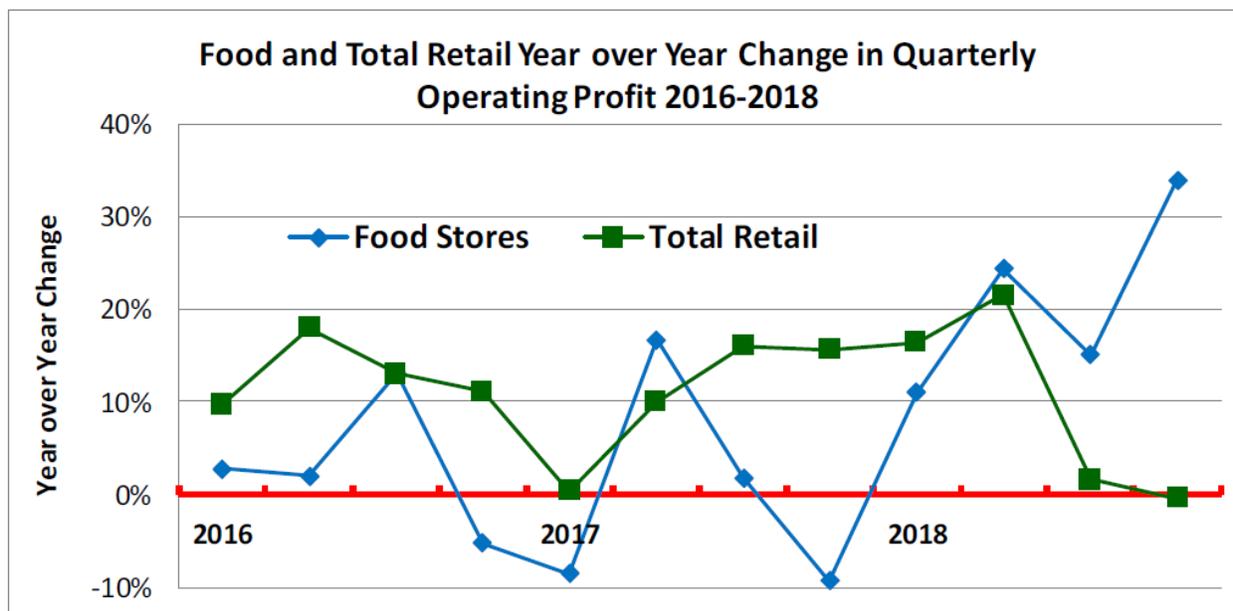




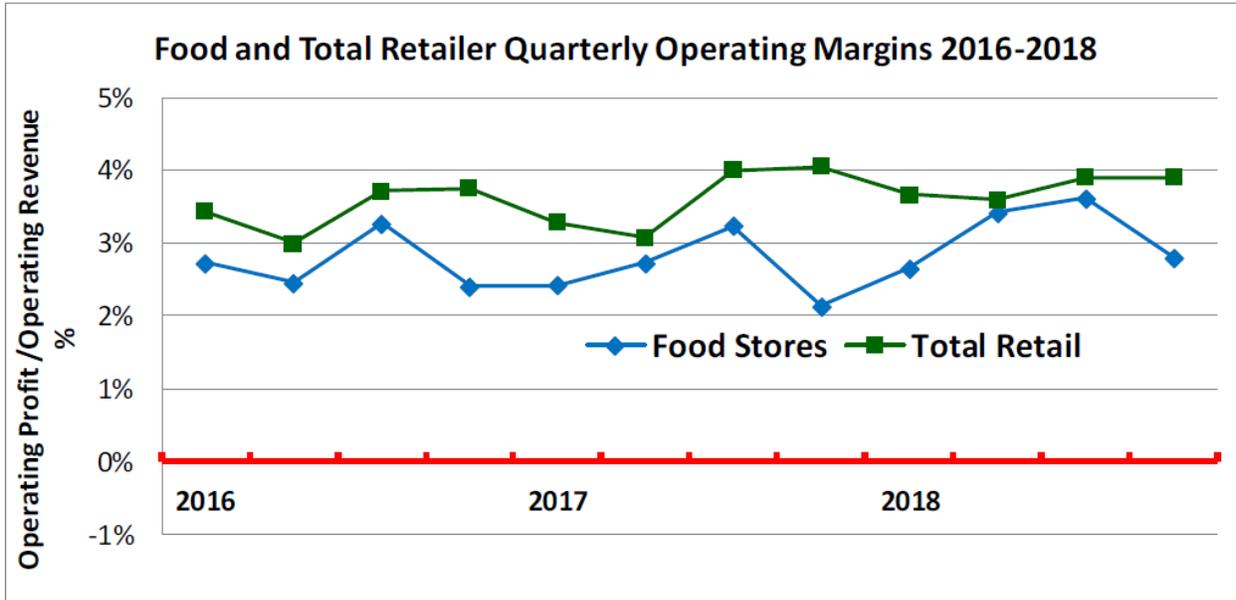
Fourth Quarter Food Retail Profit Report

Kevin Grier, February 2019

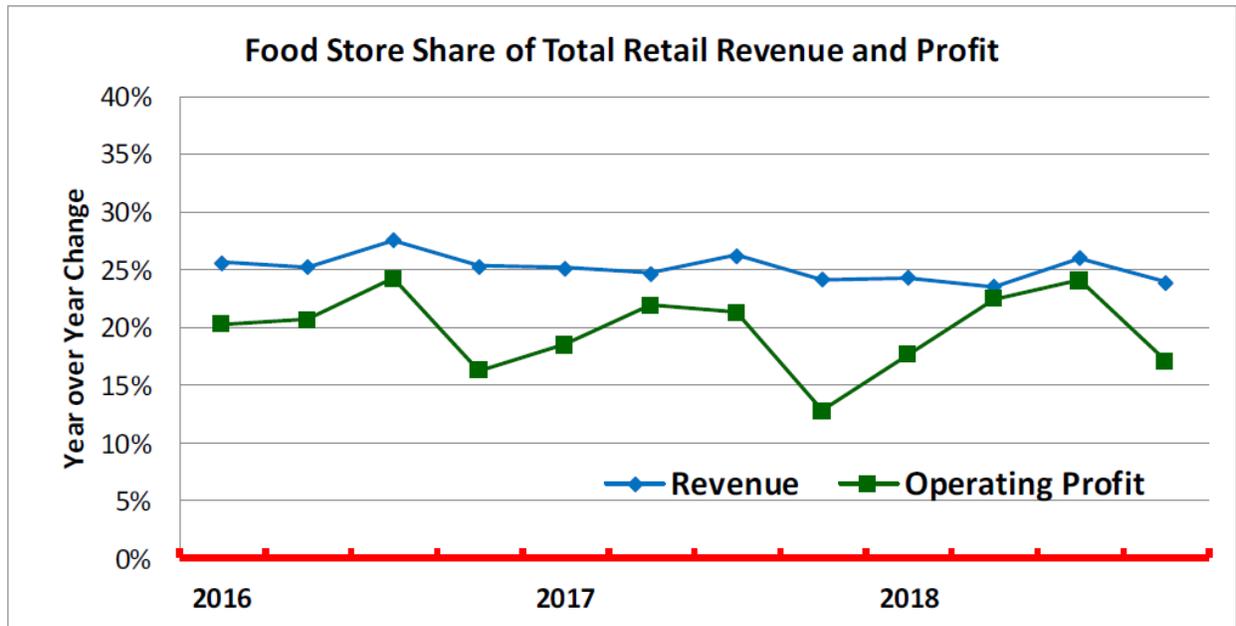
Statistics Canada, Industrial Organisation and Finance Division recently released their Quarterly Financial Statistics for Enterprises database. The following is the fourth quarter 2018 results for food and beverage retail. This category includes supermarkets, convenience, specialty and liquor stores. Supermarkets comprised 68% of total food and beverage sales in 2018. Liquor sales were 19%.



- Food and beverage retailers saw operating profits increase by 34% in Q4 compared to the prior year.
- For the latest four quarters, food retail operating profit increased by 20% compared to the previous four quarters.
- Total retail (all types of retail outlets) in Canada saw Q4 operating profits unchanged versus the previous year.
- Total retail latest four quarters saw operating profits increase 8% over the previous four quarters.
- For reference, food retail operating profit increased by an average of just over 0% per quarter in 2017 compared to 2016. Operating profit decreased by an average of 1% per quarter over the course of 2012-2016.

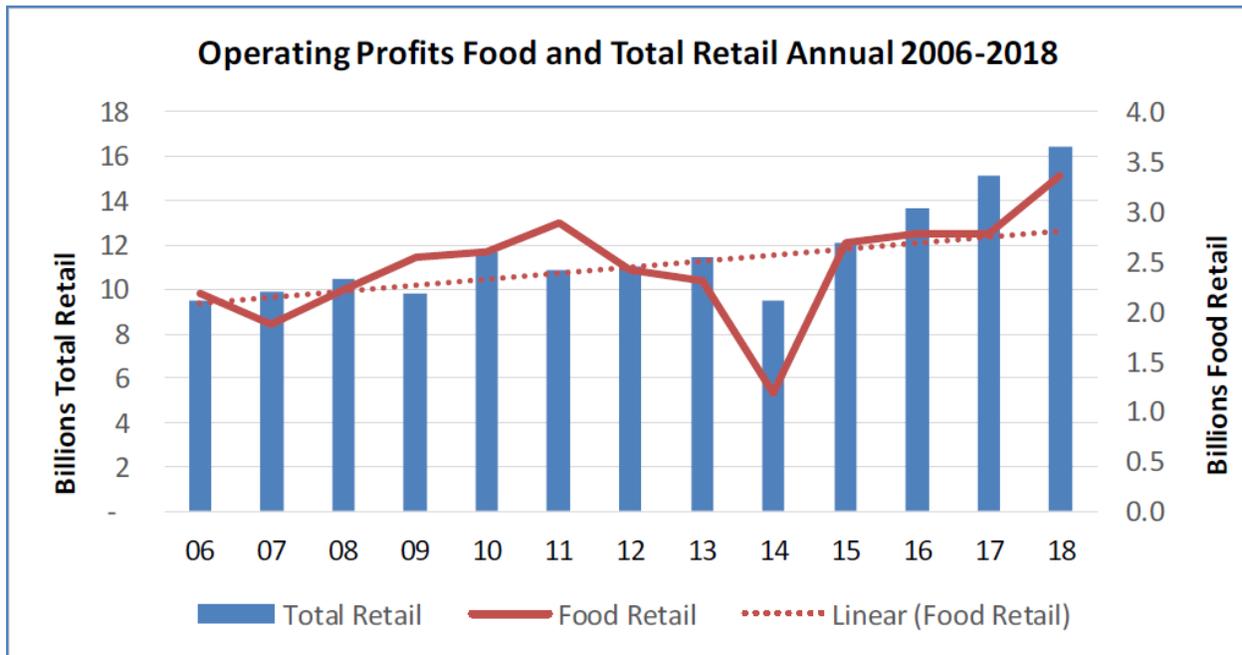


- Food retailer operating margins (operating profit/operating revenue) were 3% in Q4 2018.
- Total retail in Canada operating margins were 4% in the quarter.
- Food retail margins averaged 3% in 2017 and 2% for the 2012-2016 average.

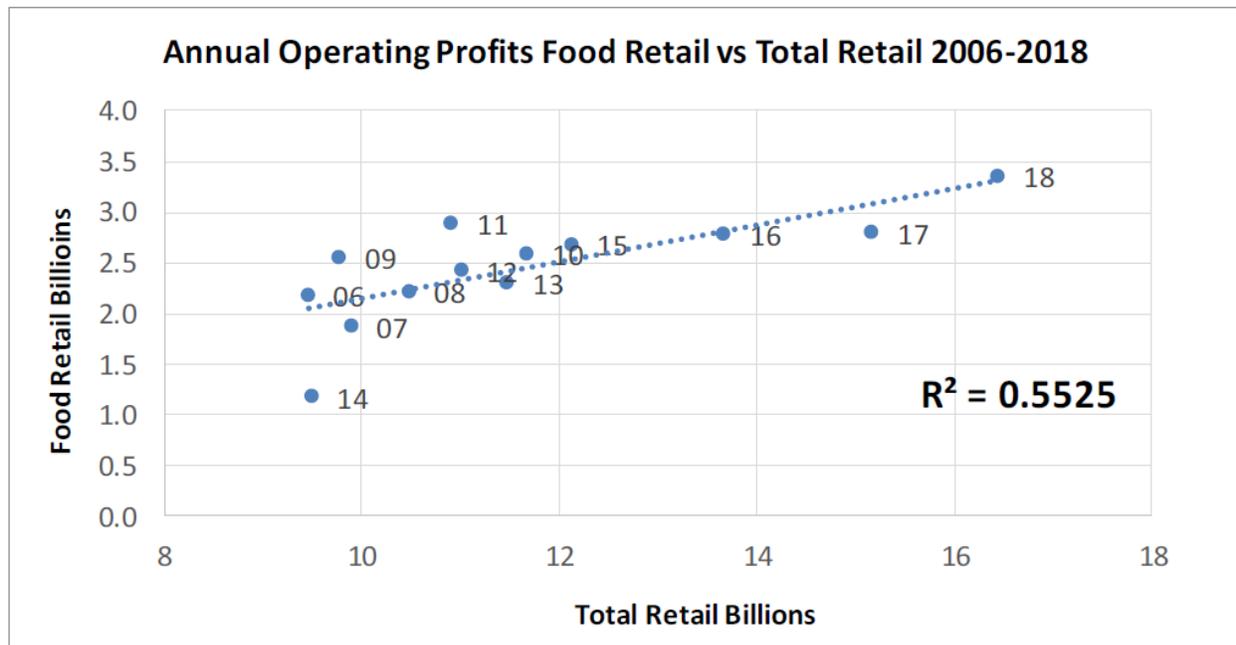


- Food stores' share of total retail revenues were 24% in Q4 2018 while food's share of total operating profit was 17%.
- Food stores' total revenue share of total retail was 25% for 2017 and 26% for 2012-2016 average.
- Food stores' operating profit share of total retail was 19% in 2017 and 21% for 2012-2016 average.

Annual Assessment



- On an annual basis, 2018 food retail operating profits increased by 20% compared to 2017. That of course indicates that operating profits were very good for food retailers in 2018.
- The gain in 2018 was on top of no change in profits in 2017 and an essential flatlining or lower profits from 2011-2017.
- The gain in 2018 only managed to put food retailers back on a modestly ascending profit trendline.



- From 2006 to 2018, food retailers has seen an annual compound growth rate in operating profits of 4%. From 2011-2018, however that growth rate has only been 2%, fueled largely by 2018.
- Total retail has seen 5% compound growth rates in profits since 2006 with 6% growth in profits since 2011.
- With those divergences noted, food retail and total retail operating profits are strongly correlated between 2006 and 2018. In fact, if the poor food year of 2014 is excluded, the R-squared over that time would have been 63%.

Why it Matters

The food retail profit performance staged a strong performance in 2018. That performance stands in contrast to the lackluster showing from 2011-2017. As noted below, there are hints of food inflation in 2019. That is likely to help make 2019 another positive year for food retailers.

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