CANADIAN TIRE CORPORATION, LTD.
Q3 2013 EARNINGS CONFERENCE CALL
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For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, please refer to the "Risk Factors" section of our Annual Information Form for fiscal 2012 and our 2012 Management's Discussion and Analysis, as well as Canadian Tire's other public filings, available at www.sedar.com and at www.corp.canadiantire.ca.

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CORPORATE PARTICIPANTS

- Stephen Wetmore, Canadian Tire Corporation, Limited – CEO, Canadian Tire Corporation
- Dean McCann, Canadian Tire Corporation, Limited – CFO & EVP, Finance
- Allan MacDonald, Canadian Tire Corporation, Limited - COO, Canadian Tire Retail
- Mary Turner, Canadian Tire Corporation, Limited – COO, Canadian Tire Financial Services
- Michael Medline, Canadian Tire Corporation, Limited – President, Canadian Tire Corporation

CONFERENCE CALL PARTICIPANTS

- Irene Nattel, RBC Capital Markets – Analyst
- David Hartley, Credit Suisse – Analyst
- Mark Petrie, CIBC World Markets - Analyst
- Peter Sklar, BMO Capital Markets – Analyst
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PRESENTATION

Operator

Good afternoon, my name is Alana, and I will be your conference operator today.

At this time, I would like to welcome everyone to the Canadian Tire Corporation, Limited third-quarter earnings results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session.

(Operator Instructions)

Earlier today Canadian Tire Corporation, Limited released their financial results for the third quarter of 2013. A copy of the earnings disclosure is available on their website and includes cautionary language about forward-looking statements, risks and uncertainties, which also apply to the discussion during today's conference call.

I will now turn the call over to Stephen Wetmore, CEO. Stephen?

Stephen Wetmore - Canadian Tire Corporation, Limited - CEO

Good afternoon, everyone, and thank you for joining us today.

Dean will update you further on the details on this quarter's results in a moment, but let me first begin by touching on some highlights of our third-quarter performance and provide an update on some key initiatives that we've been working on.

As you saw in our earnings release this morning our results were strong, reflecting particularly impressive performance in our retail businesses. We saw this quarter what Canadian Tire can do when we get reasonably seasonal weather combined with good execution of many of our important initiatives to build our brand, improve our service levels and bring innovative great products to our customers across all our retail banners.

Sales growth at our Canadian Tire retail banner was strong. Particularly in our automotive business where every category was up with strong auto service revenues. Work done in our assortments and automotive is paying off, as we see a trend of consumers switching to premium branded products and improving the range of product options across key categories like batteries, is also driving sales and average basket size. I know this type of performance has been a long time coming as the Corporation and dealers embrace the automotive infrastructure technology. The benefits of the new technology are leading to additional diagnostic and maintenance work being performed, and, most pleasing, we are now seeing substantially higher customer satisfaction scores.

We're also encouraged by the performance of our hunting and fishing pro shops. Our preliminary data is telling us that these concepts are helping to drive traffic and incremental sales, as sales of stores with the pro shop concept are up over the national average. To date, 116 of our CTR stores have been converted and we continue to roll out the new assortments to select regions across the country.

The living strategy, which highlights exclusive brands from leading national manufacturers, is continuing to perform well. Our focus with this concept has been to enhance Canadian Tire's brand as a destination store for kitchen, cleaning, and storage and organization products. Similar to our pro shop concept, preliminary data suggests that stores that have implemented the full living assortment and associated merchandising are outperforming stores without the new living assortments.

The latest phase of our digital strategy launched earlier this week and we began testing e-commerce capabilities in approximately 30 stores across the country. We're using a good cross-section of store locations and more than 10,000 SKUs to test out operations and ensure we're ready to roll out a national program in 2014. Unlike many companies that are constrained by centralized distribution centers, our unique business model will provide advantages to our e-commerce offering. Our dealers effectively operate 490 mini distribution centers across the country, which collectively reflect a significantly broader and deeper inventory position than the products we have available at our corporate distribution centers. This will allow our e-commerce customers to have faster access to locally relevant assortments through their neighborhood stores than otherwise would be possible if a product was shipped directly from a centralized distribution center.

There's actually a ton of work underway with technology and innovation in the Company right now. I was just down in Kitchener at Communitech where Canadian Tire is embedded with companies like Google, developing applications to make the customer experience so much more exciting and easier. Some of the work I saw could have global ramifications if we can commercialize it, so we're watching carefully the incredible progress that Eugene Roman's technology team is making. We're actually implementing technology at a faster pace than we ever have and I'm sure Michael, Allan and Harry can go into details with you for each of their business units if you have questions about our progress.

Moving on to FGL Sports, I continue to be very pleased with the momentum we are seeing in the business. Total sales in the quarter were up versus last year, despite the fact that we have fewer stores this year compared to last, due to the completion of the banner rationalization. Our offerings are attracting more customers to our stores and building our reputation as the premier link between Canadians and the best sports brands in the world. This, combined with efforts since we acquired the business to improve our in-store experience, add new national brands, and change how we connect with our customers through the use of digital advertising and marketing, has translated into strong sales performance at the core Sport Chek banner which saw a 9.1% increase in same-store sales over the prior year. In addition, earlier in the quarter we announced the completion of the Pro Hockey Life acquisition and have already seen a positive impact to our sales results and overall performance from the 23 stores that now fall under the FGL Sports banner umbrella.

Turning to Mark's, they had a great quarter. Margins were up across all categories and strong sales growth was led by better assortments in men's and ladies casual apparel and footwear. Much of our strength was also due to an improved in-store customer experience, which includes clear and consistent signage and improved in-store merchandising. As well as the evolution of our branding as Canada's most trusted and favored store for men's clothing and footwear.

Moving onto Canadian Tire Financial Services, we had another exceptional quarter. The alignment of this key business with our Canadian Tire retail banner and the account acquisition efforts made by the team in this challenging market, continue to drive good results, something Dean will give you more details on.

Overall the team has done a very strong job driving results in our lines of operations. We need to continue to focus on delivering results. And in that vein, I want to congratulate Michael Medline who we appointed this morning as President of Canadian Tire Corporation. Michael will oversee all our business units and a number of our corporate functions. Many of you will know that Michael has had an impressive 13-year career with the Company, including his numerous corporate roles, his operational roles with Canadian Tire's retail division, CTFS and his critical work leading all of our acquisitions from Mark's to FGL Sports to Pro Hockey Life.

You have seen the performance he has driven in the last two years at FGL, and in the last year at Mark's. And this is an exceptionally well deserved expansion of his current responsibilities.

Now, because our corporate name and our lead retail name is the same, and sometimes confusing, it's worth pointing out that obviously Allan MacDonald is just completing his first calendar year end in his role as the head of Canadian Tire Retail. And he has accomplished some great things in a short amount of time. While Allan will still be in charge of CTR, as he is today, Allan will report to Michael in the same way as all the other business units will, all part of Michael's new-enterprise wide responsibilities. This new structure will greatly assist me, being able to devote even more time to the strategic issues that face us, therefore try to further strengthen our competitive position for the years ahead.

Before I pass things over to Dean, I should take a moment to update you on a couple of other items. As you know on October 23, CT REIT completed its IPO in which Canadian Tire sold a portfolio of 256 properties for approximately CAD3.5 billion and generated gross proceeds to the Corporation of CAD263.5 million. Earlier this week CT REIT also announced the closing of the fully exercised over-allotment which generated a further CAD40 million for CT REIT to support their growth strategy. Real estate has always played a vital role in our success, CT REIT will provide a new opportunity for continuing and growing our investment in this core asset. While it's still early days, we were extremely excited to see the initial positive acceptance of the IPO from investors and the market.

As a final comment, you've seen us on a heightened brand journey over the last year or two. And that journey has included new partnerships related to sport and the activity of youth in Canada. From our MLSE and Ottawa Senators partnerships, to yesterday's launch of the Canadian olympic high performance collection of apparel and footwear, that you'll find at most of our stores. To Mark's new partnership with the CFL and a game changing announcement that we will be making within a few weeks with dozens of Canada's leading sports and health partners. There's certainly a lot of excitement in the Company and I'm sure the folks here will speak to it if you're interested during questions.

Before I wrap up, with the holiday season ahead of us, we are about to enter the most competitive retail market that we have seen in years. As always, we will continue to offer our customers competitive prices and the innovative and exciting product assortments they have come to expect to meet their seasonal needs. As you know the fourth quarter is our largest quarter in terms of sales and earnings across our retail business, and we are well prepared. With the benefit of some weather, I believe the strength of both our seasonal and nonseasonal offerings will continue to drive customers to our stores. In closing, I think you can tell that I'm very pleased with our performance this quarter and remain confident in the future of the Canadian Tire family of companies and our strong brand.

And with that I'll now pass things over to Dean who will talk you through our financial results in more detail. Dean?

Dean McCann - Canadian Tire Corporation, Limited - CFO, EVP Finance

Thank you, Stephen, and good afternoon, everyone.

For those following along with the presentation slides, I'll begin with our consolidated results on slide 4, but first I will comment on two initiatives that we announced earlier this year. First, as you know, we recently completed CT REIT initial public offering, which was oversubscribed, and earlier this week we announced the closing of the fully exercised overallotment. We've been very pleased with the value that this transaction has created for our Company and our shareholders, and by the reception to the offering by the markets to date. We estimate costs associated with the formation of CT REIT will come in at CAD18 million for CTC, of which roughly CAD8 million has been expensed year to date. We have called out the Q3 costs in our MD&A and the other disclosure documents this quarter and will provide similar disclosure of the remaining CAD10 million in our Q4 results.

Second we have started discussions with potential partners for the credit card assets and funding liabilities of our credit card portfolio. As I mentioned previously, there are elements of existing precedent deals that are attractive to us, particularly around funding risk that, as we work through this process, we are keeping an open mind as to the structure of the transaction and who a potential partner could be. We are in the early stages of what is expected to be a year's worth of work, so there is not much color I can provide at this point.

Finally I'll just remind everyone that our financial services business continues to play a very important role within the Canadian Tire family of companies, and we are committed to remaining in this business. So any transaction that we do has to satisfy both our financial and strategic imperatives, which include protecting future earnings generation, and supporting our retail businesses.

Now turning to the third quarter and looking first at our topline performance. We were extremely pleased to see the strong sales results from all our retail businesses this quarter, and the positive impact sales had on our consolidated revenue in Q3. We also saw another strong quarter from the financial services business where the increase in revenue was largely attributable to the 7.6% growth in the receivables portfolio stemming from targeted acquisition efforts and an increase in average balance. This reflects another impressive performance given the existing consumer lending environment and the low credit card growth levels experienced across the industry over the past few years.

Consolidated operating expenses or OpEx increased over the prior year, largely due to cost tied to investments in a number of major initiatives. This includes CAD7.1 million in legal, consulting and other expenses related to the launch of CT REIT initial public offering, the inclusion of seven work weeks of PHL expenses, and additional marketing and advertising spending to showcase our brand through the new sport and Olympic partnerships Stephen discussed earlier. In addition, we saw an increase in OpEx for higher stock-based compensation expenses, as well as personnel and occupancy costs supporting sales and network growth across the retail banners.

Turning to the retail segment on slide 5, we continue to see year-over-year margin rate and dollar contribution growth with positive contributions from all our retail banners. This result reflects a shift in sales mix to higher-margin items in key categories such as light automotive parts and handheld outdoor tools at CTR, better merchandise sellthrough at Mark's, favorable sales mix at FGL Sports, plus the addition of PHL results for seven weeks in the quarter. This also marks the third consecutive quarter of margin expansion in our retail segment this year. Which stands out given the strong sales performance achieved across the retail banners in the quarter and despite the increasingly competitive Canadian retail environment.

Inventory positions at our retail stores remain well-managed, corporate inventory for Canadian Tire banner stores is down year over year, across all the major classifications, and inventory at our Canadian Tire banner stores reflects slightly lower levels than the prior year in fall and winter seasonal categories, but we are well-stocked with new and innovative products and ready to meet demand for seasonal and nonseasonal assortments in the upcoming fourth quarter. In addition, Mark's inventory position is very clean coming out of the summer and FGL Sports' inventories are also in great shape. Overall, income before tax for the retail segment increased 19.4% versus Q3 2012 or up 26%, 26.1% after normalizing for costs associated with the formation of CT REIT.

You will see from our other disclosures released this morning that we have adjusted our view of the Company's 2013 tax rate -- effective tax rate. We now expect it to come in around 28%, which is slightly higher than we previously indicated. This is largely due to a higher stock-based compensation expense than we estimated this time last year. As is our practice, we have also updated our 2014 effective tax rate estimate for planning purposes to 27%, which assumes a lower anticipated stock-based compensation expense compared to 2013. Looking ahead to the fourth quarter and full-year, which as Stephen just mentioned, is our most significant quarter in terms of sales and earnings, we are planning elevated levels of spending and marketing and advertising across our retail banners. And despite these investments and elevating our brand across all banners, our total OpEx spend as a percentage of revenue is in line with expectations for our planned initiatives in 2013.

Turning to slide 6, financial services posted another strong quarter, reflecting gross average receivables growth and improved credit portfolio metrics. Our cash position remains solid with our balance sheet continuing to get stronger and we used about CAD18 million of our cash in the quarter to repurchase roughly 205,000 of our Class A Non-voting shares as part of our 2013 share repurchase program. Our intent is to complete the buyback of a minimum of 100 million of our Class A Non-voting shares by the end of the year.

Earlier this morning, our Board of Directors authorized a change to our dividend policy for 2014, increasing our targeted dividend payout ratio to 25% to 30% of the prior year normalized earnings. In addition, we declared a 25% increase in the quarterly dividend to CAD0.4375 per share, both of which reinforce the board's commitment to increasing value to our shareholders. Our total capital spending increased CAD141.5 million in the quarter and includes the land bank purchase for potential future distribution capacity. We now expect our 2013 CapEx to come in at CAD500 million to CAD525 million, given the execution of the land bank purchase and good progress completing our planned capital projects during the year.

Looking ahead to 2014, we expect the CapEx will run about CAD500 million to CAD525 million, primarily due to increased spending on FGL Sports network expansion, further investment in IT and digital initiatives across the retail banners, and to support the CT brand. In addition we expect to spend an additional CAD75 million to CAD100 million in costs associated with site preparation and planning for future distribution capacity.

Finally, I'd like to address our progress against our financial aspirations. As you know, back in 2010, we set our five-year aspirational goals for specific metrics. While a lot has happened since then and the Company looks very different from how it looked back in 2010, we still aspire to achieve those metrics today. The ROIC metric remains our most aggressive, however. And while we continue to make progress towards achieving this aspiration, based on our expected capital deployment and the earnings we expect to generate from our existing assets, it's unlikely we will achieve the 10% return in this measure by the end of the strategic planned period.

That said we did see a 14 basis point improvement in our ROIC metrics over the prior quarter and the normalized ROIC metric improved 29 basis points over the prior quarter. We continue to focus on steadily improving the quarter-over-quarter trend in this metric.

And with that I will turn it over to the operator.

QUESTION AND ANSWER

Operator

(Operator Instructions).

Irene Nattel, RBC Capital Markets.

Irene Nattel – RBC Capital Markets - Analyst

Irene Nattel - RBC Capital Markets - Analyst

Just listening to the prepared remarks, what I heard a lot was discussion about improving the customer experience across the banners, improving the offer. There was a lot of discussion about eCommerce and sports partnerships. And Stephen, as you now have more time to think about the strategic options, how should we think about all of those coming into play in terms of what significant moves Canadian Tire may do next?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Thanks, Irene. Well, it's only this morning that I've had more time. (laughter). You've got to give me a week or two. Well, many of these were actually started a little bit independently of each other as you can well imagine. But we have been striving for many years here to try to develop the Canadian Tire brand and the family of companies banners, if you will, to increase I believe what consumers think of us, to drive the strengths of the brand to much, much higher levels.

Recognizing four and a half years ago that probably the underpinning of the Canadian Tire brand was automotive, we started on a long journey. And that's why we're pleased now to see what we can do with that asset, if we made the right investments and trained people properly. So we are seeing a huge movement in our customer experience. But initially, we built the brand back by heavily investing in promotion as well, to let everybody know that automotive was a key component of our brand. The support of the Canadian Tire NASCAR series to the Ron Fellows to support of many of the other racing events to be Canada's automotive store. So as an example, that fits in with building the brand and then investing in the customer experience.

The brand from our point of view in terms of the triangle and the family, sports as we mentioned earlier in the year is truly in the DNA of this organization. And sports attributes bring out the best in individuals and it will bring out the best in Canadian Tire. We've now taken the Olympics and all the sports federations and our dedication to the success of those through our HR policies here, through all our marketing efforts as you can tell, now they're working themselves in store. And so we think it gives brand attributes if you will, that allow all our employees, frontline and corporate to come to work every day and understand why they're here because life in Canada depends on us is kind of how we're positioning this. So it gives us purpose, it gives us focus and it builds the brand on a national basis in a way that I think has been truly spectacular.

And, but behind that we've put all the technology in to support the increase in the customer experience and I mentioned product locator in 116 of our stores. That's not only becoming creating efficiency in those stores, it means now that customers come in and ask for something, we can find it. It means that the frontline staff don't have to say, could you wait a few minutes while I go check the warehouse and they check for 10 minutes and they come back and can't find it, they're upset, the customer's upset, all that's gone away. So all these things play an important role in how they come together. And I just think that we're now starting to see the benefits of it. And we're on a bit of a roll from that aspect of it. So sorry for the long answer, it's just hard to put all the pieces together for you there.

Irene Nattel - RBC Capital Markets - Analyst

And Stephen, how should we think about eCommerce and how it's likely to launch in 2014?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Well, we -- I think the second month that I started in 2009 we decided to pull the eCommerce offerings that we had. And the reason being is that we had not in our minds here, properly prepared ourselves to be extremely successful. And so what had to be built was an infrastructure that would allow a proper eCommerce platform to operate on. We in fact have done like just a huge amount of work with that. And the last big component of it we actually turned up within the last seven or eight days and that's the engine that drives canadiantire.ca extremely successful and now we can turn on an eCommerce platform that I think our customers will praise us for in the end.

We've selected some stores across representative stores across a number of geographies. We've picked roughly 10,000 SKUs. And so now we'll get the in-store part of this perfected. Understand it very, very well. But this is not a trial, to see whether we're doing it. This is actually execution excellence. So you would always do this. You'd turn up some, perfect it and then roll it out. So this is just a matter of months. We're not talking about a trial. And so the best way to actually get things done is to commit to it publicly so we'll have this done during the latter part of 2014 and turn it up totally at that point in time.

Irene Nattel - RBC Capital Markets - Analyst

That's great. Thank you. And if I could ask a housekeeping question of Dean please. Just to be clear, so you expect base CapEx in 2014 to be in that CAD500 million to CAD525 million range, and an additional CAD75 million to CAD100 million for site preparation for future distribution capacity?

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

Yes. And site preparation and investigation, development, planning, all those kinds of things. Anyway, seems like a lot to me, too.

Irene Nattel - RBC Capital Markets - Analyst

Thank you.

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

(laughter) Sorry. Inside voice.

Irene Nattel - RBC Capital Markets - Analyst

(laughter). Okay.

Operator

David Hartley, Credit Suisse.

David Hartley - Credit Suisse - Analyst

Just on the automotive business, encouraging to see that you're getting traction there and seeing positive momentum. Just wanted to get your sense around the table, what you think, where you think this can go where it can really start to really benefit from all the initiatives you've had over the last couple of years from so many different angles and driving this and really see it grab hold and drive the kind of results you thought from day one today?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

I'll give you a little bit and I'll hand off to Allan because Allan -- it was actually Michael and Allan that ripped the business apart a few years ago and Allan's been running it until he took over as a head of CTR so. What's critically important with it, David, from my perspective is that the, it is, when you start peeling back the Canadian Tire brand itself, it is truly the underpinning of the brand is being successful in automotive. So regardless of effort and regardless of time, you have to make that business as strong as it can possibly be. But when we looked at it, a number of years ago, virtually from at least my perspective, everything was wrong with it. We weren't selecting good products and accessories. We didn't have the right tire selection. We didn't have the right system to support tires and rims. We didn't invest in our technology and our service centers. Our people behind the counters didn't have the right technology to actually do business with. And we had the wrong parts. We had the wrong selection and reorder system for parts, both heavy and light. And all pieces of the business in my opinion were kind of treading water at best and needed a lot of investment.

If you did that and we retrained our staff and you fixed all those problems, and you had 5,500 service bays across the country, then not only can you build all those businesses, and I think we said in 2010 that we were looking at 6% to 6.5% topline growth, and those figures have been what we've been striving for since then. And we are missing so many big pieces of business because we weren't organized on a national basis. So we don't have fleet business for example because we just never to this point in time got our act together to be able to handle it. All those things now become possible for us. And we've increased the quality of the brands that we have. And literally, the sky's the limit for Canadian Tire as we get better on a daily basis. And the technology we put in, what we call the automotive infrastructure, changed out I think almost half of the service managers in Ontario for example. And which meant that we have new management in our stores, morale is up, and so I think we're ready to do business. But if I've missed something there, Mr. MacDonald?

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

That's right. I think we're really pleased with short-term investments we've made and the course corrections we've made that have resulted in strong growth across all our categories which wasn't the case three or four years ago. That's coupled with great performance in terms of our customer feedback and the margin growth we're seeing. So from here, to Stephen's point, the world is our oyster. We now have a solid platform from which to start to entertain big growth ideas where we -- category expansion or things like the fleet business and other things, so it's positioning us really well for the future.

David Hartley - Credit Suisse - Analyst

And so when you think about, since you threw out the 6%, 6.5% number again, it sounds like you throw it out because you believe in it again. And if you do, what's the timeline to getting there?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Across automotive, to see an annual growth rate at that figure, the seasons have to work with us, David, obviously. You can't -- but in if we received whatever normal I guess -- seasonal weather in Canada, then I expect this over the medium-term to be able to turn up and perform at this level.

David Hartley - Credit Suisse - Analyst

Okay. That's helpful. It's such a high margin business that's what you want, right?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Absolutely. And one thing we have done is we've maintained our margins and we made some mistakes probably through the last 10 years in how we did some of the pricing and promotions with automotive. Because I believe we treated automotive as part of a total merchandising effort within Canadian Tire as opposed to treating it as a business. So in GPS units for example we would trash the margins on it in order to drive traffic in the store. We wouldn't make those types of mistakes again because that has a very poor impact on the automotive side of the business. So yes we've changed our philosophy. To give Allan and his team credit, they have visited our manufacturers, they've taken a look at every product. If it doesn't meet standards, it is no longer acquired. They've increased standards across the board. So yes it's a pretty thorough effort, but it is a very tough business, but it is a huge differentiator for Canadian Tire, so therefore we enjoy it from that aspect.

David Hartley - Credit Suisse - Analyst

And just to follow-up and then I'll get off, just two things. How does a dealer agreement now feed into this? Because as I recall back in 2010, the new dealer agreement, or at that time was something that was celebrated around the whole automotive investment. So that's number one. Number two is just for Dean on the CapEx numbers being elevated next year, when does it fall to a more normal level and what is that number? Thanks.

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

I'll just mention on the dealer side here quickly, what the -- the contract by the way is, we announced the automotive infrastructure project, if you will, in 2007. And then our new dealer contract took place, well it's actually taking place right now. It's being implemented, with all aspects of it being implemented on the first of January. The biggest advantage -- I don't believe that you manage, Canadian Tire Corporation does not manage its dealers through the contract. It manages its dealers through a cooperative like-minded aligned strategy. And whenever you have to manage your partners by contract, you're going to be in deep trouble. We tried to in this contract as much as possible, put pen to paper in terms of trying to characterize that relationship. But what it really means is that we share investments going forward. We look at the next three and four and five years together and decide where we have to go and what we have to invest in.

So when we put on a Automotive University for example, one of our dealer conventions, our dealers brought in, they all showed up, but they also brought in 1,300 I believe of their folks to be trained. Since then I think we've trained something like 7,000 people on various aspects of our automotive and tire business and so we're like-minded. I remember a group, a large group of dealers saying to me, we're going to be number 1 in all categories. And so that's their commitment to the automotive business as well. So it's not -- I wouldn't rely, I never rely on the contract, David. This is a relationship issue and making money together issue.

David Hartley - Credit Suisse - Analyst

Great.

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

And then over to you, Dean.

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

David, on the CapEx, obviously the outlier here is the work we're doing, sort of prep work around potentially a future DC, right? So we'll put some money into that and the timing of that's not yet determined. But that's sort of an outlier. But we will have this year we're -- 425 would be kind of the range that we give you as the normal CapEx as I'd call it. And we'll see that probably tip up a little bit going forward and that's a good thing from the perspective of going harder and faster at, particularly at FGL. And then as we've talked about, retail is changing, so the investment in the back end for digital and technology and whether it's in-store systems those kinds of things, I think I see that being a place that money continues to flow. So I guess my perspective is, that 425 to 500 level is somewhere in a normal state going forward. But I haven't thought that much about it. We're focused on get 2014 right and then re-balance once we get through that.

David Hartley - Credit Suisse - Analyst

Appreciate that, Dean. Thanks.

Operator

Mark Petrie, CIBC.

Mark Petrie - CIBC World Markets - Analyst

I just wanted to follow-up quickly on the automotive comments. Are you guys satisfied with your distribution chain and supply chain as it's set up right now and performing right now?

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

With regards to the automotive business front?

Mark Petrie - CIBC World Markets - Analyst

Yes.

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

You're obviously looking at new ways to optimize especially as you get increasing competition in parts and tires, but as it stands right now, we've made some great strides in optimizing how we assort parts at the stores, how we assort tires at stores and our delivery model using them so we've made the improvements in the last couple of years. So it's been one of those underpinnings of how we've managed to grow the automotive business and it's not something that we're going to take our eye off though it's continually evolving.

Mark Petrie - CIBC World Markets - Analyst

Okay. Thanks. And then just on financial services, Mary, obviously the growth is pretty balanced between a number of accounts and account balances. What's the outlook for growth and wondering if you can give some metrics or some idea of the success which I think has been pretty solid in terms of the purchase-driven promotions and account sign-ups?

Mary Turner - Canadian Tire Corporation Ltd - COO, Canadian Tire Financial Services Ltd

Thanks, Mark. I think we're feeling very bullish about the success that we've had so far for our business by integrating more effectively with CTR in particular which is where we've had the most focus. So I think there's a number of things that we're doing better. We've got better in-store acquisition on a number of fronts. But we've got new things in the hopper. We're going to be rolling out instant credit across all the stores at CTR by the end of the year. We see some great same-day takeup by customers who are approved; a lot of them spend that day in the store. Some great response as you said to these new offers that we're making in conjunction with CTR, whether it's a multiplier on Canadian Tire money or discounts or in-store financing.

We've got some opportunities to integrate better into the automotive infrastructure, to more effectively provide financing in automotive, so I think we've still got lots of runway. We have some plans for FGL and Mark's which is going to take us into next year to realize on, but I think we're feeling actually pretty bullish as I said about continued upside on acquiring new customers. I think we're really thinking hard about how our credit card value proposition resonates with Canadians and how it resonates with inside our retail banners.

Mark Petrie - CIBC World Markets - Analyst

Okay. That's great. Thanks. And what's your outlook on the allowance rate, it ticked up this quarter for the first time in a while.

Mary Turner - Canadian Tire Corporation Ltd - COO, Canadian Tire Financial Services Ltd

I think what you're going to see, although we have a little bit of variability in the quarters as our business starts to grow again. So as we acquire new customers one of the things that we have to do is put allowance aside as the balances grow so I think you're going to continue to see us putting money aside for new account growth.

Mark Petrie - CIBC World Markets - Analyst

Okay. That's helpful. Thank you and just in terms of eCommerce, can you give us some sense in terms of how the financials would work on that and would it be similar -- are you targeting similar margin rates for the Corporation and for the dealers?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Yes. This would be in-store pickup. So it's not going to vary. This is a convenience play as opposed to a market play if that's what you mean. And so as far as the cost of distribution, et cetera, and pricing, it's just simply I'd look at it as another channel as opposed to being affected by those factors.

Mark Petrie - CIBC World Markets - Analyst

Okay. And is store delivery something that is definitely ruled out? Home delivery?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Home delivery, you mean?

Mark Petrie - CIBC World Markets - Analyst

Home delivery, excuse me.

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Well, we do, some of our dealers do home delivery now. And so we can easily start putting in-home delivery for certain SKUs that would make sense as we perfect the model and as a local store feels that it's extremely important to put it in we can -- that's a relatively easy thing to do. We always say that the latest one is we say that what 90% of Canadians are within 15 minutes of a Canadian Tire store. But as you drop those numbers down, if you say that 75% of Canadians they live a lot closer to a Canadian Tire store than 15 minutes so as you drop those numbers, we're very close to our customers and I think this is -- a huge huge benefit in the online world. And so we'll see it. We'll see how all this goes but I think we're very, very well-positioned for eCommerce.

Mark Petrie - CIBC World Markets - Analyst

Thanks very much. Appreciate the commentary.

Operator

Peter Sklar, BMO Capital Markets.

Peter Sklar - BMO Capital Markets - Analyst

Just going back to this gross margin improvement that you had in your core retail banner and specifically on the Canadian retail, sorry on the Canadian Tire banner. Can you elaborate a little bit more where that margin improvement is coming from other than to use the words margin management in the MD&A? Can you talk a little bit more though about where it's coming from?

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

Sure, Peter. It's Allan here. You know, two areas have been big focus areas for us primarily one is the fundamental growth that we alluded to a little while ago in some of the key categories like the living strategy and automotive. So what we're seeing is some of our higher-margin and rate products are actually rebounding quite nicely as we have a better focus on having the right brands and capabilities, the right assortments, being able to locate the product. So those tides rise all ships which is a good news for them.

And the second piece is being very sharp on how we're managing our promotional margins and making sure that we're investing properly in what's working most efficiently for us in driving traffic and trying to be very conscientious of not over-investing in that. So between keeping our eye on margin management and being able to do some fundamental things in the last couple years has enabled us to grow some of higher-margin, bigger categories. We're seeing the fruits of our labor, so we're pleased across-the-board.

Peter Sklar - BMO Capital Markets - Analyst

So the key categories that are driving that would be living and auto?

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

Well, those are two key examples but we see examples of it just across the whole store. I wouldn't point to one category that's making up the lion's share of this.

Peter Sklar - BMO Capital Markets - Analyst

And Dean I just want to make sure I'm doing my arithmetic correctly, the costs related to the REIT that would have been an impact of CAD0.06 a share on earnings for the quarter?

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

Yes. I think that's right. CAD0.06 to CAD0.07 depending on how you tumble it, but yes, CAD7.1 million so whatever the after-tax is and then --

Peter Sklar - BMO Capital Markets - Analyst

Okay. That's all I have. Thank you.

Operator

Jim Durran, Barclays.

Jim Durran - Barclays Capital - Analyst

I apologize if I missed this earlier but as far as the dealers and their preparedness for the holiday season, how have you found their buying stance? Are they hesitant to load up or have they been fulsome in making sure they're fully stocked?

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

Allan can jump in here, but I think our sense is that we're very well stocked for the fourth quarter and goes to, I think they guys have done a great job on assortment, things like Christmas and those kinds of things. So I think we're in very good shape going into the fourth quarter.

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

Yes. We're feeling pretty confident about where we are in terms of being in the right position of the offering we have for Q4.

Jim Durran - Barclays Capital - Analyst

Yes. And you said at the corporate level your inventories are pretty clean?

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

Yes.

Jim Durran - Barclays Capital - Analyst

Great. Thank you.

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

And at the store level we're in good shape as well.

Jim Durran - Barclays Capital - Analyst

Thanks, Dean.

Operator

Vishal Shreedhar, National Bank Financial.

Vishal Shreedhar - National Bank Financial - Analyst

Thank you very much good quarter, guys. In terms of the marketing and advertising comments that you made in your prepared remarks, Dean, I think you said it's going to increase in Q4 and I noticed on a year-over-year basis it's been increasing for some time. Should we expect at some point like -- what I'm trying to get is this a new normal expense or should these expenses decline at some point?

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

The way -- (laughter) I think, Vishal, there is a recognition that investing in our brand and investing in this type of whether it's Olympic sponsorship, whether it's the great stuff that you're seeing from across the retail banners in terms of digital, marketing and new forms of advertising. I call it we're sort of in an and world where we're doing digital world and then we're still in, if you will, the older world right, which is flyer even though the guys have updated and done a much better job with just what the flyer in terms of the paper flyer looks like, but we are entering a world where you're going to see new ways of going at advertising across the retail banners. And I think for that reason I think the investment is, I have to begrudgingly say worth it.

Vishal Shreedhar - National Bank Financial - Analyst

Sorry I missed the last part.

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

I think the investment is worth it. And we're probably, to answer your question Vishal, we're probably at an elevated level. So we've still got to manage our overall OpEx and if I look at my overall OpEx growth, targeting to have that grow at less than at or less than our rate of revenue growth is really what I'm kind of focused on. Spending more on marketing is a great thing if you're spending less on everything else.

Vishal Shreedhar - National Bank Financial - Analyst

Okay. So in terms of the total OpEx level I should at some point in the future look for a target of less than sales growth?

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

Less than revenue growth, yes. That's what we use.

Vishal Shreedhar - National Bank Financial - Analyst

Fair enough

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

As a target,

Vishal Shreedhar - National Bank Financial - Analyst

Understood

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

Not guidance, that's a target.

Vishal Shreedhar - National Bank Financial - Analyst

Now I know in your prepared remarks you can't, you're not able to answer any questions on the financial partnership, but just a high-level strategic question. Not sure if you can answer this, but if you were to engage in, if you were to sell or engage in this partnership, from your understanding of how it might work would that improve your retail ROIC?

Dean McCann - Canadian Tire Corporation Ltd - EVP, Finance & CFO

You know what, Vishal, I could make up an answer to that but I'm not going to because I just don't know what the partnership is going to look like. We started discussions -- I'm not sure if I talked to you earlier or not but we've started discussions, have had been very pleased with the level of interest but we're keeping a very open mind as to how to approach this. One thing I'd say is we've developed this business it's a tremendous business and we want to participate in it over the long-term. We have some objectives we'd like to achieve and if we can achieve those objectives I think it would be a fantastic thing long-term for Canadian Tire and for Financial Services. But in terms of answering a question around the impact on ROIC, who knows. Quite frankly. I can come up with a scenario where it does and can probably come up with a scenario where it doesn't, but from a deal point of view, accomplishing those strategic objectives is what's paramount.

Vishal Shreedhar - National Bank Financial - Analyst

Okay. And just a few quick ones, just out of curiosity is automotive the benefits that you're seeing in automotive is that filtering through in PartSource as well?

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

Yes. We're seeing good performance in PartSource that would be consistent with the performance we're using in automotive CTR.

Vishal Shreedhar - National Bank Financial - Analyst

Okay. That's all I have. Thanks a lot.

Operator

Keith Howlett, Desjardins Capital Markets

Keith Howlett - Desjardins Capital Markets - Analyst

I had a question on PartSource. You haven't really been growing that chain too much in the last couple of years. Can you speak to how you view the future of that whether it fits in Canadian Tire, so what your thinking is?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Keith, it's Stephen. What we've done, we've grown it from the following aspects to ensure that it's part of our distribution channel. It's very important for it to be that. We've also I think perfected that model of being able to supply our stores from a commercial side. We've built up a business-to-business revenue within PartSource and got some good performance at the stores as being well-run. Maybe the best it's ever been.

So we wanted to at this stage of the game make sure that our CTR stores are operating as they should. What we would do going forward is to ensure that the areas that need distribution out of PartSource to CTR stores is built out. That's our focus to make that system work extremely well, and it would be a phase II, if you will, to build them out in their own right. The primary objective is distribution.

Keith Howlett - Desjardins Capital Markets - Analyst

And then on I think you had a auto service initiative trial with -- I think it was the dealers in Montreal. I was just wondering how that's going.

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Go ahead.

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

It was part of a program that we've been rolling out nationally actually that was aimed at trying to help our auto service businesses understand the key value drivers for customer satisfaction, and how we can continue to optimize our operations to continuously improve that. So we've got, as Stephen alluded to earlier, so national trading -- training programs, sorry, that we've been taking some of the elements of the trial in Montreal and incorporating those on a point-by-point basis into our national initiatives and we're continuing to work in Montreal to drive, to explore some incremental operating effectiveness opportunities. So it's proved a good sort of training ground for us improving ground for some of the things that we thought would be beneficial nationally, and as we rolled them over we're seeing that that's the case.

Keith Howlett - Desjardins Capital Markets - Analyst

And in terms of the opportunities that the platform could now offer you, could you offer, just hypothetically, things like warranties on cars over past the dealer warranty or would you be interested in auto body or insurance work or are those all sort of a bit wild eyed?

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

Two questions. Could we, the operative question answer of could we in some instances is yes, we could. And would we is a different question altogether. Those businesses tend to -- some of the ones you mentioned are more closely aligned than others when it comes to providing auto service and parts and auto accessory supplies. So we're as we stated before, stabilizing the automotive business, looking at great growth across all its categories. And then on in addition to trying to grow our share we're going to be looking at expansion opportunities and everything will be on the table, but we'll want to make sure it's as congruent and as connected as possible to the business we have today.

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

The difficulty, Keith, is that what we're trying to do with all the assets that we currently have is do something that is a logical extension to them. You would, on the face of it, say that auto body repair is a logical extension. And then when you actually dive inside the auto body repair which is a very, very interesting industry by the way, so -- but it requires different facilities than what we have. It requires different training than what we would have. And it is a completely different business although it's underneath the automotive umbrella, so you have to be very careful when you move into a business like that because it is radically different than what we do today.

So, but it's not that when we take a look at expansion and what things we should get into and shouldn't get into, those are the areas though that we do. We studied this inside and out about two years ago thinking it was logical and then when we finished our study, realized that it wasn't that logical for us to do it. And so we kind of backed off. So, give you some idea of the types of things we look at but it is an interesting industry.

Keith Howlett - Desjardins Capital Markets - Analyst

And when it comes to the hardware business, which I think is also one of the pillar businesses, do you think that your merchandise positioning there is what you want it to be in terms of the price and the quality like -- or is there some, or is there any analogy to where the auto business was four years ago?

Allan MacDonald - Canadian Tire Corporation Ltd - President, Canadian Tire Retail

I think it's a good observation. There is a great analogy, Keith. Our fixing business is -- it's okay in a lot of respects, but it has a lot of room to grow. The categories that you mentioned, power tools, most specifically, some of the brands we've chosen to invest in like Jobmate, we've rethought over the last couple of years and internally I can tell you we're making some pretty big decisions and great strides in addressing where we are in terms of the quality level, in terms of how we support the product, the types of warranty we have, where we position the brand. And we're making some pretty substantial step changes because I personally am not satisfied with how we've positioned ourselves in the good, better, best spectrum. I think Canadian Tire's reputation and longevity in the fixing business is more deserving than perhaps the prior document we put together in its entirety in years of late. And we're in the process of changing that I think you'll start to see that late story very, very quickly.

I'd also say too that the assortment that we've chosen to put forward has opportunities, the home repair business it's easy to continually pare that down and when you reach a certain point, if you only, if you cherry pick the assortments that only have real convenience then you stop becoming a destination and I think we're dangerously close to that point. So we're very much pulling back to say, if we're going to be a destination for fixing then we have to have an assortment that's that supports that brand attribute if you will. So big things to come in fixing. Were going to reposition our brands, absolutely we're addressing quality. And look to see the assortment get built out.

Keith Howlett - Desjardins Capital Markets - Analyst

And I apologize I got on the call a bit late, did you update on the loyalty program?

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

No we didn't. But we -- we're continuing with it. Many things that we're still trialing, if you will, and collecting data, Keith, continues to be a fascinating exercise for us, I must admit. We're now designing some of the activity and additional both marketing and operational things that we want to try through the next probably six months, I guess, something like that. And I believe we're going about this in the correct way. And here's one of the big reasons is that we think the future is in being able to analyze data that we've never used before. And therefore, when you're presented with new data that this trial in Nova Scotia is presenting to us, it requires Mary's team at CTFS to do a tremendous amount of analytics and it means that now we have to put subject matter experts in to understand what the data is really telling us and then figure out new programs to put in market, understand our customer behavior. All these sort of things, we if -- we just don't have the amount of capability inside yet that we would like to see. So we're building that at the same time that we're continuing to trial in the market, so a sensible approach. It may be -- so the timing to me is a little bit unknown as to when we would roll out a pure national play only because I would like to see us become very good at certain things before we load the place up with literally hundreds of millions of pieces of data.

Keith Howlett - Desjardins Capital Markets - Analyst

Thanks very much.

Operator

Patricia Baker, Scotiabank.

Patricia Baker - Scotiabank - Analyst

My operational questions have been answered, but I think I'll take this opportunity since you have Mike Medline in the room. Mike, can you share with everybody on the line perhaps what your vision is or what you see as your mandate in this new role or maybe just share what you see as your top three priorities going forward?

Michael Medline - Canadian Tire Corporation Ltd - President, Canadian Tire Corporation

Thanks, Patricia. And like Steven's saying he's only had the morning to do it. I've only been --

Patricia Baker - Scotiabank - Analyst

(laughter) Oh, I'm sure you've been thinking about it for a while.

Michael Medline - Canadian Tire Corporation Ltd - President, Canadian Tire Corporation

13 years, Patricia. (laughter) Obviously, the key to this business is -- we're on great track with Allan's leadership is the Canadian Tire retail what we'd like to call now just Canadian Tire, leadership there and the team there is as you've heard on this call, you guys have been really focusing on automotive and fixing which we need to fix fixing a little bit more. So that is obviously something I'm going to be supporting Allan and with the relationship we now have with our associate dealers across the country, that's -- I think we're in good shape there. And as you probably know because we've known each other a little while, results -- what Steven's done in terms of getting us to get the results we're doing keep doing that. But growth and innovation are obviously going to be where I'm going to be putting a lot of my time over the next months and years in this role to be able to ensure that this Company continues to grow, that our stock price and our shareholders and all our stakeholders are pleased with that. But I think we've made huge strides over the last couple years in terms of innovation. Innovation in terms of products in terms of how we market and Stephen touched on what we're doing in Waterloo and Communitech, and in terms of technology. And I think in technology, marketing, merchandising and even store ops some things we're doing in terms of classified, we've shown that this is a company that can innovate and I think that's going to really differentiate us as well as our product mix and our strength of our dealers and all that in terms of that.

But the other part of it too is, and my role will be to bring together aspects of the family of companies, so the great strength we have in Canadian Tire with what Mary's talking about in terms of our value proposition in CTFS, the great growth that the team over at FGL has been showing and what's going on in Mark's. And there are things that we can do that I don't think anyone else can do so we have great strategic and executional advantages. So that's probably all I should probably say today. I look forward to working with Stephen some more. I think we're on a great path here, and that's what I'm going to be trying to accelerate.

Patricia Baker - Scotiabank - Analyst

Okay. Thank you very much.

Operator

This concludes the question-and-answer session. I will turn the call over to Stephen Wetmore, CEO, for any closing remarks.

Stephen Wetmore - Canadian Tire Corporation Ltd - CEO

Thank you, everybody. I know it's a busy day for you as well with others reporting, so thank you for spending the time with us and we're always here should we have missed one of your calls or one of the answers. So look forward to talking to you but thank you all very much. Thanks, operator.

Operator

Thank you, ladies and gentlemen. A telephone replay of today's conference call will be available for one month and the webcast will be archived on Canadian Tire Corporation, Limited investor relations website for 12 months. Please contact Lisa Greatrix or any member of the IR team if there are any follow-up questions regarding today's call or the materials provided. This concludes today's conference call. You may now disconnect.