



*The North West Company is a leading retailer of food and everyday products and services to rural communities and urban neighbourhoods in Canada, Alaska, the South Pacific and the Caribbean.*

## **NEWS RELEASE - FOR IMMEDIATE RELEASE**

### ***The North West Company Inc. Announces the Sale of Giant Tiger Stores, a Support Office Restructuring, Fourth Quarter Earnings and a Quarterly Dividend***

**Winnipeg, Manitoba, March 12, 2020 (TSX: NWC):** The North West Company Inc. (the "Company" or "North West") announced today that it has entered into an agreement with Giant Tiger Stores Limited to sell 34 of the Company's Giant Tiger stores. The Company also announced information on support office cost reductions in its Canadian Operations, reported its unaudited financial results for the fourth quarter ended January 31, 2020 and announced that the Board of Directors have declared a dividend of \$0.33 per share to shareholders of record on March 31, 2020, to be paid on April 15, 2020.

#### **Giant Tiger Transaction**

The Company and Giant Tiger Stores Limited ("GTSL") announced today that they have entered into a definitive asset purchase agreement (the "GTSL Transaction") under which GTSL will acquire 34 of the Company's 46 Giant Tiger stores (the "Acquired Stores") for cash consideration of \$45 million and, subject to meeting certain profitability milestones, total contingent cash consideration payable of up to \$22.5 million. Upon closing of the transaction, the Company expects to recognize a pre-tax gain ranging from approximately \$20 million to \$24 million subject to certain working capital adjustments and finalization of the purchase price including the estimation of the contingent consideration.

Of the remaining 12 GT locations, the Company will: (i) retain and operate five stores in northern market locations, (ii) convert one store to a Valu-Lots clearance center and (iii) close six stores in the second and third quarter of 2020. The closed stores will result in a closing provision of approximately \$9 million which will be recorded in the first quarter of 2020.

As a part of the GTSL Transaction, the Company and GTSL will enter into reciprocal product supply and distribution agreements related to the supply of food-related product by the Company to the Acquired Stores and the supply of certain general merchandise and food products by GTSL to the Company's northern Canada stores. These agreements will enable buying and distribution efficiencies for both parties and will provide the Company access to a stronger, expanded general merchandise assortment.

"Our 20-year relationship with GTSL has been a very important one and this new agreement creates the conditions for mutual success going forward," commented North West President & CEO Edward Kennedy. "Specific to the Giant Tiger stores we are selling to GTSL, we recognize that GTSL's proven capability as a leading Canadian-owned discount retailer, including their ability to successfully franchise stores, will enable these locations to reach their full performance potential. For North West, the GTSL Transaction reinforces our commitment to focus on leading and growing within our own core remote and rural retailing businesses while fully leveraging the GTSL partnership."

The GTSL Transaction is expected to be completed in the second quarter of 2020, subject to the satisfaction of customary closing conditions.

<sup>1</sup> Excluding the foreign exchange impact

<sup>2</sup> See Non-GAAP Measures Section of Management's Discussion & Analysis

## **Support Office Cost Reduction**

The Company also announced today that it will be reducing administration costs in its Canadian Operations by approximately \$17 million on an annualized basis and that it expects to record a provision of approximately \$5 million in the first quarter of 2020, related primarily to employee severance costs. This cost reduction will largely take effect in the first and second quarters of 2020 and is partially related to recent and ongoing technology investments, and the impact of the previously noted GTSL Transaction and related product supply and distribution agreements. The Company plans to re-focus on the core store selling activities in northern Canada and invest in lower retail food pricing to help drive market share growth in this region, beginning with an approximately \$10 million in annualized pricing investment over the next 12-18 months.

## **Financial Highlights**

Fourth quarter consolidated sales increased 3.9% to \$553.1 million led by same store food sales gains and the impact of new store sales largely driven by the November 1, 2019 re-opening of the Company's Cost-U-Less store in St. Thomas, USVI which was destroyed by hurricane Irma in the third quarter of 2017. Excluding the foreign exchange impact, consolidated sales increased 4.1% and were up 0.8%<sup>1</sup> on a same store basis. Food sales<sup>1</sup> increased 5.2% and were up 1.5% on a same store basis led by sales gains in northern Canada and Alaska stores ("northern markets"). General merchandise sales<sup>1</sup> increased 0.7% but were down 1.7% on a same store basis as sales gains in northern markets were more than offset by lower sales in Giant Tiger ("GT") stores.

Gross profit increased 2.3% driven by higher sales as the gross profit rate decreased 46 basis points compared to last year. The decrease in gross profit rate was mainly due to increased promotional pricing, largely in Giant Tiger markets, and a higher blend of Cost-U-Less sales which carry a lower gross profit rate consistent with a discount warehouse format.

Selling, operating and administrative expenses ("Expenses") increased 0.2% but were down 93 basis points to last year as a percentage to sales as a \$5.2 million decrease in share-based compensation costs and the impact of \$3.2 million in insurance gains were offset by higher expenses partially related to new stores, the impact of support office restructuring costs in International Operations, and higher depreciation and insurance costs. Excluding the impact of the share-based compensation costs, insurance gains, and support office restructuring costs, Expenses increased \$7.6 million or 43 basis points as a percentage to sales partially due to the impact of new stores and higher depreciation and insurance expense.

Earnings from operations increased \$3.5 million or 15.0% to \$26.7 million compared to \$23.2 million last year and earnings before interest, income taxes, depreciation and amortization (EBITDA<sup>2</sup>) increased \$6.1 million or 13.9% to \$50.4 million due to the gross profit and Expense factors previously noted. Adjusted EBITDA<sup>2</sup>, which excludes the impact of share-based compensation costs and the insurance-related gains, decreased \$2.3 million or 4.6% compared to last year and as a percentage to sales was 8.6% compared to 9.3% last year as sales gains and improvements in gross profit were more than offset by the Expense factors noted above and lower earnings in GT stores. Excluding the Giant Tiger results and impact of the International support office restructuring costs, adjusted EBITDA increased \$1.3 million or 2.7% mainly due to earnings gains in northern Canada and Alaska, partially offset by lower earnings in Pacific region stores.

Net earnings increased \$3.3 million or 23.6% to \$17.3 million. Net earnings attributable to shareholders were \$16.3 million and diluted earnings per share were \$0.33 per share compared to \$0.27 per share last year due to the factors noted above. Adjusted net earnings<sup>2</sup>, which excludes the impact of the after-tax insurance-related gains and share-based compensation costs, decreased 21.2% compared to last year due to the Expense factors previously noted and lower earnings in GT stores. Excluding the Giant Tiger results and the impact of the International support office restructuring costs, adjusted net earnings decreased \$1.5 million or 7.5% mainly due to higher depreciation and insurance costs as previously noted.

"Our core remote retail businesses were very stable in the quarter and delivered a solid bottom line improvement for the year," commented President & CEO Edward Kennedy. "We were also very active with five new store openings that increased our expense rate in the quarter but that give us growth upside in 2020. Giant Tiger impacted Canadian results, as did higher operating expenses at NSA due to use of more expensive, third party aircraft. In 2020 this is being addressed through an additional owned ATR aircraft and through improved cargo execution."

Further information on the financial results is available in the Company's 2019 fourth quarter Report to Shareholders, Management's Discussion and Analysis and unaudited interim period condensed consolidated financial statements which can be found in the investor section of the Company's website at [www.northwest.ca](http://www.northwest.ca).

## **Fourth Quarter Conference Call**

North West will host a conference call results on March 13, 2020 at 1:00 p.m. (Central Time). To access the call, please dial 416-641-6104 or 800-952-5114 with a pass code of 8679296. The conference call will be archived and can be accessed by dialing 905-694-9451 or 800-408-3053 with a pass code of 1201941 on or before April 12, 2020.

## **Notice to Readers**

Certain forward-looking statements are made in this news release, within the meaning of applicable securities laws. These statements reflect North West's current expectations and are based on information currently available to management. The words may, will, should, believe, expect, plan, anticipate, intend, estimate, predict, potential, continue, or the negative of these terms, identify forward-looking matters. These statements speak only as of the date of this press release. The actual results could differ materially from those anticipated in these forward-looking statements.

Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance, capital expenditures or achievements of North West to differ materially from anticipated future results, performance, capital expenditures or achievement expressed or implied by such forward-looking statements, including the closing of the GTSL Transaction which is subject to commercial risks and closing conditions that are outside the control of the Company, such as various third party consents which may cause the GTSL Transaction to not close on the terms and conditions negotiated or at all. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include, but are not limited to, business performance, fluctuations in interest rates and currency values, legislative and regulatory developments, legal developments, the occurrence of weather-related and other natural catastrophes, changes in tax laws, and those risks and uncertainties detailed in the section entitled Risk Factors in North West's Management's Discussion and Analysis and Annual Information Form, both for the year-ended January 31, 2019. The preceding list is not an exhaustive list of possible factors. These and other factors should be considered carefully and readers are cautioned not to place undue reliance on these forward-looking statements. North West undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by applicable law.

## **Company Profile**

The North West Company Inc., through its subsidiaries, is a leading retailer of food and everyday products and services to rural communities and urban neighbourhoods in Canada, Alaska, the South Pacific and the Caribbean. North West operates 249 stores under the trading names Northern, NorthMart, Giant Tiger, Alaska Commercial Company, Cost-U-Less and RiteWay Food Markets and has annualized sales of approximately CDN\$2.0 billion.

**The common shares of North West trade on the Toronto Stock Exchange under the symbol NWC.**

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