to Carrefour, he held senior executive positions at Wal Mart including Vice-President for International Operations, CEO Brazil and CEO Asia, and Executive Vice-President and CEO for Latin America. Mr. Trius has also held senior executive roles at Revco Drug Stores Inc. and Simago/Dairy Farm International. He holds an Executive MBA from Darden School of Business.</td>
</tr>
<tr>
<td>Sarah Davis</td>
<td>Chief Financial Officer</td>
<td>Ms. Davis joined Loblaw in 2007 as the Senior Vice President of Financial Operations before being appointed to Chief Financial Officer on May-05-10. In her time at Loblaw, Ms. Davis has played a key role in implementing SAP Finance, successfully converting the company’s public reporting to IFRS. She has more than twenty years of financial management experience gained from senior financial positions at Bell Canada and Rogers Communications. Ms. Davis holds a Bachelor of Commerce from Queen’s University and is a Chartered Accountant.</td>
</tr>
<tr>
<td>Peter McMahon</td>
<td>Chief Operating Officer</td>
<td>Mr. McMahon has been the Company’s Chief Operating Officer since January of 2011. Since joining Loblaw in February of 2006, he has successfully modernized the company’s IT infrastructure and rebuilt Loblaw’s Supply Chain to its current level of efficiency; his priority is managing the implementation of SAP across the enterprise. Prior to joining Loblaw, he assumed positions of increased responsibility with Sainsbury, Tesco and Wal-Mart. Mr. McMahon is a graduate of Liverpool University with a degree in Business and Economics</td>
</tr>
<tr>
<td>Grant Froese</td>
<td>Executive Vice President, Hard Discount and Superstore</td>
<td>Mr. Froese was appointed EVP, Hard Discount and Superstore Division in January 2011, where his focus would be repositioning over half of the Loblaw business on a more robust, low cost operating model focused on a strong value proposition. In his role, he oversees the operations and merchandising for the company’s discount division, which includes the Real Canadian Superstore, Extra Foods, Wholesale Club, no frills, Maxi and Maxi &amp; Cie banners.</td>
</tr>
<tr>
<td>Mark Butler</td>
<td>Executive Vice President, Conventional Stores</td>
<td>Mr. Butler serves as an Executive Vice President of Conventional stores at Loblaw Companies. Prior to his current position, he served as an Executive Vice President of Central Operations at Loblaw and as the Head of Atlantic Operations of Loblaw Companies Limited.</td>
</tr>
<tr>
<td>Barry Columb</td>
<td>President and CEO of President’s Choice Bank and Executive Vice President of Loblaw Companies Limited</td>
<td>Mr. Columb is the President and CEO of President’s Choice Bank and an Executive Vice President of Loblaw Companies Limited. In his role, he is responsible for overseeing all business functions and strategy for the President’s Choice® Financial Group (including credit card services, banking services, insurance, mobile services, proprietary and third party gift cards and the PC® Points rewards program). He holds a Bachelor of Social Science degree from Carleton University and is a graduate of York University’s Business Management Certificate programs.</td>
</tr>
</tbody>
</table>

Source: Loblaw Companies Ltd., Capital IQ, Raymond James Ltd.

Exhibit 41: Shareholders Summary

<table>
<thead>
<tr>
<th></th>
<th>Shares</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>George Weston</td>
<td>167,699,889</td>
<td>59.5%</td>
</tr>
<tr>
<td>Institutions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RBC Global Asset Management Inc.</td>
<td>7,938,788</td>
<td>2.8%</td>
</tr>
<tr>
<td>I.G. Investment Management, Ltd.</td>
<td>3,008,178</td>
<td>1.1%</td>
</tr>
<tr>
<td>Manulife Asset Management Limited</td>
<td>2,535,572</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total Institutions</td>
<td>31,926,421</td>
<td>11.3%</td>
</tr>
<tr>
<td>Top Management &amp; Directors</td>
<td>2,640,399</td>
<td>0.9%</td>
</tr>
<tr>
<td>Other</td>
<td>79,479,291</td>
<td>28.2%</td>
</tr>
<tr>
<td>Total Shares Outstanding - Diluted</td>
<td>281,746,000</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: ThomsonOne Analytics, Raymond James Ltd.
Risks

Some of the general and specific risk factors that pertain to the projected 6-12 month target price for Loblaw included with our research are as follows:

Collective Bargaining & Minimum Wage Increases

The majority of Loblaw’s workforce is unionized and governed by collective agreements. While the company tends to mitigate the risk of potential interruption or delay resulting from the collective bargaining process through early negotiation, interruptions could negatively impact the company’s daily operation as well as its financial performance. In addition, potential increases in minimum wage, coupled with the challenges of managing and retaining current staff, could negatively affect the company.

Inflation and Higher COGS

Given the escalating trend in food prices on a global basis, Loblaw’s margins and profitability will rely on its ability to mitigate the impact of potentially higher costs of inventory. Rising prices may further result in changes in consumers’ behavior and preferences.

Competitive Landscape

While we anticipate Loblaw to continue to maintain its dominant position among Canadian national grocers, we believe that given the increasing number of other food retailers entering Canadian market, certain regional markets could subsequently become saturated. Loblaw’s market share and financial performance could be negatively impacted by its competitors’ new store openings in close proximity and their respective promotional activities resulting in a regional price war. In addition, Loblaw’s higher margin private label products compete with a wide array of national brands.

Supply Chain Disruptions

Disruption or delays in store inventory replenishment could adversely impact operation and earnings. Factors resulting in disruption of supply chain include, but not limited to, shipping slowdown or disruption and extreme weather condition. In addition, Loblaw’s restructuring of its supply chain and the integration of new systems with the ERP could result in a disruption in the stores’ operations and adversely impact the company’s financial performance.

General Economic Conditions

The company’s business and operating performance may be adversely affected by economic forces beyond its control. Rising consumer debt levels and changes in consumer preferences and buying patterns, as well as changes in unemployment rate and labour costs could negatively impact the performance. External factors that affect global and/or regional economies, interest rates, exchange rates or major segments of the economy could alter investor confidence and investment prospects; varying labour costs may have an impact on operating costs and earnings. Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation.
### Company Citations

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Ticker</th>
<th>Exchange</th>
<th>Currency</th>
<th>Closing Price</th>
<th>RJ Rating</th>
<th>RJ Entity</th>
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</thead>
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<td>Aimia</td>
<td>AIM</td>
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<td>NC</td>
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<td>Canadian Tire Corporation</td>
<td>CTC.A</td>
<td>TSX</td>
<td>C$</td>
<td>64.50</td>
<td>UR</td>
<td>RJ LTD.</td>
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<td>Coca-Cola Co.</td>
<td>KO</td>
<td>NYSE</td>
<td>NC</td>
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<tr>
<td>Costco Wholesale Corporation</td>
<td>COST</td>
<td>NASDAQ</td>
<td>US$</td>
<td>79.95</td>
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<tr>
<td>Crombie REIT</td>
<td>CRR.UN</td>
<td>TSX</td>
<td>C$</td>
<td>13.89</td>
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<td>Manulife Financial Corporation</td>
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<td>NC</td>
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<td>MA</td>
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<td>Rogers Communications Inc. - Class B</td>
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<td>TSX</td>
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<td>Shoppers Drug Mart</td>
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<td>Supervalu Inc.</td>
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<tr>
<td>Target Corporation</td>
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<td>NYSE</td>
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<td></td>
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<tr>
<td>The North West Company</td>
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<td>TSX</td>
<td>NC</td>
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<td>Wal-Mart Stores Inc.</td>
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<td>RJ &amp; Associates</td>
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<td>Whole Foods Market Inc.</td>
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<td>NASDAQ</td>
<td>NC</td>
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<td></td>
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Notes: Prices are as of the most recent close on the indicated exchange and may not be in US$. See Disclosure section for rating definitions. Stocks that do not trade on a U.S. national exchange may not be approved for sale in all U.S. states. NC=not covered.
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<table>
<thead>
<tr>
<th>Coverage Universe Rating Distribution</th>
<th>Investment Banking Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>RJL</strong></td>
<td><strong>RJA</strong></td>
</tr>
<tr>
<td>Strong Buy and Outperform (Buy)</td>
<td>71%</td>
</tr>
<tr>
<td>Market Perform (Hold)</td>
<td>29%</td>
</tr>
<tr>
<td>Underperform (Sell)</td>
<td>1%</td>
</tr>
</tbody>
</table>

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<th>Disclosure</th>
</tr>
</thead>
<tbody>
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Valuation Methodology: We value Loblaw on a comparative basis to historical and peer P/E and EV/EBIDTA multiples.

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Risks - Loblaw
Collective Bargaining & Minimum Wage Increases

Majority of Loblaw’s workforce is unionized and governed by collective agreements. While the company tends to mitigate the risk of potential interruption or delay resulting from the collective bargaining process through early negotiation, interruptions could negatively impact the company’s daily operation as well as its financial performance. In addition, potential increases in minimum wage, coupled with the challenges of managing and retaining current staff, could negatively affect the company.

Inflation and Higher COGS

Given the escalating trend in food prices on a global basis, Loblaw’s margins and profitability will rely on its ability to mitigate the impact of potentially higher costs of inventory. Rising prices may further result in changes in consumers behavior and preferences.

Competitive Landscape

While we anticipate Loblaw to continue to maintain its dominant position among Canadian national grocers, we believe that given the increasing number of other food retailers entering Canadian market, certain regional markets could subsequently become saturated. Loblaw’s market share and financial performance could be negatively impacted by its competitors’ new store openings in close proximity and their respective promotional activities resulting in a regional price war. In addition, Loblaw’s higher margin private label products compete with a wide array of national brands.

Supply Chain Disruptions
Disruption or delays in store inventory replenishment could adversely impact operation and earnings. Factors resulting in disruption of supply chain include, but not limited to, shipping slowdown or disruption and extreme weather condition. In addition, Loblaw’s restructuring of its supply chain and the integration of new systems with the ERP could result in a disruption in the stores’ operations and adversely impact the company’s financial performance.

General Economic Conditions

The company's business and operating performance may be adversely affected by economic forces beyond its control. Rising consumer debt levels and changes in consumer preferences and buying patterns, as well as changes in unemployment rate and labour costs could negatively impact the performance. External factors that affect global and/or regional economies, interest rates, exchange rates or major segments of the economy could alter investor confidence and investment prospects; varying labour costs may have an impact on operating costs and earnings. Unforeseen developments with respect to the management, financial condition or accounting policies or practices could alter the prospective valuation.

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