



CANADIAN TIRE CORPORATION, LTD.
Q3 EARNINGS CONFERENCE CALL
Thursday, November 7, 2024 – 8:00 A.M. ET

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outbreak of contagions or pandemic diseases; (g) risks and uncertainties relating to information management, technology, cyber threats, privacy and data breaches, property management and development, environmental liabilities, social matters, supply-chain management, product safety, competition, seasonality, weather patterns, climate change, commodity prices and business continuity; (h) the Company's relationships with its Dealers, franchisees, suppliers, manufacturers, partners and other third parties; (i) changes in laws, rules, regulations and policies applicable to the Company's business; (j) the risk of damage to the Company's reputation and brand; (k) the cost of store network expansion and retrofits; (l) the Company's capital structure, funding strategy, cost management program, and share price; (m) the Company's ability to obtain all necessary regulatory approvals; (n) the Company's ability and timing to complete any proposed acquisition or divestiture; (o) the Company's ability to realize the anticipated benefits or synergies from its acquisitions and investments or divestitures; and (p) the timing and results of the review of strategic alternatives for the Company's Financial Services business. Additional risk factors relating to Management's expectations with respect to the Company's strategic investments and operating capital expenditures include: (a) the occurrence of widespread economic restrictions, construction limitations, or supply chain delays due to, among other events, a global pandemic resurgence; (b) shortages of raw materials and/or skilled labour required to execute capital investment plans; (c) higher than expected cost inflation for materials, equipment, and labour required to execute capital investment plans; and (d) organizational capacity to execute the capital agenda. The Company cautions that the foregoing lists of important risk factors and assumptions is not exhaustive and other factors could also adversely affect the Company's results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors, and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information.

For more information on the material risk factors, uncertainties and assumptions that could cause the Company's actual results to differ materially from

predictions, forecasts, projections, expectations or conclusions, refer to section 13.0 (Forward-Looking Information and Other Investor Communication) and all subsections thereunder in the Company's Q3 2024 MD&A. For further information, refer to the Company's other public filings, available on the SEDAR+ website at <http://www.sedarplus.ca> and at <http://investors.canadiantire.ca>.

The forward-looking information contained herein is based on certain factors and assumptions as of the date hereof and does not consider the effect that transactions or non-recurring or other special items announced or occurring after the information has been disclosed have on the Company's business. The Company does not undertake to update any forward-looking information, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, except as is required by applicable securities laws.



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CORPORATE PARTICIPANTS

Karen Keyes - *Head of Investor Relations*

Greg Hicks - *President & CEO*

Gregory Craig - *EVP & CFO*

TJ Flood - *EVP & President, Canadian Tire Retail*

CONFERENCE CALL PARTICIPANTS

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Luke Hannan *Canaccord Genuity*

Chris Li *Desjardins*

PRESENTATION

Operator

Thank you for standing by. (Operator Instructions). Welcome to the Canadian Tire Corporation Earnings Call. (Operator Instructions).

Karen Keyes, Head of Investor Relations, Canadian Tire Corporation

Thank you, and good morning everyone. Welcome to Canadian Tire Corporation's Second Quarter 2024 Results Conference Call. With me today are Greg Hicks, President and CEO; Gregory Craig, Executive Vice President and CFO; and TJ Flood, Executive Vice President and President of Canadian Tire Retail.

Before we begin, I wanted to draw your attention to the earnings disclosure, which is available on the website and

includes cautionary language about forward-looking statements, risks and uncertainties, which also apply to the discussion during today's conference call.

After our remarks today, the team will be happy to take your questions. We will try to get in as many questions as possible but ask that you limit your time to one question plus a follow-up question, before cycling back into the queue.

And we welcome you to contact investor relations if we don't get through all the questions today. I will now turn the call over to Greg.

Greg Hicks, President & CEO, Canadian Tire Corporation

Thank you, Karen. Good morning and welcome everyone. The third quarter came to us as we expected and we delivered a normalized diluted EPS of \$3.59, up significantly over Q3 of last year. Although we've experienced multiple interest rate cuts this year, consumers remain understandably cautious. Their spending reflected that restraint, but we were prepared. Our strong strategy, supported by our dedicated team guided us through lingering headwinds and has positioned us well.

Before we unpack our results, I'll give you our view into the health of the Canadian consumer. Our data shows that consumers are heavily influenced by two factors: Their spending power and their sentiment. The first is simple. Economic factors like cost of living and unemployment have continued to constrain consumer spending. At the same time, consumer sentiment or the confidence with which they spend their money is the lowest we've seen in a long time. This sentiment is not unique to a specific cohort of household income.

Over the past five quarters, spending has declined across every segment we measure, sustained evidence of the Canadian shift to value and discounts.

We believe the dual challenges of lower spending power and consumer sentiment are temporary. That said, given



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impending factors like mortgage renewals, we believe the near term will still be tough. We also believe that consumer confidence will recover and slowly bring the market back to spending stability.

We see the recent successive interest rate cuts as a potential catalyst, and it's worth noting that the gap between essential and discretionary spending narrowed in Q3. These may be signals of a slight and gradual unlock of consumer restraint. Despite a challenging consumer environment, we are ready for our customers. Our supply chain and in-stock positions are strong. We are delivering value through price investments and our ongoing product innovation has delivered the kind of assortment vitality critical for growth. This sets us up nicely to turn the proverbial corner, whenever we reach it.

Now let's discuss the results. This year, we've consistently framed our quarterly updates around three points of leverage, creating value and deeper relationships through our Triangle Rewards program, maximizing our existing assets and driving operating leverage with a constrained top line.

We're making good progress, achieving business efficiencies and delivering consumers value. Starting with Triangle Rewards, Q3 loyalty sales were once again stronger than non-loyalty sales. What's more, comparable loyalty sales were up for the first time in over a year. Effective earn rate or the amount of Canadian Tire money that gets issued for every loyalty dollar spent at Canadian Tire was up in the quarter. In a concerted effort to encourage member engagement across our banners, we issued more Canadian Tire money right across our enterprise.

Loyalty sales at Sport Chek and Marks were notable contributors in the quarter, up 12% and 6%, respectively with increases in loyalty penetration and continued growth in our active registered members. Enterprise-wide loyalty penetration was the strongest it's been in two years. All this activity translated to increased Canadian Tire money redemption in the quarter, up 10.1%, with the largest percentage being redeemed at CTR.

In addition to driving value by integrating the assets we own, we've continued to integrate our loyalty partner, Petro-Canada.

Over 300,000 Canadians have now linked their Triangle Rewards and Petro Points accounts and virtually all of them have earned Canadian Tire money already. The result is a 10% incremental spend per linked member delivering \$33 million in incremental sales in just a few months.

Together, the businesses we built and the partner we welcomed into the program are creating a system that is greater than the sum of its parts. Expect us to continue driving engagement across this system in the businesses we own and with partners, creating a flywheel effect that provides more value for the customer while accumulating first-party data upon which we will increasingly build our business.

Moving now to how we continue to leverage our existing assets and investments, starting with technology upgrades that bolster our key capabilities. This quarter, we implemented the first phase of modern cloud-based technology supporting our transportation management capabilities, a tech stack that effectively and efficiently supports all of our banners together as one.

Similarly, across the enterprise, we implemented a single modern cloud-based infrastructure that supports our Triangle Loyalty program, opening the door to better data, real-time insights and enhanced promotions. We expect the payoff to be better and more immediate engagement with our members.

Last quarter, I highlighted our One Digital Platform and a new single user signing on experience, making cross-banner shopping more seamless and a growing contributor to our performance.

In September, we had the highest penetration of digitally known Triangle members across our enterprise digital assets.

In-store, we continued to streamline the locker pickup experience with improvements to e-mail communications



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and more flexible customer pickup. Locker NPS rose to 65 in Q3 and locker usage was up 13%.

Overall, I am pleased with our focus on creating value from our existing assets, capabilities and investments.

More specifically, I'm encouraged by what we've learned in the process. Not only have we identified how technology supports our strategy, but we've also clarified the strategy behind our technology.

For instance, it has become quite clear that legacy single banner operating models and technology, hamper our overall competitiveness and our work to deploy a modern enterprise technology continues.

And finally, I'll touch on how we're maximizing our operating leverage. Given the challenging economic conditions, our merchant team took targeted action to support those customers who need to be more selective with their purchases. This included a focus on essentials, specifically in Automotive, where various categories including Tires, were up, even in a 100-year-old TAM that also happens to be in our name, we continue to grow.

More broadly, we are seeing new assortment vitality across both owned and national brands drive improved performance relevance and sales. Year-to-date, new product sales have been driven by product introductions in Living and Automotive categories. This vitality is not only pleasing existing customers, but better still, it's attracting new ones. Including the lower income, debt burdened and younger demographics.

A good example is a tumbler collection we launched in partnership with a popular influencer The Birds Papaya. This product line attracted a younger customer base, generating incremental traffic and revenue.

As I said last across our banners, we are working hard internally and with vendors to drive sales, but the top line environment is still tough. So, our efforts to control costs, improve margins and manage inventory will continue.

Beyond our disciplined expense control, we have also developed a greater appreciation for new, efficient and

agile ways of working. New ways of working that are better suited for today's challenges and change, ways of working that enable the achievement of targeted outcomes.

This has shown up not only in our strategic prioritization and focus, but also in our results. We are encouraged with our progress this year but know that we have more work to do. And with that, I'll pass it over to Gregory.

Gregory Craig, EVP & CFO, Canadian Tire Corporation

Good morning, everyone. Q3 landed pretty much in line with our expectations as we continue to focus on controlling the controllables. It was also another clean quarter with no normalizing items. EPS at \$3.59 was strong, up 21% or \$0.63 on a normalized basis, driven by improved retail profitability.

Part of the increase was due to a one-time gain of sale of a retail property in Toronto as well as insurance recoveries related to the 2023 DC fire. These two items represented about \$0.41 at the EPS level.

Notwithstanding that, we delivered a good operating result, controlling what we could and a soft consumer demand market and keeping OpEx flat to last year.

Strong retail gross margin rate and solid cost control allowed us to offset lower retail revenue. And at CTFS, although write-offs were up as expected, the business delivered a solid performance on the back of good cardholder engagement.

Now I'll take you through a little more detail by segment. Retail revenue was down 1.8% to \$3.8 billion, with lower petroleum revenue contributing to the decline, down 8% on the back of lower volumes pumped. Excluding Petroleum, retail revenue was down 0.8% and treaded slightly ahead of sales, which were down 1.4%.

Our sales trends improved in Q3 with comparable sales down 1.5% compared to a 4.6% decline in Q2. The timing of promotional events and a good back-to-school season



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this year resulted in Sport Chek growing 3%, partially offsetting 2% declines at CTR and at Mark's.

Our customer data tells us that the impact of interest rates has yet to translate into significantly different spending behavior, although trends did improve a little quarter-over-quarter.

Canadians are still generally making fewer trips and putting fewer items in their baskets than a few years ago with more of their spend going to essentials.

As Greg spoke to, loyalty can be an important tool for delivering value to our customers in this environment. Customer engagement means we can enrich the insights we get around customer behavior and in turn, offer them value through personalized offers and more informed mass promotions to drive more and better incremental sales as we did again in Q3.

Customers appreciate the impact of Triangle Rewards in their lives as shown by the significant increase in the loyalty penetration rate on a direct scan basis.

Over the past 12 months, the rate has risen by nearly 200 basis points to 55%, driven by meaningful increases at Mark's and Sport Chek.

Turning to the performance by banner now. At CTR, comparable sales were down 2.2%. Essentials continue to outpace discretionary and were down less than 1% against a strong comp in Q3 last year. Automotive had its 17th consecutive quarter of growth, driven by growth in auto maintenance, which was up 7%. Customers continue to service aging vehicles and are coming to us for more and bigger work.

Outside Automotive, other divisions saw sales declines in the quarter. However, we continue to see pockets of growth in categories like watering as well as in bikes, backyard fun and fishing.

Leveraging our high-low model and being stock in key products such as summer climate control, through the shoulders of the season helped, and the discretionary sales trend improved, down 3.5% compared to down 8%

in Q2. CTR revenue ended ahead of sales, down 1% as we saw some benefit from fall/winter orders ahead of our biggest quarter. Retail revenue is tracking broadly in line with sales. We would expect that to continue until the market conditions improve, although there may be some quarter-to-quarter variation.

Moving now to Sport Chek. Comparable sales were up 2.9% and marking two consecutive quarters in which Sport Chek outperformed industry trends. Demand for high ticket and discretionary categories remain soft, and we saw that during back to school season with need to have categories like backpacks, water bottles and kids footwear being the key drivers of sales. To counter this, promotional events continue to be a focus and contributed to growth in athletic footwear and hockey in Q3.

Improved customer experience through store refreshes and in-stock availability of key brands like Helly Hansen, Sherwood, HOKA and YETI continue to drive positive customer sentiment.

Mark's had a tougher Q3 with comparable sales down 2.3% for the quarter, taking their year-to-date decline down to 1.4%.

Industrial wear continues to be down, while men's casual wear, particularly T-shirts and shorts, grew. Another top performer was children's wear, where the expansion of the assortment available in select stores is getting traction and driving some growth. The quarter finished stronger than it started, and we are well positioned with the right inventory for fall as it arrives across the country.

Turning now to Helly Hansen, where Q3 revenue was down 6%. Retail stores and e-commerce grew, but sports wholesale revenue declined. A shift in timing of sports wholesale shipments to Q4 contrasted with the early deliveries of fall/winter product we saw in Q3 last year and was only partially offset by stronger replenishment orders.

If better weather translates to better outerwear sales compared to last year, we also expect stronger wholesale replenishment as sales come through to benefit Q4.



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Retail gross margin rate, excluding petroleum, beat our expectations again this quarter, coming in at 35.7%, up 62 basis points compared to last year.

Margin was favorable at Helly Hansen and CTR. Partially offsetting investments and promotional activities to drive sales. You will recall that last year's CTR margin benefited from freight tailwinds, which was not the case again this year. Improved product margin was partially due to the mix and partially as a result of the work we've done on product costs.

While we continue managing levers to hold margins over the longer term, there will always be quarter-to-quarter variances driven by business performance and mix.

Retail SG&A was favorable again this quarter. We continue to manage costs tightly to within \$6 million of last year despite ongoing investments in stores and technology. Higher marketing expense reflected costs related to the Olympics and Paralympics. These increases were offset by lower personnel costs and lower supply chain costs as we cycled the last quarter of exits of 3PLs and last year's inefficiencies related to the DC fire.

We will stay focused on SG&A discipline to constrain operating expense growth in 2024, but the comp will become harder for Q4 as we cycle the meaningful supply chain savings and lower personnel costs last year.

Moving now to inventory. Overall, corporate inventory dollars were \$300 million below last year or down 9% due to ongoing inventory management across the banners. Spring/summer inventory ended lighter than where we were at the end of Q2.

But as expected, this was partially offset by some modest growth in nonseasonal categories as expected ahead of the important selling season in Q4.

On the dealer side, inventory is down 5% and units are down. The decline reflects lower inventory across both nonseasonal and seasonal categories compared to last year including spring/summer inventory which came down as a result of Q2 and Q3 sell-through.

I'll now move on to Financial Services, where results materialized as planned. Active accounts were flat on the backs of proactive measures we implemented in previous quarters to manage portfolio risk, but we continue to see good cardholder engagement. Credit card sales were up and payments remained strong. GAAR was up 3%, driven by growth in average account balances. Revenue was up 1.5% over last year. Lower gross margin reflected increases in both net impairment and funding costs which were the primary drivers of a \$15.4 million decline in IBT.

Risk metrics were up as expected. The PD2+ rate, which is typically an early indicator of future write-offs was 3.4%. The write-off rate was 6.9%, up 20 basis points compared to Q2.

As we mentioned on the Q2 call the team is keeping a close eye on insolvencies, given rising unemployment rates and has a playbook ready to take additional measures to limit risk exposure over the medium term as necessary. The allowance rate was 12.3%, down slightly from last quarter on higher receivable ending volumes and remains within our targeted range of 11.5% to 13.5%.

As we said last quarter, our strategic review to consider a range of alternatives for the Canadian Tire Financial Services business is ongoing at this time. The review remains a priority for us.

We continue to make progress in assessing how potential partners can help us drive long-term value for Triangle and our retail business. CTFS continues to run smoothly and to perform well as we saw it again in Q3. It continues to demonstrate that it issues one of the best no-fee credit cards, as recognized in the most recent J.D. Power Satisfaction Study and one of the most well-established risk management programs in the country.

Turning now to capital allocation. Cash generation is ahead of last year, with cash generated from operations up by more than \$700 million on a year-to-date basis. This has been achieved through improvement in working capital, cost control and margin management, which, in turn, has helped us to significantly reduce our borrowing exposure.



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We continue to believe that balanced and consistent capital allocation anchored on investing in our business for the longer term is the best approach and that this will continue to be our guiding principle through 2025.

Our operating capital spend is expected to be between \$525 and \$575 million, which is above our long-term historical run rate with the continued emphasis on refreshing the store experience.

We also plan to repurchase up to \$200 million of shares during 2025.

Finally, the dividend will increase in March to \$7.10 per share, which will be our 15th consecutive year of dividend increase, delivering one of the best yields among consumer discretionary peers.

Before I conclude, I wanted to speak briefly about our plans and expectations for Q4 and 2025.

For Q4, we have planned for some sales growth at CTR against soft comps due to milder weather last year. Automotive should continue to be a driver for us with new tire products in the market and strong in stock positions on auto fluids and batteries, and we will continue to provide Canadians with the value they seek during the gift-giving season.

Outerwear at other banners should also see some growth if we get the weather consistent with the 5-year historical average.

While October sales trended ahead of our year-to-date trends, October typically represents less than 25% of our Q4 sales activity. So it is unlikely to be an accurate predictor of where the quarter will end.

As many of you are aware, sales this Q4 are expected to be heavily weighted in December, given the timing of Black Friday this year.

We continue to expect revenue to broadly mirror sales unless we see a marked increase in consumer demand.

On a year-to-date basis, our retail gross margin is trending ahead of our targeted North Star. However, where we land will very much depend on promotional intensity and sales mix in the fourth quarter.

Our current expectations, especially given the mild weather to start the quarter is that we heightened promotional intensity in November and December to capture sales. We will be doing our part to capture our share with early campaigns in market already.

On a year-to-date basis, we continue to be extraordinarily proud of the efforts our teams have made to deliver a 22% increase in EPS on a normalized basis. We have done this in the context of a 3% decline in retail sales, increasing write-offs at the bank and by managing our margin levers and controlling our costs.

As we move into 2025, remember that we will be cycling some gross margin OpEx and one-off tailwinds that helped earnings in 2024, including insurance recoveries and outsized gains on property sales compared to our normal run rates.

Our time is being spent in ensuring we are well positioned to meet sales demand including buying for flat to modest growth in 2025. While balancing margin levers and exercising discipline in how we grow costs to drive earnings leverage. With that, I'll hand it over to Greg for his closing remarks.

Greg Hicks, *President & CEO, Canadian Tire Corporation*

Thanks, Gregory. Through persistent economic headwinds, our team continues to manage well. It's certainly been a tough year for retailers. And here at CTC, our team members remain dedicated to working through the current environment while preparing for the future. And for that, I want to thank them.

Their commitment to our company, customers and our community is why we were named the most trustworthy Canadian company by Statista and Newsweek. And we were the #1 Canadian retailer on the inaugural Canadian



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Harris Poll reputation ranking. This recognition is evidence that our continued efforts to reinforce Canadians trust in us is resonating.

Last quarter, we talked about controlling costs with a constrained top line, but we also noted signs of optimism. And today, some of those signs feel more concrete given interest rate cuts and early glimmers of a measured consumer rebound.

We know it will take time. But when we do finally turn that proverbial corner, we will be ready. We got here by focusing on three points of leverage. Triangle, investments in existing assets and our operating leverage, buffering our business in this challenging economy.

At the same time, our *Better Connected* strategy in years of smart investments have paid off setting us up for where we're going next. And with that, I'll turn it over to the operator for questions.

QUESTION AND ANSWER SESSION

Operator

(Operator Instructions) Our first question comes from the line of Irene Nattel with RBC Capital Markets.

Irene Nattel, RBC Capital Markets

Really great overview. Very much appreciated. Can you talk to us about some of the specific initiatives that seem to be resonating with consumers in terms of driving demand and how we should think about that evolving as we move through Q4 and into 2025?

Greg Hicks, President & CEO, Canadian Tire Corporation

Maybe I'll take that, see if anybody wants to pile on. We talked a lot for a reason on the call about Triangle Rewards. We continue to see that program, that system

that we've created to provide benefit for cash strapped Canadians in this environment. We're really happy as we indicated, with what we're seeing with the Petro-Canada partnership and how a significantly elevated amount of issuance is moving through the system into redemption.

A 10% increase in redemption is higher than we've seen in many quarters. And as you know if more and more of our kind of discounting or value delivery is being done through Triangle, it's making us smarter for the future as well with all the first-party data that we're accumulating.

So you can expect us to continue on that work effort. Lots more one-on-one offers, very different marketing in terms of bonusing redemption events, integrating all our banners into enterprise-wide marketing offers, you would have heard me talk about that in terms of max stack last quarter.

So that's where we're really focused.

We're also quite focused and feeling good about seeing some unit elasticity come back across the businesses. And that would be both in essential and in some discretionary categories.

We've taken our pricing down in hundreds of SKUs in CTR as an example over the course of the last 100 days or so, and we've seen very strong elasticity for those basket of SKUs.

So all pointing to signs of optimism for us, I think. And all of those more traditional marketing tactics around pricing to try and drive unit elasticity we're just continuing to move forward on that front.

And then lastly, I would say, and we're feeling very good about this is I think we made mention of this in the prepared remarks is just what we're seeing from an assortment vitality standpoint. It's been a tough environment over the course of the last two years, given our inventory position with merchants, really being able to maneuver new innovation into our assortments.

That would be both national brands in terms of what comes to us from them and innovation we create in our



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own brands. And we have -- we've introduced a great number of SKUs, both owned and national this year. And you heard us call out the fact that it drove growth in the quarter.

And then when you look back, Irene, if you were to isolate, CTC's growth on the top line, a large portion of that has always traveled through new SKU innovation. And so seeing that green shoot pop in the business, especially in the last quarter here and on a year-to-date basis is something we're really excited to see.

Irene Nattel, *RBC Capital Markets*

If I may, your tone sounds decidedly more positive, albeit cautiously so, than we've heard it in the past several quarters. Is that a fair assessment?

Greg Hicks, *President & CEO, Canadian Tire Corporation*

Yes. I think it is. We are seeing green shoots. But listen, even with the recently announced rate cuts, we still think there's lots to be concerned about in the economy right now. GDP per capita has declined now for multiple quarters. It has real implications for the economic well-being and standard of living for Canadians. I think the mortgage renewal cycle is real today and will continue to be real for a couple of more years at least.

We talked about business insolvencies rising at an accelerated pace. You saw the stats in September around the consumer price index.

I'd say what we worry about the most, Irene, is just the unemployment rate. There does appear to be slack in the market and job growth just isn't keeping pace with population growth. Even with the rate cuts, there's still a wide swath of Canadians that are really struggling right now and it's going to take time for the easing cycle to affect consumption.

So until such time, we're just going to continue to focus on executing our playbook for delivering value to our

customer and driving leverage where we can, both financial and through our asset base.

Operator

Our next question comes from the line of Tamy Chen with BMO Capital Markets.

Tamy Chen, *BMO Capital Markets*

I wanted to better understand this gap you talked about narrowing between essential and discretionary. We noticed among your top three category performers in CTR, two of the three seem to lean more to discretionary. So this narrowing, I mean I guess, how would you characterize it? Did that happen in Q2 at all? Or this started to happen in Q3?

TJ Flood, *EVP & President, Canadian Tire Retail, Canadian Tire Corporation*

Yes. I think we did see a big gap in both Q1 and Q2 and even in Q4 if you go back even into 2023. The gap between essential and discretionary did close a bit. It was about 300 basis points in Q3. To your point, there were some discretionary categories that did perform well, Climate Control being one of them.

But we still expect a gap to persist as we go into Q4. Q4 is one of our biggest quarters for essential mix. And that's where we're investing in our inventory. And surgically, to your point, we have seen in pockets the discretionary bouncing back a little bit.

But it is still in a decline, but the gap is narrowing. We're looking forward to the Christmas season to get a good barometer on whether there's going to be a more fulsome bounce back in discretionary.



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Tamy Chen, BMO Capital Markets

My follow-up is on the dealer activity. I noticed in this quarter, your revenue trend is a bit better than the same-store sales. So that suggests the dealers did stock up a little bit. Would you characterize that as they were just stocking up in anticipation if there was any port strike disruptions or you're seeing from their behavior some of them are willing right now to take that step into getting a bit more inventory. And when we eventually get to a point where more of these dealers do want to really restock, how quickly can you meet that demand?

TJ Flood, EVP & President, Canadian Tire Retail, Canadian Tire Corporation

There's a lot in that question, so let me try to unpack it a little bit. I think Gregory talked about it in his opening remarks. We have seen the disparity between POS and revenue closing in Q3 and even a little bit in Q2 relative to what you would have seen in '23 and even a little bit before that.

So that is our expectation going forward is that the dealers are going to respond to how consumption comes to them. And that's what we saw in Q3. We expect that in Q4. There was a little bit of a discrepancy in Q3, as you pointed out, which is a bit of timing on preparing for the winter season. But for the most part, when you're about 100 basis points off, that's pretty tight. And in the long term, that's really what we expect. From time to time, there's quarterly blips, but we do expect the dealers to operate really close to consumption. And we're here and ready when the POS starts to pick up for them to draw into the inventories that we have here corporately.

Operator

Our next question comes from the line of Mark Petrie with CIBC.

Mark Petrie, CIBC

I actually wanted to ask on Financial Services. You're still getting some pretty solid receivables growth well ahead of sales. And I know most of that is balances versus new accounts, but is that tracking as you would have expected? And where are you now versus, six months ago or a year ago in terms of monitoring and managing things like credit limit increases or payment prompts and interactions. Are those efforts still ramping up? Or are you kind of stable? Where are we at in that part of the business?

Gregory Craig, EVP & CFO, Canadian Tire Corporation

If you think about receivable trends, I would still argue, generally, if you look at quarter-to-quarter, they're a downward kind of cycle. It would have been 8% in the last year, down to a receivable volume of, say, 3% this year. And it points to what you've suggested, tighter management around new accounts and credit limit increases.

So I don't think our focus on that has frankly changed at all. I would argue that there's more the team could do if they felt the need to do that. But they're being very careful around credit limit increases and probably more careful than usual even on new account acquisition, is what I would say.

And look, not to get too technical, but any quarter there's a bank holiday where the month ends on a bank holiday, that hurts payments. So, you got some noise in the results in there as well, to be frank. But the general trends are continuing, as you said, receivables are pacing down. We're now at about 3% growth rate, and the team is still very focused on kind of managing overall risk levels within the bank.

Mark Petrie, CIBC

Following up, Greg, you were talking about and highlighting the increase in redemptions within Triangle.



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Is it fair to say that higher redemption rates lead to higher engagement rates? Or what's the sort of relationship there? When you see redemption, what does that mean sort of going forward?

Greg Hicks, President & CEO, Canadian Tire Corporation

Yes, Mark, it does, we believe, absolutely point to the fact that a member is just much more engaged in our program in the system when they're redeeming. There's also an average benefit of \$4 worth of spend that comes with every dollar of redemption. So there's a nice benefit in terms of having that Canadian Tire money rinsed through the system in the form of redemption. And as we talked about in the quarter, if the engagement in the program can continue to move more and more of our members to registered members, then we really see stickiness and more importantly, recurring revenue. And it's that recurring revenue that we continue to look towards in terms of the ultimate, I guess, volatility disturber for our business.

If more and more our membership can be registered and more and more of our revenue can be recurring, then there should be less volatility in the business going forward. And so that's the ultimate objective.

Operator

Our next question comes from the line of Vishal Shreedhar with NBC.

Vishal Shreedhar, NBC

With respect to the product margins at CTR. Can you just talk about some of your initiatives and how much white space is remaining to exploit the potential of those initiatives that you're working on?

TJ Flood, EVP & President, Canadian Tire Retail, Canadian Tire Corporation

Yes, as Gregory pointed out in his opening remarks, we're pretty proud of how the team at CTR, up about 30 basis points for the quarter.

And as we unpack kind of how the quarter came to us, we got some benefit from kind of reduced product costs with how strong our teams have been negotiating with vendors, and we saw some positive shipment mix as well with our automotive business outpacing some of the other businesses in automotive, as you know is one of our higher-margin businesses. And those two factors kind of offset some FX headwind that we had as well as our need to invest a little bit back in the consumer to try to drive some consumer demand.

I did want to reiterate, quarter-to-quarter margin rates can be quite choppy. So, we had a good quarter here and our North Star is to kind of maintain the margin rates that we were able to achieve over the past couple of years, and that's going to continue to be our goal. We're leaning into our capabilities, right? When you think about the elasticity modeling that's becoming more and more machine learning-based. We're really good at understanding where we need to invest in. Promotionally, Greg mentioned a bit earlier, we know where elasticity is important when value creation is required on the reg pricing side of things, and we got some traction there. So we feel really good about that.

Our Triangle membership base and the loyalty program benefits that we're able to provide allows us to provide value to consumers and manage margins. And then our own brands, our stable of own brands, really helps insulate our margin rates.

So, our belief is that going forward in what's a tough economic backdrop and consumer backdrop. All of these capabilities are going to help us maintain our margin rates and kind of run that balance of demand creation and managing our margins going forward.

I feel really good about the work the team has done and what we've invested in from a capability standpoint.



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Greg Hicks, *President & CEO, Canadian Tire Corporation*

I would just add, Vishal, at the CTC level, we certainly have our publicly stated North Star objective. To the point T.J. makes, we always have puts and takes here every quarter, every year. But our objective doesn't and won't change. Next year, we do have some headwinds that weren't as pronounced the year including foreign exchange. We've seen what's happened with the dollar over the course of the last couple of months. And global freight rate, given the Suez canals impact on the overall shipping industry. Two big headwinds that we didn't really have this year, we had a little bit of foreign exchange headwind, but it's more pronounced next year. So, we need to be working through those things in '25.

Vishal Shreedhar, *NBC*

And with respect to Triangle and the ability to add more retail banners into the system and have them issue points as well and accept them. Is there a capital light way to do this? Just thinking about some of the partnerships that you already have and if we should expect more of that as we look out in the future?

Greg Hicks, *President & CEO, Canadian Tire Corporation*

As you heard, we're really happy with what we're seeing in the Petro-Canada partnership. And I'll stop short of providing you specific names, but now that we're very active.

We're transitioning our loyalty program and our business for that matter from what we would call a general merchandise and apparel retail system with owned assets to an everyday need system with owned and partner assets with Triangle Rewards at the core.

That may sound subtle, but it's not. And that's our objective. The Petro-Canada partnership demonstrates to

us that we can derive value from businesses that we don't own and that in and of itself, to your point, is a more capital-light way to drive value in our business.

We've built the technology platform in terms of our ability to integrate with other businesses and other loyalty programs with the most flexible technology that we can build through APIs. And so what we've built for Petro-Canada is scalable and the great news is this isn't just creating value for just our business, but we see meaningful value being delivered to the customer associated with the Petro-Canada partnership, and we think we can replicate that.

Operator

Our next question comes from the line of Luke Hannan with Canaccord Genuity.

Luke Hannan, *Canaccord Genuity*

I wanted to ask about the campaigns that you have in the market thus far into Q4. And specifically, what are you noticing from a competitive backdrop or a promotional intensity thus far into Q4? I know you mentioned you expect that intensity in the market to pick up towards the end of the quarter where the bulk of the sales are located. But is there anything that you're noticing thus far into the quarter as far as promotional intensity in the marketplace and then how your campaigns are responding to that?

TJ Flood, *EVP & President, Canadian Tire Retail, Canadian Tire Corporation*

I can give you a little bit of insight there. I mean the biggest thing that we're seeing this year, as we pointed out in some of the earlier comments is the shift in the timing of Black Friday and every retailer in the country is obviously dealing with that. That just creates an environment where we've got to think through our marketing campaigns and the lead up to Black Friday and then also kind of with the last sprint between Black Friday and Christmas, so we're being very aggressive in recognizing that consumers are



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definitely coveting value right now and we have so many opportunities to provide them value, whether it be through our high-low model or our Triangle Rewards. Without tipping my hand to the competition, you can expect us to be showing up with value across the board to help inspire gift giving. And we're also, as Greg pointed out, we're really excited about assortment vitality as we head into Christmas. We've got a new color scheme in Christmas Decor called, The Night Before Christmas. We've got some great new product launches in Paderno and Ninja in the kitchen area, and we're ready to roll, whether it be for Christmas Decor, gift giving or when the seasonal weather hits. So, that's how we see it playing out as we go forward here.

Luke Hannan, *Canaccord Genuity*

That's actually a good segue into my follow-up here, which is on that assortment vitality. We know it is a big traffic driver, both the national brands and the owned brands you have. And Greg, you had mentioned that there's been sort of an acceleration of the introduction of those new products this year as well. Can you help us frame up or dimensionalize where that stacks up for this year, this holiday season versus maybe past years?

Greg Hicks, *President & CEO, Canadian Tire Corporation*

Yes. I think this would be directionally correct, Luke. I don't have the stats off the top of my mind to really relate total net new SKUs to previous years. In general, we're still working down inventory. We talked about the working capital benefit that we received in the quarter. We managed it down \$300 million. There's a tough balance that the merchants are trying to deliver in terms of drawing down our inventory at the same time as introducing new SKUs. And so your ending inventory position in any category is going to impact your ability to really drive innovation. And that would be not only for our own brands but national brands.

Generally, and why we're calling it out is we are seeing -- again, I've used the terminology green shoots. We're just

seeing green shoots in terms of the innovation that's coming to us across all of our banners from our national brands and the role that that's playing in driving overall growth in any one of our formats. I mean PJ and I were just talking the other day, If you look at Mark's, we're one of only two retailers to partner with Levi's in their strategic partnership with Beyonce. And so, the denim activation kick-started in the first or second week of October and we've got almost 100 doors activated with that innovation. And the entire store for those 94 doors, the performance is extremely elevated.

I don't think Levi's would have been in a position in terms of their overall global inventory to come with that type of innovation as early as last year. Across the business, every category having a little bit of a different story, we're feeling good about how that's popping through the surface. But I would still say it's not at the run rate delivery of years gone by. And I wouldn't include 2023, you go back to 2022 and prior in terms of where innovation was really showing up in the business and driving the lion's share of the growth on the top line. So, we're moving in the right direction is what I would say.

Operator

Our next question comes from the line of Mark Petrie with CIBC.

Mark Petrie, *CIBC Capital Markets*

I just had a very quick follow-up, which was on the comments around dealer inventory. I think when you were talking about spring/summer, I heard you say that you had made progress from Q2, but would you characterize the spring/summer inventory as clean as you exited that season?

TJ Flood, *EVP & President, Canadian Tire Retail, Canadian Tire Corporation*

As we went through the Q2 and Q3 season, the dealers definitely reduced their inventory on spring/summer.



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There still is some kind of carryover from the '23 and '22 levels. But by and large, we're feeling pretty good as we go into Q1 and Q2 next year with respect to spring/summer. Again, we don't see it as a burn-build situation in terms of the strategy from the dealers based on their inventory, and they're going to track very closely to consumption as we go forward, and it's no different.

Operator

Our next question comes from the line of Chris Li with Desjardins.

Chris Li, *Desjardins*

My first question is, obviously there's still a lot of uncertainties next year. I suppose one alone could be higher tariffs. Just wanted to see what are your thoughts on that? And what, if anything, can the company do to manage the potential impact?

Greg Hicks, *President & CEO, Canadian Tire Corporation*

Yes. It's a little fresh obviously since the announcement. So we had, as you can imagine, all sorts of advice from advisers, various councils and committees that we participate in. It's really tough to ascertain the impact. It's kind of like forecasting the dollar. Everybody's got a different opinion in terms of how it's going to show up and impact our business. Is it wide-scale swapping across all imports? Will it be more surgical and transactional? Can it wait until the negotiation of USMCA? I mean there's so many things to think about here.

The good news is we continue to diversify our sourcing all over the globe, and we've seen a pretty sizable shift in our country-of-origin sourcing out of China just this year alone. And so as it relates to any type of trade escalation between U.S. and China and how that impacts us just from that standpoint alone, we're in a less risk position than we would have been this time last year, as an example.

But you could expect us to be extremely active, really trying to size up what this is all going to look like for us. And I'd imagine it will be something that we'll be talking about in future quarters.

Chris Li, *Desjardins*

That's very helpful. My follow-up question is, I know the market has obviously changed a lot since Investor Day back in 2022. I think at the time, you provided some KPI targets for loyalty sales penetration and own brand penetration. I think you're tracking slightly below those targets right now. Is that mainly because of macro challenges that are weighing on discretionary spending, which are obviously transitory? I'm just curious to know if those targets are still realistic because obviously they are very key drivers of sales and margin. And if so, do you expect them to pick up as conditions become more favorable? It certainly sounds like you have a lot of great initiatives in the pipeline as we speak.

Gregory Craig, *EVP & CFO, Canadian Tire Corporation*

Let me take that one. First, just I think, tactically, as we talked about last year with withdrawal of our aspirations, that included kind of all those aspects we considered as well.

What I will note, we did talk today about a loyalty penetration rate. We've actually altered the definition from what we would have provided at Investor Day. We think moving forward, the one we have now is a pure direct scan of cards versus previous definition that we use as we've learned more about loyalty in the last two or three years. So, the reason that number looks lower, as I've said is, because we've got a bit of a different definition that we can take offline and kind of walk your way through.

But this is the one we're going to be using going forward is what I would say. And the previous session would have been higher.



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Own brands, I think we've talked every quarter about our own brands. And it is still a key focus of this business that the margin differential, the competitive posture improvement it gives us as well from a demand perspective. It's still critically important. So, don't think that we're taking our foot off the gas for own brands in any way, shape or form, but we did kind of remove all those aspirations as part of kind of removing guidance whatever it would have been about a year ago, I guess, now.

Operator

This concludes the question and answer session. I would now like to turn it back to Greg for closing remarks.

Greg Hicks, *President & CEO, Canadian Tire Corporation*

Well thank you, Lauren, and thank all of you for your questions and for joining us today. We look forward to speaking with you when we announce our Q4 and full year 2024 results in February. Bye for now.

Operator

This will conclude today's call. You may now disconnect.