CANADIAN TIRE CORPORATION, LTD.
Q2 EARNINGS CONFERENCE CALL
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PRESENTATION

Operator

Thank you for standing by. (Operator Instructions) Welcome to the Canadian Tire Corporation Earnings Call. (Operator Instructions) Now I will pass along to Karen Keyes, Head of Investor Relations for Canadian Tire Corporation. Karen?

Karen Keyes, *Head of Investor Relations, Canadian Tire Corporation*

Thank you, Lauren. And good morning, everyone. Welcome to Canadian Tire Corporation's Second Quarter 2025 Results Conference Call. With me today are Greg Hicks, President and CEO, Executive Vice President and CFO, Darren Meyers, and TJ Flood, Executive Vice President and Chief Operating Officer.

Before we begin, I'd like to highlight the earnings disclosure, which is available on our website. It includes cautionary language about forward-looking information and the factors, risks and uncertainties which may cause actual results to differ materially from those expressed or implied, which also apply to the discussion during today's conference call. I would highlight that our discussion today will focus on the results of the business on a continuing operations basis.

By way of reminder, the sale of Helly Hansen completed on May 31, with the business being treated as a discontinued operation in our results up to that date. After our remarks today the team will be happy to take your questions. We'll try to get as many as we can but ask that you limit your time to one question plus a follow-up before cycling back in the queue. And we welcome you to contact Investor Relations if we don't get through all the questions today.

And with that, I'll turn the call over to Greg.

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

Thank you, Karen. And good morning, everyone. Q2 was a strong quarter with robust top-line growth and improvements across our customer metrics. It was concrete proof of our team's ability to successfully balance the dual tasks of performing our business while transforming our company. In what is always our most discretionary quarter, customers turn to us for the products they need and want for life in Canada, demonstrating a continued demand for value with an increased willingness to spend.

In Q2, the customer metrics that matter were effectively green across the board. Comp sales were up 6.4% at CTR, 3.9% at Sport Chek and 1% at Mark's, driven by increases across discretionary, essential, seasonal and nonseasonal products. We experienced growth in both loyalty and non-loyalty sales with increases in traffic and basket size, good signs for our business and consumer health alike. Sales and revenue drove our stronger retail gross margin as we manage through a dynamic cost environment, which Darren will unpack shortly. Ultimately, normalized EPS was down 4% to $3.57 as strong growth in our underlying retail business was offset by investments in our *True North* strategy.

As we expected, we are balancing short-term results with our strategic investments, all with the goal of generating long-term shareholder value. We entered 2025 buying for growth with a promise that when customers were ready to shop, our stores would be ready to serve. That mindset paid off through the first half of this year, but especially in Q2 as customer confidence showed signs of recovery from March lows. In the face of continued uncertainty, consumer confidence is rising, but still low, relatively speaking. So, we continue to monitor employment levels and demand in markets with greater exposure to tariff risks.

On balance, we like what we see in the customer data. Loyalty spend is up across every income level we track. Credit card spend at CTR has grown faster than our competitors for three consecutive quarters. Canadians are spending more of their discretionary dollars with us. Our value perception is up, and we are gaining market share. Further, while it's tough to quantify, we have no doubt that patriotic purchasing is real and working in our favor. Simply put, Canadians are visiting us more. While we've been number 1 in brand trust for years, our internal data shows we've widened the gap between Canadian Tire and our field of global competitors. This is all welcome momentum as we look to maximize near-term retail performance and transform for long-term prosperity.

I'll now hand it to Darren to walk you through the details of our performance, and I'll return to highlight our progress on our *True North* transformation.

Darren Myers, *EVP & CFO, Canadian Tire Corporation*

Thank you, Greg. And good morning, everyone. Overall, we are pleased with our second quarter performance, which reflects strong retail execution in the early stages of our *True North* transformation. At retail, we were positioned well for sales with solid demand and good in-stock positions. Increased sales and improvement in retail IBT translated to continued ROIC improvement.

At the bank, our customer risk metrics remain relatively stable compared to the first quarter. We're excited about the future potential of the bank. While we'll provide more details on our strategy in future calls, we are in an important investment phase, which ultimately aims to strengthen and grow the business but is expected to dampen the bank's profitability this year and in 2026. From a capital allocation perspective, we invested in stores, strengthened our owned brand portfolio with the HBC brand asset purchase, further delevered the balance sheet on completion of the Helly Hansen sale and remained active on share repurchases, completing $250 million of the previously announced $400 million intention by the end of Q2. The team accomplished a lot, and it translated into solid underlying results and strategic progress.

Let me take you through the elements behind the quarter. Retail sales and revenue performance this quarter was the real highlight. Having bought for growth in 2025, we achieved even more than we expected in our most discretionary quarter nationwide and province by province, led by very strong growth in the West. Comparable sales were up 5.6% and retail revenue was up 9%, excluding Petroleum, driven by higher sales and higher shipments.

As Greg pointed out, great in-stock seasonal readiness and some Canada strong sentiment helped sales yet again this quarter. Trips and baskets were up, leading to growth across all our banners. At CTR, comparable sales ended up more than 6% as four of our five divisions saw mid- to high single-digit growth. This growth was led by seasonal and gardening, where sales were up 8% and automotive, which delivered a 20th consecutive quarter of growth.

Sport Chek comparable sales were up nearly 4% as an increased focus on winning with athletes and being a destination of sport continues to pay off. We saw strong sales in hard goods like golf and hockey in athletic footwear and in sandals, which were a top seller as wider availability of key brands attracted customers. At Mark's, comparable sales were up 1%. We are pleased to see the industrial side of the business continue to grow with strong industrial footwear and workwear sales.

On the casual wear side, denim sales continued to be strong. For the second consecutive quarter, CTR revenue on a 12-month basis is trending ahead of sales as dealer replenishment and revenue ramped up through the first half. Despite strong revenue, dealer inventory was in line with the same period last year, reflecting strong sell-through in the first half of 2025. Corporate inventory was up 7%, mainly to support CTR in key essential categories and Christmas categories in the back half of the year.

Strong revenue translated into 6.2% growth in retail gross margin dollars. Rate was down 90 basis points to 34.8% against a strong comp last year, driven by mix and foreign exchange. The capabilities we have built and continue to expand as part of our margin nerve center including our AI platform, David, are improving how we manage margin volatility. Although we were impacted by mix this quarter, we successfully managed a dynamic cost environment and some foreign exchange pressure.

Our margin rate was negatively impacted by mix including higher shipments to dealers and foreign exchange associated with the anticipation of tariff impacts and the related pull forward of certain product purchases in February at exceptionally high spot rates. Although we expect some FX pressure in the third quarter, we are not expecting the quantum of rate impact we saw in Q2 to repeat.

It's important to note there will always be quarter-to-quarter fluctuations driven by business performance and mix. On a year-to-date basis, our retail gross margin, excluding

petroleum, is sitting at 35.4%, and we continue to target our North Star of around 35% on a full year basis. Turning now to the expense side. The retail business came to us largely on plan with strategic investments to support our *True North* transformation and leverage on our variable costs, partly as a result of our previous investments in automation and the supply chain.

Retail SG&A was up $84 million with approximately a quarter from IT investments to enable our strategy, a third related to an increase in variable compensation and the balance from normal inflation and variable costs to support our growth. As previously mentioned, our strategic investments, combined with inflationary increases are contributing to pressure on the SG&A rate in 2025, partially offset by restructuring benefits we expect in the fourth quarter.

So to wrap up the Retail segment, we delivered strong revenue in retail sales, which offset increased investments, leaving normalized retail EBITDA broadly in line with last year at $487 million. Meanwhile, we grew our normalized retail IBT by close to 10% or $18 million as we benefited from lower interest, mainly as a result of balance sheet deleveraging. All in, a great operational quarter on the retail side.

Moving to CTFS now. At Financial Services, we saw the same customer resilience as in retail. Spend on cards was up close to 4% with spend at CTC's family of companies outpacing overall card spend. Active accounts were unchanged over last year and receivable growth of 1.7% was driven by a higher average account balance as a result of continued cardholder engagement.

Over the last 12 months, eCTM issuance to cardholders is up 4%. The risk metrics at the bank were also stable with the net write-off rate unchanged versus last year at 7.1% and the PD2+ rate up only slightly on last year at 3.4%. This meant we kept the allowance unchanged at $935 million with the allowance rate coming in at 12.3% within our targeted range of 11.5% to 13.5%. While unemployment continues to be elevated, we didn't see a real weakening this quarter. Having said that, we remain watchful and ready to act should trends change.

As we signaled last quarter, we had elevated infrastructure spending at the bank, which was the main driver of financial services IBT being down $14 million. The $13 million increase in SG&A spend increased our SG&A rate to approximately 27%, a range that is representative of what we will likely see for the balance of the year. We expect to continue to invest through 2026 to support our strategic and regulatory initiatives. Having the right infrastructure in place is crucial to our long-term strategy of profitably growing the cardholder base and supporting retail growth.

We remain confident that these are the right actions to safeguard the bank's resilience and return to higher levels of profitability over the long term, and we'll provide more color on the bank strategy in coming quarters. When it all comes together at the EPS line, normalized EPS from continuing operations was down $0.15 to $3.57 as retail IBT growth of almost 10% was more than offset by lower financial services IBT and the comping of a real estate gain at the REIT last year.

Before I wrap up and hand the call back to Greg, let me touch on some final comments and provide a little color on what we're seeing for the balance of the year. There were lots of positives in the results this quarter, and we saw the benefit of being in a well-managed discretionary business when economic conditions are supportive. We are investing in buying for growth in the second half with inventory skewed to Essentials now that we're through our most discretionary quarter.

If customer resilience and patriotic purchasing continue to play in our favor, we will be ready, although we will be comping a strong back-to-school season in Q3 and a strong Q4 last year. We would expect normal seasonal variance to drive a stronger margin rate as we exit the year, and we'll continue to manage for leverage in operating expenses where we see increased volumes while making strategic investments to transform the business, which will continue to put pressure on the OpEx rate.

Overall, we are pleased with our retail fundamentals and are remaining watchful of trends so we can proactively adjust should things change in the external environment. We remain active on the NCIB and plan to update you on our plans for 2026 with our quarterly results in November. As we move forward with our transformation, we expect our actions and investments to accelerate our performance and drive value over the long term.

With my thanks to the business for the continuing to balance our long-term priorities with solid financial results, I will now hand the call back to Greg.

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

Thanks, Darren. In addition to our strong Q2 performance, our *True North* transformation is well underway. You'll recall the objective of our strategy is to drive stronger connections with customers, higher performance in our core business and long-term shareholder value creation above our historic norms. The strategy rests on four cornerstones.

This morning, I'll touch on three, starting with our commitment to be one team, agile and scaled, a more efficient company structured to thrive. We have a tremendous opportunity to better leverage our scale and privileged first-party data and to move faster as a modern retail organization. We have identified and are addressing inefficiencies in our teams, our processes and our technology that hinder our speed and agility. We've already seen a difference.

We're making rapid progress on significant initiatives like loyalty partnerships, decisions around the HBC tuck-in, ensuring our bank and retail businesses work in harmony and implementing major platform and omnichannel enhancements from same-day delivery to one-click checkout.

All of these efforts are fundamental to CTC becoming a better retailer and improving our long-term financial metrics. Unlocking this level of agility however requires more than just refinements around the edges. We are fundamentally reorganizing and transforming to maximize our greatest strengths and compete against global scale competitors.

In March, we both announced and initiated our restructuring process. We have been in a period of meaningful reductions designed to remove layers and drive decision-making closer to our customers. We expect our restructuring and reductions to be largely complete in the third quarter, creating teams that are faster and better equipped. There is a clear understanding at CTC that this work is essential to our ability to both compete and to contribute to the Canadian economy today and well into the future. At the same time this work is personally and professionally challenging for our team, which makes their recent performance that much more impressive. I thank them for their continued perseverance throughout this process.

Our One Team, Agile and Scaled cornerstone also includes initiatives intended to ensure we have the technology and modern infrastructure to thrive. For instance, in May we opened our 385,000 square foot distribution center in Vancouver, adding regional DC capacity to our 10 million square feet of capacity nationwide. The new facility delivers greater efficiency, ramping up essential throughput and getting products on shelves two weeks faster in our key BC market.

In addition to regionalizing our supply chain network, we're investing heavily in automation, which is significantly increasing our SKU capacity while speeding up product retrieval across our DCs. Moving now to our retail forward cornerstone, which entails initiatives designed to focus on our core business, characterized by a refined portfolio and improvements across our retail fundamentals, owned brands and omnichannel customer experiences.

On this front, we've been busy. We continue to roll out our investable store concepts across our three major banners. Year-to-date, we've refreshed 14 Canadian Tire retail stores

and opened one new Bigger, Better, Bolder Mark store and one new concept SportChek store. We've enhanced a total of 21 stores in 2025 with more than 30 planned through the balance of the year. Similarly, our investments in digital and ecommerce growth are enabling customers to transact easier and faster through tools like payment options, simpler one-click checkout and increased same-day delivery options.

On a year-to-date basis, ecommerce sales are up 8%, with CTR up 12%, outpacing overall sales growth. I should also highlight that we doubled our same-day delivery orders this year, a direct result of driving broader awareness that this option is available across all our banners including CTR. Of course, I can't talk about Retail Forward without highlighting the Q2 announcement of our plans to acquire HBC's brand assets. While we felt good about our plan, we never imagined the response from Canadians would be so overwhelmingly positive. It was more than support for our strategy. It felt personal, a reminder of the place Canadian companies hold in Canadians' hearts. So, as we push forward with our commercial plans, we remind ourselves daily of both the opportunities and the expectations of stewardship that are on our shoulders.

Our teams are determined to be considered and careful. When it comes to stewarding the stripes, we'd rather be right than fast. That said, Canadians can expect to see some updates and fun initiatives starting in Q4 of this year with our meaningful product presence rolling out in the back half of 2026. Ultimately, we are a proud Canadian company with proud Canadian employees, and I can't overstate how excited we are to continue the HBC story.

Retail Forward also includes refining our portfolio to drive our core business. And as you'll recall we completed the strategic review of our bank in late 2024.

Since then, we've been developing a go-forward strategy, which includes investments to ensure the bank's resilience in a rapidly changing world while cultivating its retail driving potential. I'll provide more details on the strategy later this year. In the meantime know that I am excited and confident about the potential to generate long-term value for both the bank and retail, a true example of synergy through a more integrated approach for CTC.

Moving to our Triangle Powered Everyday cornerstone. In Q2, loyalty engagement was robust. Loyalty penetration was up 114 basis points to 54.8% on a rolling 12-month basis, and we continue to establish deeper, more meaningful relationships by welcoming, registering and reengaging more Triangle members. In addition to increasing our 12-month active registered member base by 6% over last year, more of our members are shopping across our banners. Separately, we also see opportunities to continue growing our loyalty base as patriotic purchasing and nonmember spending have increased, opening the door to introduce more Canadians to the power of Triangle Rewards.

In Q2, we also announced a new loyalty partnership with WestJet on the heels of our Q1 announcement with RBC. We expect these partnerships to be in market for the first half of 2026, providing tangible benefits to our retail business and millions of members.

And finally, in Q2, we supported our communities when they needed us most from the Red Cross wildfire relief efforts to helping more kids participate in sport and play through Jumpstart.

In June, we celebrated our annual Jumpstart Month and employees for Jumpstart campaign, putting our purpose into action and raising an incredible $7.7 million. A big thank you to all of our team members as well as the Canadian Tire dealers, store staff and our generous customers for once again making Jumpstart Month a huge success.

With that, we can open the call to questions.

QUESTION AND ANSWER SESSION

Operator

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

Irene Nattel, *RBC*

Thanks, and good morning everyone. Great quarter on the revenue line, not so great necessarily on the flow-through down the P&L. I understand the need to invest, but it would be really helpful if you could quantify a couple of things. First of all, what is the magnitude of the stepped-up investment in 2025 in both retail and financial services? And the related question is when and how will we see the returns on those investments coming through?

Darren Myers, *EVP & CFO, Canadian Tire Corporation*

Yes. In terms of the investments on the retail side, as the company went into 2025, it outlined the $60 million. So that continues to be true. Within the quarter, if you think about our SG&A, about a quarter of the $84 million of retail SG&A increase was from IT, so call it $20 million of that $60 million, and it was really the first quarter we were spending it. So, expect that we will spend the balance of the $60 million for the second half of the year.

Then on the CTFS side, it's really a story, and I alluded to last quarter and to be fair, I didn't have a lot of color on it. We've been working on the strategy. As the company completed the strategic review last year and decided to keep the bank, it's been working on its strategy. And as part of that, when you go through a lengthy strategic review, naturally, some of your longer-term investments, you're not sure when you should make them and if you make them.

We did not make them to the same magnitude. So there's a little bit of catch-up that we need to do in the bank. There's operational infrastructure enhancements we need to make and some regulatory investments as the regulatory landscape continues to change and require more.

So we will be in investment phase. I think the best way to think about the bank is that 27% SG&A rate will be representative of what we expect to see for the balance of the year. Maintaining that will continue into 2026.

Then to your question about where do we go from here with investments, I mean this is a year of uptick. We're not coming out with 2026 color, but at this point. But clearly, we're doing a significant restructure. We'll start to see the benefits of that. We'll probably have some elevated spending but not to the same magnitude that we had this year. And ultimately, we need to grow our earnings, and we need to make sure we are managing our costs. So this is a transition phase. I don't think we'll be through it in 2026, but we will expect to start to see improvements certainly.

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

And Irene, it's Greg. Maybe just to build on that and take it up a little bit. There's two primary objectives of *True North*. First, as I mentioned, is the requirement to aggregate our scale and change our operating model to improve our competitive posture against scale players. The second is to simply stated, is to accelerate our financial performance to higher levels than our historical norms. We have to drive the top line in a sustained way.

We need to maintain our North Star margin rate, and we need to get cost leverage to drive the bottom line, and we're working that blueprint. The workforce transition is a major step in this direction. But so is the work that we've been doing in our supply chain through expansion and automation, so is the work we're doing in technology to drive out duplication, which slows us down and costs us money. So was the sale of Helly Hansen and Trophy properties. This -- so this strategy is not successful unless we drive stronger operating performance period.

Irene Nattel, *RBC*

That's really helpful thank you. So to frame what you're saying, it sounds as though as we move through '26, we should start to see some of the benefits of the earlier stages of the investment. But is it reasonable to think -- I know *True North* is a 4-year program that we should see acceleration as we get into, let's say 2027 and 2028.

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

I think that's fair and a good way to think about it, especially on the cost side. That sustained top line doesn't come without a significant amount of groundwork. So if you think about some of the work that we've been doing on loyalty partnerships. The teams are working feverishly to put great value into the market for 2026 launches. I feel good about the energy around value-driving initiatives, both on the top line and the bottom line, and it's coming to us in terms of those work efforts the way we would have planned for driving value as we look to the out years in the '26 forward in the outlook.

Operator

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

Mark Petrie, *CIBC*

Hoping you can give us a sense of the feedback that you're hearing from dealers on the selling environment and sort of the profile of consumer demand. And Darren, I think you said dealer inventory is flat from last year, but could you give us a sense of how it might be different for Essentials and Discretionary? Then how you're thinking about how sales versus revenue might track for the second half of the year, just given positioning on winter seasonal and holiday goods?

TJ Flood, *EVP & COO, Canadian Tire Corporation*

Mark, it's TJ. I can give you a little bit of color on that. With the customer remaining resilient, and inventory having come down last year from a dealer perspective and with a lot of the new product introductions that we put into the market and more assortment vitality, we're seeing really strong demand from dealers, which is obviously a good sign. They would have planned for modest growth in the front half of the year, but I think the consumer demand has exceeded our expectations, and they've been buying accordingly.

So, when you think about what they've bought relative to what they've sold, that has been coming out of Q2 effectively flat versus last year. And as we look to the back half of the year, I'll probably point to two things. They're going to try to continue to support consumer demand, obviously. But one early signal for us is their Christmas orders have been really, really strong. Darren alluded to that.

I would signal as well that they are coming out of Q1 really light on winter-related inventory because as you may recall we had some significant weather in Ontario and Quebec. So we expect replenishment to be strong in the back half on those categories. So obviously with the backdrop and the consumer sentiment, we're watching this very closely as are dealers. But right now I would say the sentiment is good, and they're definitely buying to support the business.

Mark Petrie, *CIBC*

Okay. And maybe just sort of related, you guys called out Western Canada as sort of the region of strength. Hoping you could just expand on that. And Greg, you mentioned how you're sort of tracking performance in regions more affected by tariffs and just hoping you could also expand on that comment and what you're seeing.

TJ Flood, *EVP & COO, Canadian Tire Corporation*

Mark, maybe I'll touch on the first part. Yes, we did see -- first of all, I would say across the board, nationally, we saw really strong growth in the quarter, which is really good. I would say the spring weather came to us earlier in the West. So, it disproportionately performed. But we were pretty happy with the performance across the board, and I might even highlight as well just categorically, 75% of our categories were up in Q2.

So strong regional performance, but your question about the West, I think it was the spring hit a little bit earlier. You may recall our April and May wasn't so great here in Ontario and Quebec, but it certainly came on in June. So that would have been the difference in terms of the split. But overall, very strong across the board nationally.

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

Yes, Mark, we're putting a heightened focus and, I guess data mining around some of the communities that are impacted hardest, think Southwestern Ontario. We're doing that across the retail business at the store level and also the bank in terms of delinquencies, payments, et cetera. On the margins, maybe we're seeing a little bit of an impact, but it's nothing to really call out at this point. I feel good about the fact that we've got the right sensing mechanisms in place across the big components of our business so that we can react accordingly. But as you look to Q2, no real kind of material impact to call out here.

Operator

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

Tamy Chen, *BMO*

On the OpEx, I think one of the other impacts driving year-over-year growth was higher variable comp. I just wanted to ask specifically about this. Like was that very specific to this quarter? Is that going to occur again in some other quarters? I just want to understand if that's more one-time or not.

Darren Myers, *EVP & CFO, Canadian Tire Corporation*

Yes. Variable comp, as you know can be quite lumpy. What I would say there's a lot of moving parts to it this quarter, this will stick. So, I don't think it's going to reverse. We might see a little bit more lumpiness. It's hard to call out at this moment in time as we balance the year.

Tamy Chen, *BMO*

Okay. And my follow-up is I'm going to stick with the OpEx here. I think you've given some helpful color, the remaining of the $60 million related to *True North* will be spent. Can you confirm like are you thinking the remaining of that will largely be spent in Q3? And when it comes to Q4, I just want to get some more visibility on how we should think about, feel like at that point, there should be some of the cost benefits starting to trickle in. So like should we really think of Q2, Q3 was this big OpEx spend related to *True North*? And really starting Q4, like that is going to reverse because you're going to start to see some of those cost benefits come in.

Darren Myers, *EVP & CFO, Canadian Tire Corporation*

Yes. I think not going to get the exact precision between the quarters. We're ramping up *True North* costs. Whether you put a little bit more in Q3 versus Q4, I'll leave that with you, but there will certainly be lots of activity going into Q4. This is not a projects that are done in Q3. That's for sure. Then in Q4, against some of that increase, we will start to see some

of the restructuring savings. We also, as a reminder, have an extra week this year. So there will be extra SG&A associated with an extra week, also extra revenue in the fourth quarter. So just be mindful of that as well.

Operator

Our next question comes from the line of Ian Liu from Scotiabank.

Ian Liu, *Scotibank*

I'm wondering if you can talk a bit more about the investment you're making at the bank? And how much of the incremental SG&A investment was strategic versus operational or regulatory? And just to clarify, should we also expect the '26 SG&A rate to be around 27%?

Darren Myers, *EVP & CFO, Canadian Tire Corporation*

Yes. Listen, it's going to be hard for me to break down the split because a lot of them go hand in hand, like building your operational resilience is both strategic, it's operational and it's got regulatory. If you look at a lot of the regulatory requirements is around operational resilience. So they go together. I can't really break that down for you today. At this point in time we're not giving 2026 guidance, whether you want to keep at that rate. I do see it being elevated into next year, and then we'll start to see the benefits the year after. So I think it's as good a number as anything, but I'll leave that to you to decide what number you want to put in there.

Ian Liu, *Scotibank*

That makes sense. Then my follow-up question, you've got solid momentum at CTR and Sport Chek, but more modest growth at Mark's. I'm just wondering if you can provide more color on Mark's performance. What do you feel is different on Mark's versus other banners? Is there any structural reason Mark's can't match those numbers? Or anything specific to its product set that makes it more challenging in this environment?

TJ Flood, *EVP & COO, Canadian Tire Corporation*

Ian, it's TJ. I'll take that one. I mean we were happy with Mark's performance. You may recall they were comping tougher numbers versus last year than the two other banners, but we continue to see real strength in our industrial categories and our denim category. So we really believe in the concept. We're excited about our BBB, Bigger, Better, Bolder new store concept that we're rolling out and consumers have been really responding well to that. So we like that business, and it's been doing well for us. But I think the comp probably had a bigger kind of impact than on the other two banners.

Operator

Our next question comes from the line of Gabriel Chiu with National Bank Financial.

Gabriel Chiu, *National Bank Financial*

I just wanted to clarify or get some more color on the consumer spending patterns that you've seen. Do you have any thoughts on what's supporting this kind of consumer resiliency? Is this sort of the replacement cycle that you hinted towards last quarter? Or have you been able to correlate any sort of softness in U.S.-related spending coming back towards Canada and domestic resiliency? Could you give any color on that or thoughts on that?

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

It's Greg, Gabriel. It's a series of things. I think every year, we move away from Covid, the replacement cycle kicks in for a lot of discretionary businesses. If you bought your 6-year-

old child a bike in 2021, that bike isn't fitting that child when they're 10 as an example. So, when you think about some of those higher ticket discretionary businesses like cycling, like patio furniture, like barbecues, trampolines, kayaks, et cetera, et cetera, all those bigger higher ticket businesses that you see in CTR, every year we move away there's the replacement cycle kicking in and is a tailwind for the business.

Having said that, this quarter was a demonstrative change in that high-ticket discretionary business momentum where we were up double digits. I think that's very positive in terms of the resiliency of Canadian households in terms of spend. The flip side to that is it is by far our lowest margin rate business.

It kind of blends the mix down, which Darren and TJ have talked about. The only other thing that's kind of worth noting, I think because it's a change for us in terms of when we evaluate the data is although we're seeing growth across all Triangle households in terms of spend, we're witnessing a trend in the data that spans both quarters this year that are changes to the last many quarters or a change to the last many quarters, and that is that higher debt burden households are outpacing growth of low debt households.

Now the delta is pretty tight, but it's a fairly significant change from what we've been seeing in the previous four to six quarters. We do believe that it is a sign of resiliency and that despite low confidence levels, and we're still just a hair above 2008 levels in terms of consumer confidence and cost of living pressures, you've got positive factors like lower interest rates, the carbon tax cancellation and some patriotic purchasing. So, it all comes together in the form of a resilient consumer and some real positive signals for us that our dealers are picking up on and adjusting their mindset to be much more bullish about the business going forward.

Gabriel Chiu, *National Bank Financial*

I appreciate that. Then maybe as a follow-up, just switching to the David platform. Where are we on that rollout right now? And do you have any insights on notable changes of some of the early wins?

TJ Flood, *EVP & COO, Canadian Tire Corporation*

Yes. Gabriel, it's TJ. The David rollout has been going really well. I would say if you step back and look at our margin performance, we had a lot of headwind associated with mix. When you think about the 90 basis points, first of all, overall, our margin dollars were up 6% driven by the volume, but we did have a 90 basis point hit on margin. And that would have been two-thirds associated with mix and one third associated with the currency, that impact that we had by pulling some tariff demand forward. But our David pricing algorithms and AI has been very effective for us. When we look at it on a category-by-category basis, it allows us, one, not only to be competitive in the marketplace, but invest where we need to invest to drive consumer demand and not invest where we don't think we can inspire consumer demand based on elasticity.

So the teams have been adopting it very well and the rollout has been on track. Over time it's going to be a capability that we're going to continue to invest in, roll out to all the banners across CTC. But early days, we're really liking the performance and what the team has been able to do with the tools.

Operator

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

Chris Li, *Desjardins*

My first question for you, Darren. Just on the gross margin, based on my rough math, I think if you were to get to your 35% margin rate for the full year, that would imply roughly stable margin versus last year for the second half of the year. Is that correct? And I think I heard you mention Q3 margin rate is still going to be down, but down less than Q2. So that would imply Q4 will be increased. Just want to see if my math is in the zone.

Darren Myers, *EVP & CFO, Canadian Tire Corporation*

Listen, those are your numbers, but your math would be correct in terms of hitting the 35% and some of the color we've given.

Chris Li, *Desjardins*

Okay. That's good enough for me. Greg, wanted to ask you, over the last couple of years, obviously you've tried to unlock value within the company by certain asset sales. I want to ask you, are there more opportunities that you guys are exploring? I mean the question I often get from investors is on the real estate side. Is there any more opportunities you can monetize some of your holdings there? Just want to get your thoughts on that.

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

Yes. We're focused on driving our core business right now. I alluded to the two primary objectives of *True North*. Hopefully, you can hear in our quarterly calls just how busy this organization is at kind of putting ourselves in a position to drive better operating performance to improve our competitive posture.

I think any value unlock has to have a good use of proceeds. And right now we're sitting with, I think a pretty good balance sheet, and we're trying to get a little bit more certainty around what the market, the consumer environment looks like for us. I don't think it's a bad time to have excess cash on the balance sheet.

There's nothing imminent. We're always open to attractive tuck-ins on the acquisition side, like HBC. I think they make sense if they're the right fit and they're strategically aligned. But again, I just come back to the way I started. We're just really focused on growing our core business earnings, and expanding within a broader Canadian retail ecosystem via partnerships to meet everyday customer needs and engage and drive that relationship to be stronger with our members.

Chris Li, *Desjardins*

You mentioned sort of excess capital and a strong balance sheet. When will you provide an update on the excess capital that you got from Helly? Is it Q3 that you normally provide some update on capital allocation?

Darren Myers, *EVP & CFO, Canadian Tire Corporation*

That's right. That's right, Chris. We'll give an update on capital allocation on our next call.

Operator

(Operator Instructions)

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

Well thank you, Lauren, and thanks, everybody, for spending time with us today. And we look forward to speaking with you in our Q3 call. Bye for now.

Operator

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