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THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

THE FOLLOWING REPORT IS EXCERPTED FROM
THE WALL STREET TRANSCRIPT

CEO/COMPANY INTERVIEW

EDWARD S. KENNEDY
The North West Company

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The North West Company (NWF.UN:TSE)



EDWARD S. KENNEDY joined The North West Company in 1989. He has served in a number of senior management positions including COO of North West and CEO of the Alaska Commercial Company, the company's US subsidiary located in Anchorage. Mr. Kennedy returned to Winnipeg in 1997 and assumed the positions of President and CEO. He remains Chairman and CEO of the Alaska Commercial Company. Mr. Kennedy holds an Honours degree in Business from the University of Western Ontario and a

Bachelor of Laws degree from Osgoode Hall Law School. Prior to joining North West, he worked in corporate finance and law in both Toronto and Winnipeg, Canada. In April 1999, Mr. Kennedy was named a recipient of Canada's "Top 40 Under 40" award, an annual program that recognizes young leaders across the country.

SECTOR – RETAIL

(LAW609) TWST: Would you mind providing our readers with a brief overview of the company and of what you've been doing over the last year or so?

Mr. Kennedy: The North West Company is a retail chain. We are based in Winnipeg, Manitoba. We operate 176 stores across remote areas of Northern Canada and Alaska. We run five main retail banners — two in Alaska, AC Value Center and AC Express; and three in Canada called NorthMart, Northern and Quickstop.

North West was acquired from the Hudson's Bay Company in 1987. We went public in 1990 and, in 1992, we acquired the

Alaska Commercial Company, a retail wholesale business serving rural Alaska.

Over the past year, we've continued to refine and roll out our current strategic positioning

plan called Vision 2000+.

The key elements are to shift our selling space toward food and everyday basic merchandise and away from more selection-driven categories like furniture and fashion, which we are moving to our catalog channel. We've completed three-quarters of our stores in Canada. The remainder will be finished by mid-2001. Most of this program was adopted in Alaska over the preceding two years. We are now prioritizing the next steps in our Vision 2000+

Highlights

The North West Company is the leading provider of food and everyday products and services to remote communities across Northern Canada and Alaska. CEO Edward S. Kennedy says the company is refining its current strategy, the key elements of which involve shifting the selling space at the stores toward food and basic merchandise and away from categories like furniture and fashion, which are moving to the company's catalog channel. He believes that the company has one of the potentially strongest retail franchises in North America, albeit a specialized one, because of its unique competitive strength and because the demographics are so compelling. The company has a solid plan and achievable financial goals that are starting to deliver an attractive return to investors. He is ready for the company to rise to the next level of competition so that it can realize its full growth potential in its core business.

Investors Brief

THE NORTH WEST COMPANY

Ticker (exchange)

NWF:UN (TSE)

Price close 2/28/01

\$12.75

12 Months Price Range

\$9.80 - \$13.60

Corporate Headquarters

Gibraltar House, 77 Main Street
Winnipeg, CANADA R3C 2R1

Phone: (204) 943-0881

Fax: (204) 934-1317

Web: northwest.ca

E-mail: nwc@northwest.ca

Corporate Officers

Ian Sutherland
Chairman

Edward S. Kennedy
President & CEO

Gary V. Eggertson
VP, CFO & Secretary

Investor Relations Contact

Gary V. Eggertson

Our future depends on our ability to meet changing shopping needs, an ability which builds on the strong commitment of our people to find meaning in their work by making a positive difference to the customers and communities we serve.

OUR VISION

Our vision is an aspiration to be the best at what we choose to do. It is also a benchmark for generating superior returns given the small size and specialized nature of our remote market focus. We recognize the risk of keeping and growing a high market share position combined with limited new market potential, but we also see very compelling opportunities:

1. Young and growing versus old and slowing — our existing core business markets have exceptional demographic appeal. Half of our customers are under age 23, their average age is a full 12 years below the Canadian average and the overall growth rate is almost twice the Canadian norm.
2. Local retail infrastructure remains underdeveloped and expensive to build compared to the over-stored condition of urban retailing. NWC's major store investments over the past years has pre-empted competitive entry in key regional locations and will enable us to grow sales with lower capital investment in the future.
3. We have potential to not only grow with our markets but to recapture share that has been lost to outshopping and changing spending patterns. As we start to catch up to our customers' pace of change, we expect to increase our food and basic general merchandise sales faster, downsize or shift underperforming categories to our direct sales channel and expand into new local categories like financial services and entertainment.
4. There is real potential for major productivity improvements in our core remote market business.

OUR FINANCIAL HIGHLIGHTS

- \$650 million in annual sales (FY '01 est.)
- \$47 million pre-tax cash flow (FY '00)
- \$27.9 million net income (FY '00)
- 16.8% return on equity
- Quarterly income distributions of \$.36/unit
- Market price
 - Year-end \$13.00
 - High \$13.00
 - Low \$9.80
- Total returns versus Toronto Stock Exchange (TSE) Index and TSE Merchandising Index

	One Year	Five Year
NWF	23.4%	136.9%
TSE 300	11.2%	103.4%
TSE Merchandising Index	19.9%	50.6%

Corporate Business Description

The North West Company ("NWC", "the Company") is the leading retailer in Canada's North, with 153 retail outlets, located in the Northwest Territories, Nunuvut and all provinces except P.E.I., New Brunswick, and Nova Scotia. Alaskan operations include 23 stores, operating as AC Value Centers and AC Express Centers.

Northern stores operate in markets with populations from 500 to 5,000. A typical store is 7,500 square feet in size and offers a broad assortment of food, family apparel, housewares, appliances, outdoor products and special services like cheque cashing, catalogue ordering and money transfers. Some Northern stores offer Pizza Hut and KFC products in the company's Quickstop convenience outlets.

NWC operates complementary businesses that apply its unique heritage and knowledge of the North. These include the largest Inuit Art Marketing Service in the world and the Fur Marketing Division which operates NWC Trading Posts. The Company's SELECTIONS catalogue (www.selections.northwest.ca) is distributed throughout northern Canada three times a year.

As of the fiscal year ended January 27, 2001, NWC had 3,824 employees in Canada and 655 in Alaska, and is the largest employer of native people in Canada outside of the Federal Government.

Sales and other income in 2000 totaled \$650 million (est.).

OUR MISSION

The North West Company is privileged to serve some of the most unique customers in the world. They live in communities that are, in a virtual sense, "right next door" and getting closer, thanks to communication technology. Yet these locations are still physically very small and very distant — a few hundred or thousand people living hundreds or thousands of miles away from the rest of North America. For our customers, geography and society reflect extreme contrasts of beauty and harshness, enduring cultural truths and uprootedness. Change is a volatile force that both strengthens and weakens the struggle between these elements.

The North West Company has an equally unique identity — one that is also a measure in contrasts. Our past is defined by a legacy as a vast, influential northern merchant enterprise and by a tradition of duty and service to the people of the North for over 300 years.

strategy, moving toward supply chain management and building the capability of our store-level people, whom we consider to be our hardest-to-duplicate competitive advantage.

TWST: When did you start repositioning — going from selling furniture and other items to food, for example?

Mr. Kennedy: Our repositioning started in earnest in late 1998 and the rollout of the physical changes to stores began in 1999 through to 2000. We've expanded our catalog book through more editions and more pages in each edition. Then of course we shifted our selling space at store level.

"We're uniquely positioned because we don't compete directly with very many retailers in North America. For example, of 176 store locations, only one competes directly with Wal-Mart and that's in the city of Kodiak on Kodiak Island in Alaska. We can sit down with other retailers or distributors and talk about how we can extend their brand and their offering into our markets through our catalog or through our in-store assortment."

TWST: Do you see supply chain management being your single biggest area of re-focus?

Mr. Kennedy: Going forward, as we continue to fine-tune our assortments, we would rank our store selling capability ahead of supply chain management. We are operating stores in fairly remote markets. It's hard to recruit and retain management and staff in these environments and we want to move our average capability into the top quartile of where our highest standard of performance is now.

On the supply chain management side, we have long lead times, longer than we'd like them to be, from vendor to customer. Some of these are natural because of sheer distance, whether from Seattle up to Anchorage and then out to our stores in rural Alaska, or from Montreal to Winnipeg and

then through several modes of transportation into the Canadian Arctic. We recognize these constraints as challenges. When we look at our current inventory turns, for example, we see a tremendous opportunity to streamline while still maintaining a strong in-stock rate. Store capability comes first. Supply chain is a close second. You put the two together and we think we're building a solid foundation to continue to profitably grow our business.

TWST: Where will your biggest source of potential revenue come from in the next year or so?

Mr. Kennedy: Our biggest source is driving comparable store sales. All the initiatives that I've been describing are aimed at grabbing a greater share of the spending in Northern Canada and Alaska. We believe that we have one of the potentially strongest retail franchises in North America, albeit a specialized one, because of our unique competitive strength and because the demographics are so compelling. The average age of our market is half of the Canadian and US average and the population is growing at more than twice the national rates. We serve very young families and we have a mini-baby-boom going on that probably is a generation behind the more maturing and graying of the rest of North America.

We are excited about being able to move our market share profitably up from where it is now to becoming more dominant through consolidating our position and expanding the range of products and services that we sell both through our catalog and in our stores.

TWST: Have you been involved in any mergers and acquisitions or partnerships?

Mr. Kennedy: We will selectively look at mergers or probably more accurately acquisitions to consolidate individual markets. But the real emphasis right now is on the alliance side. We're uniquely

positioned because we don't compete directly with very many retailers in North America. For example, of 176 store locations, only one competes directly with Wal-Mart and that's in the city of Kodiak on Kodiak Island in Alaska. We can sit down with other retailers or distributors and talk about how we can extend their brand and their offering into our markets through our catalog or through our in-store assortment. For example, we currently have tests under way with RadioShack and we're working with H&R Block on tax preparation services. We can't build the infrastructure to vertically support each of those lines of business but we can link into someone else's. It's taking longer than we'd like but we're very close to several other key alliances that are going to enhance the breadth of what we sell. At the end of the day, we expect to reduce our cost of procurement because we don't have big volumes in each of those lines of business but the people we're linking up with do.

TWST: Given that the large majority of your customers are younger, would you say that that gives you potential for long-term growth?

Mr. Kennedy: We've carefully assessed where we should spend our time and our money over the medium term. We believe our core market, comparable store potential will drive 10% - 15% growth at least through the next five years. To make this happen, we want to solidify our position with our current customers. We know we have top-of-mind awareness. In fact, we're at the front of our customers' everyday lives because they're in and around our stores all the time. We want to build a franchise with the next generation of northern consumers. The fact that they're younger just adds to the incentive that we have to grow that relationship. We've segmented this group, considering them to be a more trend-driven shopper and, through our junior fashion categories, through

music and our fast food business formats, we're capturing their spending dollars as they grow. Then, as they shift to family formation, head of households, we're there with them.

"Food is moving from below 60% to 70% of our sales blend. That might not sound dramatic but it's happened within a short period of time. Food sales growth has been averaging 5% or better. We expect to continue that."

TWST: Would you say that there's been more or less consolidation in the segment that you're in right now?

Mr. Kennedy: We are part of the big world of retailing and certainly that industry has consolidated and will continue to consolidate. Looking at food first, both in the US and Canada, we tend to see the big waves and they hit our boat but they don't sideswipe us. For example, in food in Canada, where we have two big players emerging, their size and scale is driving down the cost of doing business and their prices. What we offer is primarily convenience and service. We are in the local market. If our customers want to drive out of town, or order by mail or possibly the Internet, then that competitor of ours, which is now even bigger than before, has a potentially more compelling price offer. It forces us and challenges us, I think in a healthy way, to stay within a reasonable price range. Our goal is to provide fair pricing. We know we're not the lowest price. That's not our objective. But keeping that fair price range to the larger, consolidated competitor is a challenge we so far have been able to succeed at. We watch carefully how this consolidation is going on around us. We see it continuing. At the same time, we think there's going to be some fairly large table scraps left behind, where some of the consolidating play-

ers are going to have to leave behind big chunks of business. That may turn into a longer-term opportunity for ourselves, as we look at potentially expanding into southern markets.

TWST: How substantial have your food sales been?

Mr. Kennedy: Food is moving from below 60% to 70% of our sales blend. That might not sound dramatic but it's happened within a short period of time. Food sales growth has been averaging 5% or better. We expect to continue that. We've built our food capability through people, product range, selling space and technology and we'll get an extra boost in 2001 from inflation. There are rising energy prices as everyone knows in North America. Our markets are even more energy intensive because of the high freight and transportation costs to move product, as well as the utility costs to heat stores and run refrigeration. These higher costs take spending power out of our customers' wallets but, since we're focused on food and everyday basics, we're less exposed to reductions in discretionary spending.

“Right now our goal is to try to fully develop our market potential in Alaska. For example, we're not in Southeast Alaska, which is the panhandle area of the state, and we're looking carefully at opportunities there.”

TWST: Has the Internet affected the way you do business in any significant way?

Mr. Kennedy: From a B2C standpoint, not really, and I say that with a little more confidence than perhaps 18 months ago when there were more question marks in the air on the rate of penetration and adoption. There are a number of factors, apart from the basic viability of a B2C profit model. One of them is bandwidth. Most of our markets don't

have adequate bandwidth yet. The second is demographics. The profile of our typical consumer is a necessity impulse, low-income seasonal worker, fairly heavily dependent on government transfer payments to supplement their income. That type of consumer is not an early adopter of Internet technology. Combined with the fact that our market is quite small, we don't think that it will attract significant B2C Internet activity over the medium term.

TWST: Do you have any immediate plans of moving into other markets in the United States, in addition to Alaska right now?

Mr. Kennedy: Right now our goal is to try to fully develop our market potential in Alaska. For example, we're not in Southeast Alaska, which is the panhandle area of the state, and we're looking carefully at opportunities there.

TWST: Does the economy represent the biggest risk and, if not, what does represent your biggest hurdle right now?

Mr. Kennedy: The economy is not our biggest risk and, before I explain what I think is, I'll just talk a little bit about why that's the case. At least 80% of the spending power in our markets is not directly impacted by traditional “wage-economy”-driven spending. We were not, unfortunately, a beneficiary of the boom during the mid to late 1990s in most of North America. It's not an e-driven economy. Conversely, when a slowdown occurs, which appears to be happening right now, we're not buffeted by that. In fact, in a scenario where interest rates appear to be heading south, the yield on our trust unit structure is more attractive. The more predictable cash flow of our food and everyday basic retail business is also more appealing to investors. The greater risk is our ability to execute and deliver on our commitment and our goal of continuing to drive fairly aggressive, comparable store sales numbers. Next year, our identical

store sales target is 5%, on top of 5% growth this year. That is going somewhat against the grain of traditional retail, which usually is a combination of comparable store and fairly aggressive new store growth. Again, new store growth is less important because we can grow our market share through our existing facilities and through our direct channel.

TWST: What have analysts stated with regard to the potential rate of gain in sales and earnings over the next year?

Mr. Kennedy: When you measure total returns of the business, both yield and growth, we have a base level of total return, which is comprised of the yield component of our trust unit. We're paying out cash of \$1.44 — that's our current rate of yield. On our current market price, that's a return of approximately 11% – 12%. Analysts are recognizing this gives investors an attractive starting point. They're also recognizing that, as we demonstrate quarter after quarter of solid operating margins growth, there is legitimacy to our strategy of growing our market share. I think analysts are watching this happen and getting behind it as they see the results come in. If they believe, as we do, that we have very, very solid prospects to grow our bottom line sustainably in the range of 10% - 15%, in addition to a yield of 10% or better, then cumulatively the total return from North West Company Fund is an attractive investment.

TWST: How do you feel about the overall quality of your management team right now?

Mr. Kennedy: I feel very positive. We have a solid blend of inside and outside experience. We have the right skill set and the right attitude toward growth and risk. We're a very fresh and very energetic management team, totally focused on what we're doing.

TWST: Do you have any comments on your current stock price?

Mr. Kennedy: We're pleased that it's moved up recently from the low \$10s to the \$13 range. We think there's still room and potential for growth in the unit price, based on the growth of our earnings. We think the yield is probably built into the price, although as interest rates drop, it looks more attractive, and may drive price on that basis. We incent our people, including myself, on appreciation of our unit price. We know the growth potential is there. We are building a compelling track record for investors to say this company has moderate but sustainable growth prospects and a uniquely attractive yield component.

"We have a solid blend of inside and outside experience. We have the right skill set and the right attitude toward growth and risk. We're a very fresh and very energetic management team, totally focused on what we're doing."

TWST: What kinds of incentives are you offering your employees right now?

Mr. Kennedy: We do three things. We encourage unit ownership. We want them to walk in the shoes of our investors, especially since we have a high yield on our unit. It's hard, through options or unit appreciation rights, to model the experience of an investor if about half of that investor's total return is coming from yield. So we provide low interest loans and a one-for-three unit purchase plan to encourage our employees to step up and realize the yield return as well as the growth that comes from ownership of North West Company Fund.

We provide unit appreciation rights, which essentially are phantom option vehicles for our more senior management level employees. Here, we are trying to put more emphasis on growth. We make some of these appreciation rights contingent on hitting medium-term financial targets.

Finally, we have a short-term incentive plan based on our yearly financial targets. The incentive is driven off attainment of operating profit net a cost of capital charge. This is a modified Economic Value Added (EVA) approach. We are very, very cognizant of driving the top line and the bottom line by optimizing our use of capital.

“The North West Company has a solid plan and achievable financial goals that are starting to deliver an attractive return to investors. We’ve undertaken a fundamental repositioning of our company. We dialed up the risk as we introduced more change into our business. We are managing through that risk and that change.”

TWST: Is there anything that I may have missed or overlooked that you would want to point out to potential long-term investors before we conclude the interview?

Mr. Kennedy: The impression I would like to leave with readers is that The North West Company has a solid plan and achievable financial goals that are starting to deliver an attractive return to investors. We’ve undertaken a fundamental repositioning of our company. We dialed up the risk as we introduced more change into our business. We are managing through that risk and that change. There has been disruption in earnings

but, all things being considered, we have maintained and enhanced our yield. Our cash flow has not dropped, and we are now growing it again. In effect, we’ve leveraged off a very solid base and we are well on our way to taking the company to the next level of competitiveness so that we can realize on the growth potential that we see in our core business.

TWST: Thank you. (JF)

EDWARD S. KENNEDY

President & CEO

The North West Company

77 Main St.

Winnipeg, Manitoba R3C 2R1

Canada

(204) 934-1482

(204) 934-1317 - FAX

www.northwest.ca

e-mail: ekennedy@northwest.ca

Each Executive who is the featured subject of a TWST Interview is offered the opportunity to include an Investors Brief or other highlight material to be provided and sponsored by and for the company. This interview with Edward S. Kennedy, President & CEO, The North West Company, is accompanied by an Investors Brief containing corporate information.
