CANADIAN TIRE CORPORATION, LTD.
Q4 AND FULL YEAR EARNINGS CONFERENCE CALL
Thursday, February 15, 2024 – 8:00 A.M. ET

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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 11.0 (Key Risks and Risk Management) and all subsections thereunder in the Company's MD&A for the Fourth Quarter and Full-Year 2023 ended December 30, 2023. 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.

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PRESENTATION

Operator

Thank you for standing by. My name is Daniel, and I will be your conference operator today. Welcome to the Canadian Tire Corporation earnings call. All lines have been placed on mute to prevent any background noise. Following today's presentation, there will be a question-and-answer period. (Operator Instructions) Now, I will pass along to Karen Keyes, Head of Investor Relations for Canadian Tire Corporation. Karen?

Karen Keyes ***Canadian Tire Corporation Ltd - Head of Investor Relations***

Thank you, Daniel. Good morning, everyone. Welcome to Canadian Tire Corporation's Fourth Quarter and 2023 year end 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. It includes cautionary language about forward-looking statements, risks and uncertainties, which also apply to the additional material included this quarter to help you better understand the results discussion during the call.

After our remarks today, the team will be happy to take your questions. We'll try to get as many questions as possible but ask that you limit your time to one question plus a follow up 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'll now turn the call over to Greg.

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

Thank you, Karen. Good morning and welcome, everyone. I'll start by saying that our Q4 and full year 2023 results fell short of our expectations. Even when normalized for the unusual items that came our way in 2023, our quarterly and annual EPS ended well below 2022. This past year was challenging, more so than we expected at the outset, given rising interest rates, stubborn inflation impacting discretionary spend, and unfavorable weather. But we believe these headwinds are temporary.

We faced unfavorable weather throughout the year, especially in Q4. We estimate that weather accounted for around half of the comparable sales decline in the quarter. The team once again proved their unrelenting ability to work through and execute against the macroeconomic

environment and other headwinds while also building for the future. I sincerely thank them for living our core values and our brand purpose that we are here to make life in Canada better, no matter the circumstances.

While we have made progress over the years in weather proofing our business, we live and operate in Canada where weather can be unpredictable. That said, we know we need to be well-stocked in weather-related categories to support our customers' seasonal needs. Despite the headwinds we faced in 2023, we remain committed to transforming CTC through our *Better Connected* strategy, which will make Canadian Tire an even stronger competitor in the future.

Since introducing our strategy in March of 2022, we have invested $1.4 billion in capital with the vast majority of that spend targeted for growth initiatives, including new and remodeled stores, new and expanded distribution centers with automation, and upgrades to our technology infrastructure.

We have also significantly improved our operating capabilities, our customer-facing websites, our mobile footprint, and our privileged owned brands capabilities. Our Triangle Rewards membership remains healthy and engaged and provides us line of sight into the health of the Canadian consumer and their specific needs.

Heading into 2024, we are placing heightened attention on our financial flexibility and controlling what we can control while mitigating what we can't. Our team is critically focused on maximizing leverage, including our operating leverage, our existing assets and investments, and our strong relationships we built through Triangle Rewards. I will provide more color on all three areas, but before I do, I'm going to hand it over to Gregory to unpack our results.

Gregory Craig *Canadian Tire Corporation Ltd - EVP & CFO*

Thanks, Greg, and good morning, everyone. We spoke last quarter about our focus on controlling what we can control, given an uncertain economic backdrop. This continued to be our focus in Q4 and into 2024. Full year normalized EPS was $10.37 with a Q4 EPS contribution of $3.38, normalized for the headcount reduction charge we took in the quarter, which represented an impact of around $22 million or $0.29 of EPS.

Overall, our full year financial performance was driven by a lower retail contribution and a more challenging consumer demand environment while the Financial Services contribution remained strong. In Q4, lower retail earnings were mainly due to the marked decline in retail revenue, driven by weaker consumer demand and unfavorable weather as well as the timing and magnitude of the MSA.

Let me start by taking you through these three drivers of our Q4 retail revenue performance. The first was the continued softening in consumer demand, which drove weaker sales of discretionary products across our banners.

Secondly, weather played a significant role in the retail revenue miss. While weather was often a factor of sales of seasonal product, this quarter the weather impact was more pronounced as December was one of the warmest on record in many parts of the country. This affected all of our banners.

In the context of that weaker consumer demand and the weather, we saw softer dealer demand at CTR as dealers drew down their inventory rather than replenishing it. We were already expecting some of this, knowing that we were comping stronger shipments in Q4 last year, as we indicated at Q3.

As I mentioned a moment ago, the timing and magnitude of the MSA created a significant variance to last year when all of the MSA was recorded in the fourth quarter and the contribution was higher on strong sales performance.

As a result of the more marked revenue movement we saw this quarter, the disconnect between CTR revenue and sales has widened as has happened many times in our history. Retail sales were $5.3 billion in the quarter, down 7% as were comparable sales across our retail

banners. Our Petroleum business was down 8% in sales due to fewer locations compared to last year, but up on a comparable basis.

Now, let me unpack some of the detail by segment. At CTR, sales of essentials continued to outpace discretionary. Weather and consumer demand for discretionary products had the biggest impact on Seasonal and Gardening as well as Playing categories in Q4.

With customers making fewer trips for these categories, we also saw a knock-on impact in our Fixing and Living divisions even in essential categories. We did see some trade down in the quarter, and similar to last quarter, we saw fewer items in baskets at CTR.

We were, however, pleased to see the investments we're making in key categories pay-off, Automotive, and particularly, tires, continued to do well despite lower sales of winter driven categories like wipers and batteries. Pet care also proved to be a highlight within the Living division as customers increased purchasing frequency. And we continue to focus on exposing Canadians to the value we provide in these and other key essential categories through our assortment architecture, promotional activity, and our Triangle Rewards program.

Now moving onto our other banners. At SportChek, we had lower sales and revenue due to unseasonable weather with the most significant declines in outerwear, skiing, snowboarding, and winter accessories. Franchise sales were also down. We were effective at driving traffic to stores in October, but the last two months of the quarter were tougher in a highly promotional and competitive environment where headwinds due to weather and customers de-prioritizing discretionary spending. Similar to prior quarters, we did see growth in our strategic focus areas. Team sports, hockey, and footwear performed well, and we strengthened our position as the leading destination for sport in Canada.

Finally, our athletic apparel home brand, Forward with Design, hit $30 million of revenue by the end of 2023, up 25% since the end of last year. At Mark's, the comp was tougher than the other banners, which combined with the unseasonable winter weather impact meant sales were down 7% in Q4.

Our higher-margin industrial wear, boots and casual wear were down compared to last year. But where we've experienced more seasonal weather in January, we have seen some recovery. Winter weather also led to a lower mix of regular price sales this quarter. We employed pricing to ensure inventories were well managed and Mark's finished the year with inventory levels below last year.

Finally, Helly Hansen revenue was down 9% with the decrease mainly due to timing of shipments as more fall winter product shipped in Q3 instead of Q4 this year. Full year revenue was up 7%. We did see strong levels of sport wholesale replenishment in the quarter, and our Direct-to-Consumer business continued to deliver strong results with e-commerce up 20% versus last year. We continued to build momentum in the United States in line with our longer-term strategic objectives. Growth there was up 10% in the quarter and up double digits for the year as well.

Moving on to retail gross margin, a critical area of focus for us continues to be around margin management. In 2022, we spoke about how our aim was to manage headwinds and tailwinds to maintain the margin rate gains we had made on the retail side since 2019, while recognizing the potential for variation on a quarter-by-quarter basis. This was certainly the case for 2023, and the normal quarterly margin variance was further impacted by the change in the recognition on the MSA.

However, our full year retail margin rate, excluding petroleum, did land exactly where we expected, essentially flat compared to 2022 at 35.5%. Q4 margin rate was down compared to last year due to the MSA as well as higher promotional intensity, with these headwinds, partially offset by improvements in our freight rates. Looking ahead, the capabilities we have developed around margin management become even more important, given the uncertain macroeconomic backdrop.

Turning now to SG&A. We took action to manage the structural OpEx drivers, and as a result, retail normalized

OpEx was down 4% for the quarter. As we had expected, supply chain costs were down as we reduced inventory and the associated warehousing and storage costs. Adding to that were the initial benefits of the headcount reductions and the lower hiring we announced last quarter, as well as lower variable compensation expense. All of which, offset, but slowing IT investments as we transition to a cloud-based infrastructure. This is the first quarter since 2020 that normalized retail SG&A dollars declined. And we have a continuing focus on OpEx discipline and prioritization in '24, which Greg will speak to shortly.

Turning to inventory now. We made great progress managing inventory down again, despite the revenue decline and unseasonable weather. Inventory at the end of Q4 was down 16% compared to last year.

Dealers' inventory also remains below where it was the same time last year. Given softer sales in Q4, we are not expecting dealers to build significant inventory position in discretionary categories right now. We expect continued drawdown in spring summer categories based on current inventory levels, unless we see meaningful improvement in customer demand trends. As a result, we expect the disconnect between revenue and sales may continue.

Let's now move on to how the performance of the Financial Services business went. Full year normalized IBT of close to $420 million was only $21 million below last year's record result. While full year revenue increased by 8.5%, this was more than offset by lower margins due to higher funding costs and higher net impairment losses were also a factor.

In Q4, IBT was only slightly below last year, and again, this was due to higher funding costs and net impairment losses offsetting the revenue growth with revenue up 6%. Reflecting the economic environment, credit card spend slowed for the second consecutive quarter and GAAR was up 4.7%.

Average account balances were up by more than 3%. We also continue to grow active accounts, which were up 1%, but at a slower pace as we took proactive measures to manage acquisition strategies. Credit risk metrics trended up over the course of 2023, in line with our expectations.

The PD2+ rate ended Q4 at 3.6% and the write-off rate was at 6.1%, both back to the lower end of historical ranges but well below long-term peak levels. We are watching internal and external key metrics and expect to be able to take additional actions from our risk playbook if we find it necessary.

Ending receivables finished the quarter at $7.4 billion and the allowance rate at 12.5% continues to be within our targeted range of 11.5% to 13.5% with the allowance up $14 million to $926 million this quarter.

Before I wrap up, I want to touch on capital allocation. During 2023, we invested $615 million in operating capital expenditures, taking the total to $1.4 billion since announcing our *Better Connected* strategy in Q1 of 2022.

Close to $400 million of our 2023 operating capital was focused on improving the omnichannel experience through investments in store and loyalty with a continued focus on how the investments help our competitive positioning.

More than 80 stores have now been refreshed since 2022, accounting for over 15% of all Canadian Tire stores or 18% of our overall footprint. Despite a significant weather impact, stores are continuing to perform well, generating sales and NPS scores well above the benchmark we had for them.

Furthermore, the investments we have made in Triangle and Digital will be integral to how we differentiate with the customer in 2024. And we fully intend to leverage that as Greg will touch on shortly. We have slowed our capital expenditure in response to more uncertain economic conditions.

Operating capital expenditures are expected to be in the range of $475 million to $525 million in 2024, which will include the refresh of a further 40 plus stores and a replacement store in Kitchener, Ontario. These are strategic investments we are making in the future of the business for when the economy ultimately improves. And we remain committed to the *Better Connected* strategy as

the right one for the long term.

We have returned nearly $740 million to shareholders by way of buybacks and dividends over the past year. And while we were prudent in the back half of the year as we watched how consumer demand was playing out and after investing to repurchase Scotiabank's 20% share in our CTFS business, we are targeting up to $200 million of additional share buybacks during 2024 while continuing to balance the higher short term leverage we've taken on in conjunction with the CTFS repurchase and in protecting our investment grade rating.

Since November, we have continued to move forward with an evaluation of the strategic alternatives for the Financial Services business. Our discussions are at an early stage exploring the intention that we had set out last year for an optimal structure which has us owning Triangle Rewards, our first-party data, and the relationship with the customer to maximize value creation in our Triangle Rewards loyalty program and the retail business. In the meantime, we will continue managing the financial services business for maximum benefit to our stakeholders.

Finally, before I wrap up and hand back to Greg, let me touch base briefly on what we've seen so far in Q1. Consumer demand and weather is proving as difficult to predict in 2024 as it was in 2023. With snowy weather in January, Canadians returned to us for their seasonal needs. And CTR comparable sales were up mid-single digits for the month before giving most of that back in the first half of February with more unseasonal weather.

Consolidated retail sales at mid-February were down slightly as weather continued to impact sales of outerwear and winter categories at SportChek and Mark's. Much will rest on our biggest month of the quarter, March, which is still to come. In a softening consumer spending environment, we are expecting weaker dealer demand for discretionary spring summer categories to dampen replenishment revenue in Q1.

So to conclude, here's what I hope you'll take away from today. This business is resilient and one that we continue to prudently pivot to control what we can. In 2023, we maintained retail gross margin for the year, managed inventory down, focused on reducing our Q4 operating expense, and delivered a strong Financial Services performance.

All of this was done in the context of a challenging retail demand environment that saw customers shift to value and unseasonal weather patterns that required our banners to react quickly. We also saw risk metrics trending back to historic levels for the bank to manage and dealt with a major distribution center fire in our supply chain.

The fact that we are able to do so was in no small part due to the work of many of our teams, including at the bank and our dealer network. They are focused on delivering in the short term while not losing sight of what is possible in 2024 and over the longer term.

With that, I'll hand it over to Greg for his remarks.

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

Thanks, Gregory. Despite limited macro visibility with respect to monetary policy, we are in a better position to deal with the macro environment and its impact on our financial performance heading into 2024. As Gregory just touched on, we know we will be operating in a challenged demand environment, which will constrain our top-line growth. We are therefore, placing heightened attention on our financial flexibility and on controlling what we can. We see a number of important tailwinds in 2024 that will drive improvements in our operational performance.

On the theme of leverage, I'll start with our operating leverage. A bright spot from 2023 was our margin management work. We committed to protecting the margin rate gains we accrued through the pandemic years. We have delivered well on that promise and remain committed to driving a stable margin profile. Our team's efforts last year were exceptional on this front, delivering what were essentially flat margins while drawing down over $500 million in inventory.

As we look to 2024, we are aggressively pursuing industry

tailwind opportunities in global freight rates and commodity deflation. Our supply chain team completed our container procurement before the recent Red Sea inflationary impacts, providing us with a full year advantage.

Our margin nerve center at CTR is focused on working commodity deflation through our COGS negotiations with our vendor community. We experienced some price relief in Q4 and have good line of sight into additional opportunities. We expect some of these opportunities to protect margin and some to translate into lower consumer pricing, which we know is what Canadians need from us right now.

On the OpEx side, our personnel reductions, heightened focus on disciplined expense management, and slowing expense growth in our transition to cloud-based IT infrastructure are providing us with enhanced financial operating leverage. Some of this showed up in our Q4 OpEx, as Gregory mentioned.

After the prolonged impact of COVID-19, 2024 is the first in many years that we expect to drive leverage in our supply chain OpEx. Exiting 15 third-party warehouses and storage facilities over the last year provides hard OpEx savings in 2024. Through our supply chain modernization program as part of our *Better Connected* strategy, we have invested $360 million in the transformation of our network. This includes new automated goods to person technology in our Montreal and Calgary DCs, which will drive productivity savings in 2024.

With better cycle time and density and DCs closer to stores and customers, we will enable even more efficient product flow, making us very competitive with other players in the market. Last year, we started full operations at our new fully automated GTA DC. This has been a five-year investment totaling $180 million, housing and distributing product for SportChek, Mark's, Atmosphere, Sports Experts, Pro Hockey Life, Mark's Commercial, and Sherwood. This is our first multi banner, omnichannel fulfillment distribution center.

This 1.35 million square foot facility is reinforcing the strength, flexibility and future scalability of our supply chain while driving efficiencies by bringing multiple banners together under one roof. This DC cost us less money to pick and ship products to our stores and delivers direct to home faster. We've achieved this through a major leap forward in technology and automation.

We're also executing our final regionalization components with progress on our Vancouver facility. The base building and equipment are on track to be installed and tested by the end of the year with ramp up and normalization beginning in early 2025.

And finally, we are driving better store fulfillment, customer experience, and enabling significant efficiency in domestic freight management through our transportation management system. By implementing new technology that automates manual processes, our Canadian Tire dealers will have better real-time visibility of their incoming shipments. We are truly evolving our transportation team to be best in class.

Our One Digital Platform is another investment that offers considerable value-creation opportunities in 2024. ODP provides us with scalability, enhanced stability, and improved customer experience. In December, we had zero customer facing disruptions across all our banners, which would not have been possible without ODP. Moreover, ODP enables us to capitalize on the fact that the majority of our customer visits start online.

Now with the foundation in place, we can be laser focused on serving customers the products they are looking for, not from one of our banners but across our group of companies. We continue to hone the ODP user experience, including embedding a generative AI shopping assistant and elevated Triangle experiences for our members. Given the modern platform, we can develop and implement customer experience enhancements faster and deploy with agility to all banner sites. Additionally, we're implementing automation and AI to streamline our development, testing, and deployment functions allowing us to launch more features at a lower cost.

2023 was a productive year for omnichannel customer experience enhancements and we are placing new

disciplined managerial effort toward ensuring full value creation from these investments. In late Q4 of last year, we rolled out express home delivery across all our banners. 85% of the Canadian population can now receive same-day delivery within three hours. With the rollout complete, in 2024 we are turning our attention to increasing awareness and usage to extract the full benefits this offering provides.

And we continue to focus on our mobile footprint with the CTR mobile app, which customers continue to view as a key component of their omnichannel shopping journey. In addition, to maintaining an industry-leading score of 4.8 stars, average monthly active users have grown for 12 straight quarters, increasing to 2.3 million in Q4. And we have seen significantly increased adoption of new features like in-store mode and flashing electronic shelf label discovery. Based on competitive benchmarking and by continuing to embed value in the app, we believe there is significantly more room to grow in Canada and expect to continue to grow the base of app users through this year.

Finally, I want to talk about the leverage we get from Triangle Rewards. Loyalty sales continued to outpace non-loyalty sales in 2023 and moving forward, the investments we've made in our Triangle Rewards program will drive further opportunities for value creation. Over the last two years, we've increased our total active registered members by almost 1 million and in the last year increased our promotable members by almost 200,000 members.

Having our members registered and promotable is incredibly valuable. Our 1-on-1 program not only drive sales and deepens engagement, but it also generates a wealth of first-party customer data for the organization. As Triangle members engage in our digital properties, we learn more about them. And the data insights we glean are used to continuously optimize the program, allowing us to provide a more contextual and relevant experience and the most appealing offers for each customers.

As we think about the importance of privacy and how data regulations are changing accordingly, having a wealth of first-party data as we have is emerging as an even more valuable differentiator for us. As you know, we launched Triangle Select last year and by the end of 2023 the program had over 45,000 members. The program is working as we'd expected. In 2023, Select members visited our retail banners more often and spent almost 40% more than similar members who were part of our control group. We know the program is working and we're moving our focus to scaling membership.

Finally, with the anticipated launch of our Petro-Canada loyalty partnership in a few weeks, we'll be able to offer Canadians the best value for gas with the spend once earn twice value proposition, which we believe will resonate with Canadians, especially during these challenging economic times. This upcoming launch will be our first opportunity to test loyalty integration and currency conversion on a flexible, modern API-based platform that we created last year. We expect to apply this to other programs and partnerships in the future.

I'll end my prepared remarks today by reiterating that although we continue to operate in a challenging macroeconomic environment, we are not sitting back and waiting for the storm to pass. The steps we are taking are not simply in service of managing our current reality, but also with the consideration for the long term.

We continue to have strong conviction around each of the drivers of our *Better Connected* strategy. Our investments are paying off and will continue to do so, ultimately benefiting our stakeholders today and tomorrow. We are managing our business through these tumultuous times by controlling what we can and mitigating against what we can't. All while making life in Canada better, including for our communities.

In 2023, Jumpstart helped more than 440,000 kids participate in sport and recreation and dispersed over 1,000 grants to support community programming. The charity also completed construction on seven new inclusive play spaces, bringing the total incremental square footage added since 2017 to more than 550,000 or the equivalent of 32 NHL Hockey rinks.

The investment in our communities is arguably now more important than ever as families navigate tough economic

times. Overall, my confidence in our ability to turn the corner is bolstered by our team's commitment to our purpose no matter what. We faced a lot of hurdles in 2023 and our people stepped up as they do every time they face a challenge. And for that, I'm very proud and grateful.

And with that, I'll pass it over to the operator for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. (Operator Instructions) Irene Nattel, RBC Capital Markets.

Irene Nattel ***RBC Capital Markets, LLC. - Analyst***

Thank you for all of the information you provided around your expectations and the outlook. I would like, if possible, please, to dig in a little bit more on the inventory side. Can you talk about the quality of the inventory, both at corporate and at dealer? You mentioned sort of the dealers are heavy on spring summer. What is the magnitude that you expect in terms of the disconnect between consumer sell through and shipments to dealers? And what -- in terms of your ordering for 2024, how are you positioned relative to what is the current expected demand?

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

Hi, Irene. It's TJ. Thanks for the question. I'll unpack that. There's a lot in that question. So let me unpack a couple of things. As Gregory alluded to from a corporate perspective, we continue to make really great strides at CTR on reducing our inventories. We actually ended up down north of 20% in inventory at CTR for the year. And keep in mind here that inflation is actually embedded in that. So when you look at it from a cube and units' perspective, we're actually down slightly more than that and that obviously is what drives costs. So good news from that perspective, and Gregory alluded to the operating leverage that we get associated with that.

And when you look at dealers on the other side of our business, their inventory is also down slightly, a couple of hundred basis points as they have reacted to the consumer sentiment in the market. So when you look at those two things and you look at how we're managing the business as we go forward here, we're adjusting our buys and managing inventory very surgically and pragmatically. We continue to see the trends towards a gap in growth between essential and discretionary categories and we're going to be buying accordingly. And the teams have made significant progress on our inventory levels and continue to try to surgically right size these as we go forward. And I talked a little bit already about the leverage we get from that.

As we look at dealers, I think a couple of things I'll point out. We still have a little bit of game to play yet in this quarter in terms of finishing off our winter business. So we'll be able to give you a better handle on how we land the season on winter related inventory as we get out of -- as we get into our Q1 call. Feeling quite good about dealer inventory levels with respect to Christmas. We mentioned on the call earlier this year that we were -- they were heavy starting this year and they have done a really good job of working that down. That was one area that we invested from a consumer standpoint to try to clear some inventory. So they're in a much better position as they come out of the Christmas categories.

And I think one thing I'd like to highlight is, given the consumer sentiment and softer Q4 sales, as we go forward here, we're not expecting dealers to build significant inventory in discretionary. And we do expect them to continue to draw down on spring summer inventory unless we see meaningful change in the consumer demand side of things. So as a result, and I think Gregory alluded to this, we expect the disconnect between revenue and sales may continue, particularly in Q1 and Q2.

Irene Nattel ***RBC Capital Markets, LLC. - Analyst***

That's really helpful. Can you quantify what the magnitude of that disconnect?

Gregory Craig ***Canadian Tire Corporation Ltd - EVP & CFO***

Hey, Irene. It's Gregory. It's -- I think we tend not to give, as you know, kind of guidance in that regard. I think what I would say is, as you go back to kind of TJ's comments is -- and the other thing you have to remember, in March of last year, we had the DC fire as well, right? So that impacted shipments a little bit. So it's not as kind of easy to give you kind of where we are now and try and give you kind of some of that complexity as well.

I would just say, I expect it would continue in the short term as TJ said. And then in the long term, these trends always come back in line, as you know. But -- and again, I would recall that Q1 is pretty much our smallest quarter as well. So keep that in mind. But I think the real question and the focus area for TJ and the team remains kind of that longer-term Q3 to Q4 and what are the economic conditions and sales conditions like at that point in time as we look ahead.

So I would say, it'll be probably a little noisy in Q1. Now, you have to remember, in Q4, as we talked about, Q4 of this year had the issue of the MSA. We are going to have that to contend with when you're looking at kind of a disconnect between revenue and sales, like that won't be nearly as significant as it would have been in Q4. So I just should say that as well.

Operator

George Doumet, Scotiabank.

George Doumet ***The Bank of Nova Scotia - Analyst***

Yeah, I just want to talk about the OpEx line. Obviously, some pretty good control there. Did that number in the quarter kind of fully capture the initiatives we outlined last quarter? I'm just trying to get a sense of how sustainable that is. And second part to that question is, if you do end up getting a more difficult macro environment, like is there more room to cut that OpEx line even further?

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

George, it's Greg here. I would think about just the wraparound effect associated with some of the moves that we made late last year. So doesn't have full year benefit. But when you think about the announcement of workforce transition in the kind of November timeframe, that wrap around in 2024 provides for 10 months -- 10 months of benefit. The 3PL costs in terms of our reduction from 15 to 0 happened throughout the year. But at the end of the year, we ended with 0. So there's good benefit to be had there on a 2024 basis.

As Gregory said, in general, if you think about leverage, this is the first time since 2019 that normalized retail SG&A dollars have declined year over year. And as Gregory said, we're expecting further savings as we plan to drive that structural efficiency. To reiterate, we see opportunities presenting themselves both at the margin and the OpEx level. I unpack the drivers of our focus in both line items.

We made -- I think this year we made solid -- 2023, we made solid progress with respect to our free cash flow yield, which is an area of focus this year as well. So listen, we're executing a full-court press on driving operating leverage, and that's why we place the focus on it we did in our prepared remarks. But we're still operating with minimal economic visibility.

So the top of the P&L is tough to forecast. And I guess the only thing I would reiterate having said all that, as Gregory said, we're still firmly committed to our *Better Connected* strategy. We strongly believe that a new cycle will emerge, there always is, and we'll continue to invest in front of it and be well positioned when discretionary demand returns.

George Doumet ***The Bank of Nova Scotia - Analyst***

Okay, thanks for that. Just a clarification on the Q1 data you guys provided, the indication. If I heard correctly, mid-single digits in January and then you gave it back in February. And so does that suggest that we're trending kind of in line? And how big is March? And just to quantify, how big is March compared to, I guess, the first two months of the quarter? Thanks.

Gregory Craig ***Canadian Tire Corporation Ltd - EVP & CFO***

I think to answer your second part first, I think you're probably in the neighborhood of probably 45% to 50% of the quarter still to come with March. And the reason we pointed out this -- the information the way we did was kind of when the weather came to us back in January, George, we had that more kind of normalized condition. We were up kind of, as I said, that mid-single digit despite kind of some of these economic -- the economic pressures haven't gone away either by the way.

So when I say that we've kind of given that lead back, that would infer we're kind of, at this point, midway through the cycle, flat to CTR, but down overall for all the other banners. So really pleased on the performance so far. But again, we've got a big month to go in terms of what our results are.

So -- and again, as I mentioned a few minutes ago, you have to recall you've got some dealer uncertainty about ordering, and you've got the fire impacted the DC a year ago and weather. I really hope we're seeing -- what I saw last Friday when I saw people in shorts basically, that would be a very good thing in March for us.

But I think that's what everybody -- I'll come back to Greg's point, which I think is really, really important to reiterate is, we are trying to build as much protection and safety and flexibility kind of in margin and operating expense against that backdrop of kind of uncertain revenue expectations. That's what I would say what we're managing through.

Operator

Mark Petrie, CIBC.

Mark Petrie ***CIBC World Markets Corp. - Analyst***

I wanted to just ask about the competitive environment. Last quarter you called out that you'd seen a pickup in promotional intensity. And then I think what you said, TJ, earlier was that you guys had stepped up your promotional investment in Q4 and I think that was part of the plan. Can you just update us on how that sort of played out through holiday and then what your views are so far in 2024?

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

Yeah, Mark. It's TJ here. If you think about the competitive context that we're experiencing right now, and we certainly did in Q4, the competitive intensity has stepped up. Consumers are definitely feeling the pinch of the economy and what we found in Q4 was that retailers started to invest earlier. So Black Friday kind of started quite early this year. And we, in particular, started to make more investments in discretionary categories, Christmas, as a great example. Christmas decor, it doesn't get much more discretionary than Christmas. And so we had to make some investments there.

But I think I think what we've been able to do, and really when you talk about competitive intensity, I always have to link it back to how we're managing our margin rates. And I feel very good about how we've managed our margin rates throughout 2023. We've, as Greg talked about earlier, we really want to hold those margin rates, and we're able to do that this year.

And as we look forward, couple of things going on there, we do expect to have some relief from a commodity standpoint, certainly some relief from a freight standpoint, but offset a little bit by FX, and what we expect to be a requirement for continued consumer investment. We need to pass on some of that -- some of the savings that

we have to consumers, both in our regular pricing as well as our promotional pricing.

So we do expect the intensity to continue here, but we feel very good about our ability to manage margins with all of the capabilities we've built with elasticity modeling what Greg described as our margin nerve center and of course, our Triangle Rewards and own brands portfolio.

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

And Mark, I would maybe just -- it's Greg. I'll just elevate a little bit for the rest of the banners. Similar themes for sure, absolutely. Promotional intensity intensified through the fourth quarter. Aggregate top of house, all banners, average unit retails are coming down. So again, I think this supports the objective for restrictive monetary policy.

To TJ's point on elasticity, I'd say, for the company there's more forecast error in our elasticity models as the -- historical equations for price investment driving incremental unit demand just aren't holding to historical performance in many discretionary categories even with significantly deeper discounts. We aren't seeing incremental demand materialize.

So the good news is as we move to operating posture for 2024, we have more use cases in our models now than we did starting last year or starting when we -- in June when we really started to see a drop-off last year. So we certainly hope to be more efficient. But I'd say that the apparel sector for sure is intensifying. In our credit card data, we can see spend impact for apparel as a merchant category and specifically at Canadian apparel retailers. And what I can tell you empirically is that apparel focused retailers are having a real challenge on the top line and we're therefore seeing the intensity ramp quite a bit.

So both, Sport Chek and Mark's, are feeling it. But we feel like our capabilities provides for benefit. And the new DC, as I called it in my prepared remarks, provides a new tailwind for us on a cost per unit basis, especially in any commerce and fulfillment around e-commerce.

Mark Petrie ***CIBC World Markets Corp. - Analyst***

Okay. Those are helpful -- very helpful comments. Thanks for that. And if I could just follow up, could you give us a sense of sort of the balance of discretionary versus essential items for spring summer versus fall winter? Would it be pretty balanced or would there be -- would skew one way or the other?

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

Yeah, it's not too dissimilar. It's probably in and around 60% of our business is what we would classify as discretionary in the spring. Maybe kind of low 60s, I'd say. So it's not materially different between those two quarters.

Operator

Luke Hannan, Canaccord Genuity.

Luke Hannan ***Canaccord Genuity Group Inc. - Analyst***

I just wanted to start with where, I guess, the dealers are standing as of today? Can you give us a rough idea of where their overall financial health or their profitability stands versus maybe a year ago or even pre-pandemic?

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

Sure. Hey, Luke, it's TJ. I can take that one. Couple of things with the dealer network. Obviously, huge component of our secret sauce and how we run our business. 500 passionate entrepreneurs. They care deeply about our brand, and they continue to transform and evolve for our customers. And no one knows their business and their communities like they do. So they play a huge role in connection with our local communities.

We work with them really, really closely from best practices on how to operate their stores to our *Better Connected* agenda. And I think if you look at it from a financial health perspective, while I can't get into specifics about kind of individual dealers, they come into this period of economic uncertainty from a position of strength.

We've had a lot of -- we've had a lot of benefit over the last couple of years. And although, they're coming in with a position -- from a position of strength, they're obviously, from a P&L standpoint, feeling it from a Q4 standpoint with sales and volume. They are experiencing some headwinds on OpEx, particularly in things like interest rates, labor rates are starting to snap back to pre-pandemic levels, and they're even experiencing some headwinds with respect to minimum wage and things like that.

So they manage their businesses really, really tightly. And I think you can expect that they will continue to do so and try to do whatever they can to generate sales this year. They're entrepreneurs who try to do everything they can to serve their customers and generate revenue. But I think that's how I would answer it.

Gregory Craig ***Canadian Tire Corporation Ltd - EVP & CFO***

And it's Gregory here. I just wanted to -- it's another one I want to -- TJ touched on it, but I do want to double down on it a little bit. It's -- think of both the tenure and the experience we have in that network of dealers. This is not their first rodeo. This is not the first time they've gone through a cycle of business cycle. And to TJ's point, I look at just sales as a barometer.

So go to pre-pandemic levels and see where we are now in terms of sales, I guess there are some things that they're managing through. But to TJ's point, they're great at managing their businesses. And I think it's actually a real plus for us kind of in these conditions that we've got a dealer network that frankly kind of been there, done that, seen it before.

So anyway, that's all I would add, Luke, just is -- I think you should take some comfort in the fact we've got such experience in our network that kind of understands how to react to local conditions as well. Either a difference in the rural versus an urban type of setting. So anyway, just wanted to kind of say that as well because I think it's an important point.

Luke Hannan ***Canaccord Genuity Group Inc. - Analyst***

I appreciate that. Thank you. And then my next question here is just on the loyalty partnerships. It's exciting to see what you guys are doing with Petro-Canada. What else would you view as we'll call it complementary partnerships to what you feel Triangle Rewards offers today? What other areas now you have the flexibility to be able to explore this more freely you see as the best opportunities?

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

Luke, it's Greg. We -- if you think about our system of retail banners today, it's general merchandise and apparel focused. And so as we think about the role that partnerships can play for us, we think about an evolution from the state we're at today to more of an everyday needs state playing more -- a more relevant role in the lives of our members through partnerships.

And the aim is -- the aim's pretty simple, Luke. It's to accelerate the issuance of eCTM and look for opportunities to expand the reach of the program to a bigger network of Canadians which will just help to provide more opportunities for members to earn eCTM in these everyday needs categories.

So our long-term growth strategy is centered around how we accelerate a customer spend flywheel in our network of retail banners and partnerships will help drive eCTM issuance, which in turn drives spend in one of our retail banners, which drives first-party data, and then our personalization capabilities get to work on driving further spend and cross shop across the system. So ultimately,

that's what the partnership system is all about and that's what you can expect from us.

Operator

Chris Li, Desjardin.

Chris Li *Desjardins Securities Inc. - Analyst*

Good morning, everyone. I guess my first question is, I know you guys don't provide any precise guidance and visibility on sales remains very low at the moment. But I'm just wondering, just directionally speaking, given that it sounds like you do have some pretty powerful levers to pull to offset some of these pressures, is it reasonable to assume that we can get some earnings growth this year?

Greg Hicks *Canadian Tire Corporation Ltd - President & CEO*

Chris, it's Greg. I mean, listen, as I talked about, we are still operating through structure. What I would call structural uncertainty. We don't have visibility in terms of what the kind of monetary policy is going to look like. And we have very minimal growth in the economy and pretty significantly negative growth on a per capita basis.

So we -- I think we tried to provide a view to our operating posture in our prepared remarks. As I said, we just continue to operate in a structurally uncertain environment. You can -- you're going to read two articles on the same day in the same paper suggesting that the rates will go up and they will go down.

And so the facts are that we have persistent and stubborn inflation being driven in large part by shelter costs. And I don't see a path for them subsiding soon. So if the -- what I would say, if the intent of restrictive monetary policy was to curb consumer demand and slow the consumer economy, we would certainly say the policy strategy is working.

So we aren't planning for any real growth in the economy certainly intra year, the next six months, we've adjusted all of our operational playbooks for meaningful performance separation between essential and discretionary businesses. We've had more time to plan, source, buy, move, and think through value delivery for these essential businesses. So we're in a better position as we start this year than we were reacting to it mid last year. That's what I would say.

Chris Li *Desjardins Securities Inc. - Analyst*

Okay. Thanks for that. And then my other question is just maybe on the potential -- finding a partner for the credit card business. I know you mentioned earlier that you're still kind of in the early stages of discussion. I was wondering, internally, do you guys have a timeline to say when you will care to find someone? Or is this sort of an ongoing thing where you just take your time until you actually find a -- the right partner? Just wondering from a disruption perspective, is that a risk that can kind of make this definite that could create some internal disruption to the business? Thank you.

Gregory Craig *Canadian Tire Corporation Ltd - EVP & CFO*

Sorry. I missed the second half of the question. I'll take the first half for sure on kind of timelines. What I would say is it's consistent with the release we kind of had last year around -- we kicked off our process. We are on track; I think I would call the process robust. But it's going to take -- we said we're going to review our options during the year, and we're on track to that timeline of that agenda.

In terms of operating the business, I think we are, as I said in my remarks, again, we're operating the business for the interest of our shareholders and stakeholders at this time. So we're operating in an environment where the risk metrics have returned to historical levels. And so we have been a bit more restrictive on new account growth, but that's consistent with our strategy from last year.

But the bank is such an integral part of our rewards program and how we get kind of that flywheel effect and

get Canadian Tire money in our customers' hands, like, the more account growth we can put in there, frankly, the better for all of us over the long term. But we have to balance kind of those shorter-term economic pressures. So I think that's the second half of your question. That's how I'd answer it. And we remain comfortable in terms of where we are in the overall process.

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

I think the second -- Chris, the second half I think was disruption to the business from a timing standpoint. And for sure -- I guess what I would comment, for sure, the economy has gotten worse on us, and our core business has suffered. But as Gregory said, the decision to buy back the bank to have control, the control we need, and determine the best way to create value was a decision for the long-term health of our business. And the change in the economic cycle and any potential disruption that provides isn't -- it kind of takes a backseat to really thinking about long-term value creation.

Operator

Vishal Shreedhar, National Bank.

Vishal Shreedhar ***National Bank Financial Inc. - Analyst***

Hi. Thanks for squeezing me in here. And on the initiatives that Tire has looking into 2024, so a lot is potentially meaningful cost reduction and efficiency initiatives kicking in in 2024. I was hoping you could -- I was hoping you could quantify them for me. And if not, then maybe you can rank order some of the bigger initiatives that you expect to benefit you, recognizing on the other side there's economic uncertainty, as you've commented? But just for our own purposes, help us understand the magnitude of some of these initiatives you're talking about?

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

It's Greg. We'll probably stop sort of quantifying. But listen, I think you've heard me say before, any leverage in our P&L has to travel through the supply chain. We've been running here now for three or four years with a very inefficient supply chain. And a lot of those inefficiencies were driven by COVID and a very strong demand side global environment and the whole system buckled on us.

And so what we see is a global supply chain that is now pretty close to a normalized state. We look at the lead times that we have built into our purchase orders and we're down 35%, 40% versus the height of the pandemic in terms of lead time and days. We think about vendor service levels. We've gone from the 30%, 40% range, both in our own brand factories and national brands.

And now we're kind of -- there's a few exceptions here or there, but we're pretty much pre-pandemic state. We're normalizing the amount of inventory we have in the system. We're getting rid of the 3PLs, all while implementing new technology that drive the variable cost down. So I think the order of magnitude for us would certainly start with the supply chain. And like I said, it's the first time, I guess, since I have been CEO that I feel optimism around our ability to drive leverage and we are working at it. We're not letting it just come to us.

And then the global freight rates were a fraction of what we were in the middle of the pandemic. Spot rates, the height of the spot rate market in the pandemic was around USD30,000 per can and now we're under USD3,000. So there's material freight benefit.

And then there are some -- on the commodity grid, there's still some commodities that are working against us. But for the most part, the dashboard look -- it tilts to kind of favor for us and we're seeing that really come through our manufacturer quotations. They're -- a lot of these buildings, these manufacturing facilities are operating at half mass.

So they're eager to cover overhead and maneuver some of this deflation into the COGS base and we're going to go after every single element of it. And like I said, some of it's going to have to go to the customer. So it's tough to determine how much of that drops to the bottom line. But I think I think that's probably the way I'd think about the order of magnitude.

Vishal Shreedhar ***National Bank Financial Inc. - Analyst***

Okay. Thank you. And from the consumer standpoint, if -- you feel quarter-after-quarter it's getting tougher, is that a fair way to characterize what management said?

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

We feel like the discretionary -- our discretionary business was in tougher in Q4 than it was in Q3. And we've got -- I think we've got some pretty good data modeling capabilities. It's tough to tease out the seasonal weather impact entirely because what was different in Q4 versus previous quarters is a fairly material traffic decline, and that traffic decline is a direct result of that seasonal business being down.

But we would say that Q4 was more intense from a discretionary standpoint. I wouldn't say material because you have that weather impact, but we do feel like it intensified. If that answers your question?

Operator

Brian Morrison, TD.

Brian Morrison ***TD Securities Inc. - Analyst***

I want to follow up on the Financial Services potential monetization. Now that you have this control, Greg, is it fair to say that your plan is to build out or build out meaningfully your coalition partners in advance of a transaction? Or is this not a necessary prerequisite?

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

We don't see it as a necessary prerequisite, Brian. We're engaged in conversations. We're -- there's many different ways you can approach a coalition. You can go broad and wide or you can go deep and narrow. And so we're thinking through the right approach for us right now. Our primary focus, Brian, is the Suncor Petro points relationship right now. We're very excited about the value that that can bring for Canadians. We've invested last year in developing the platform to be able to do the currency exchange as we talked about.

And the ability to kind of link to get double the benefit, we've really worked hard to make sure that that experience is as frictionless as possible. So now we can turn on all of our one-on-one personalization capabilities and let people know with about ten seconds of their time they can link programs and get double the benefit on something that's really causing harm in the average household today.

So we want to approach each partnership from the standpoint of understanding the value it will create. And much like my commentary in my prepared remarks, when we establish -- when we build an asset, now we want to focus on getting the right value out of it. When we establish our partnership, we want to -- all hands on deck on making sure we do get value for us and for the customer before we move on to the next one. And so we see these -- depending on who you're talking to on the bank side of things, it can get intertwined. But I think to answer your question, it's not a prerequisite.

Brian Morrison ***TD Securities Inc. - Analyst***

Okay. And then if I can sneak in one on the retail side and maybe it's for TJ here. But I appreciate all your color on the gross margin. I will say it's -- your operating margin performance in a tough backdrop is pretty impressive. But

where do we stand on the private label shift? Is this supposed to be a driver of the gross margin? And I appreciate it's holding in there, but I think you are targeting it going 38% to 46% and it looks like it's flattish to the end of 2021. I just wondered what the variance -- your goal there?

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

Yeah, it's TJ, Brian. Yeah, at CTR, we definitely as you are alluding to trying to get on a trajectory where our own brands kind of outpace the growth of national brands. We got -- we saw in Q4, we were up about 8 basis points in terms of our penetration rate, and it continues to be a major strategic thrust for us, right? Having a stable of own brands that consumers covet and stay loyal to over time is really important to us. We've put a lot of energy behind product development, and we continue to try to drive forward with penetration increases.

What you find is, quarter to quarter, it can be tough just based on seasonality and the way the weather hits us. Sometimes there's businesses that are highly penetrated that just don't do well and that kind of stunts your growth a little bit. And that's probably what we saw in Q4. We still kind of plowed through that and we're up a little bit. But certainly, to your point, our goal in terms of not only helping us strategically with the customer having a great one-two punch of national brands and owned brands, but also from a margin perspective, it's something we're going to continue to try to drive as we go forward here.

Greg Hicks ***Canadian Tire Corporation Ltd - President & CEO***

Well, thank you for your questions and for joining us today. We look forward to speaking with you when we announce our Q1 results on May 9. Bye for now.

Operator

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