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Canadian Tire Corp. Ltd. (CTC.CA)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by. My name is Lauren Canon, 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'll pass along to Karen Keyes, Head of Investor Relations for Canadian Tire Corporation. Karen?

Karen Keyes
Head-Investor Relations, Canadian Tire Corp. Ltd.

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

Before we begin, I'd like to remind you that today's discussion contains information that may constitute forward-looking information within the meaning of applicable securities laws, including management's current expectations regarding future events and the company's True North strategy. Although the company believes that the forward-looking information in today's discussion is based on information, estimates and assumptions that are reasonable, such information is necessarily subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied in such forward-looking information.

For information on these material risks, uncertainties, factors and assumptions, please see the company's MD&A, which is available on our website and filed on SEDAR+. The company does not undertake to update any forward-looking information, whether written or oral, except as is required by applicable laws.

I would also highlight that our discussion today will focus on the normalized results of the business on a continuing operations basis. Remember that 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 in 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 of your questions today.

I will now turn the call over to Greg.

Greg Hicks

President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.

Thank you, Karen, and good morning, everyone. In Q3, we performed very well, while continuing to make True North investments across both our Retail and our Financial Services businesses. We achieved strong top line and underlying retail performance across our business. Our loyalty engagement increased with over 7 million members shopping our banners in the quarter, an increase of 3%. Sales also grew across our major banners with CTR and SportChek driving revenue gains. These results were supported by our team's very strong margin management. And ultimately, diluted earnings per share grew nearly 7%.

There's no question that the consumer demand landscape remains dynamic, yet Canadian shoppers continue to demonstrate admirable resilience. We are cautiously optimistic, recognizing the macroeconomic backdrop remains uncertain and unpredictable with ongoing trade negotiations and government actions that will shape the Canadian economy for years to come.

We are actively monitoring these trends and developments, ensuring we remain agile and responsive. And like the entire retail industry, we are watching the Canada Post labor dispute closely and with disappointment that it comes at a time when consumers are craving value. With one of Canada's best loved flyers, this is a headwind that we are working to match, and we are hopeful this situation stabilizes swiftly and sustainably.

With the launch of True North, we've talked at length about the importance of CTC performing and transforming in parallel. That was evident in Q3 as we charted strong results while advancing our transformation. We've done the work to organize and set our teams up for success, both at the corporate and store level. In September, we held our annual Canadian Tire Dealer Convention, and there there's no question that the dealers are aligned with where we're going strategically.

In Q3, we also completed our internal restructuring as planned. With our new organizational structure now complete, we are set to accelerate the next phase of our journey, which includes harnessing technology and AI to drive the business forward and deliver operating leverage. We're moving the entire enterprise to take more streamlined approaches based on data-informed go-to-market strategies and great retail execution.

As we continue to roll out this new approach, the impact will be evident in our retail-forward strategic cornerstone. You can expect us to show up as an even better retailer through a mix of both tested and new tactics. We'll leverage the alignment of the dealers, our restructured teams, our high/low pricing, and our omni-channel customer experience to capture market share. For instance, throughout 2025, our eCommerce growth continues to outpace bricks-and-mortar as we invest in great digital customer experiences.

Awareness of our comprehensive range of omni-channel offerings and services like in-store pick-up of online orders, ship-to-home, and same-day delivery across all our banners continues to increase, helping us grow. The awareness is critical in both busy urban markets and non-VECTOM markets, which represent around 70% of our [*CTR*] sales. And with the majority of our transactions starting online, we continue to explore a variety of enhancements, including leveraging new AI tools to improve search performance and to identify the Triangle offers Canadians need, building on enterprise-level customer data.

As we've done over the last many months, through True North, we are also continuing to refine our promotional and digital engagement, adapting to changing customer behaviors, and reducing our reliance on traditional channels. Likewise, as you saw in our Q3 results, our AI pricing tool, DAVID, is helping us analytically engineer promotional programs and optimize regular pricing to provide customers the value they crave, all while managing our margins.

In our conversations with globally scaled advisors and partners, DAVID has been called out as one of the leading North American examples of how retailers are using generative AI at scale. DAVID builds on our unique first-party data, which remains a key differentiator in our modernization efforts and our deployment of AI. Our data is a sustained competitive advantage that also delivers considerable value to our customers.

Our Triangle Rewards program is another cornerstone of our strategy. And by partnering with other strong Canadian brands, we are driving the scale of both the Triangle brand and the valuable first-party customer data it generates. Case in point, our first partnership with Petro-Canada has been very successful, growing to nearly 520,000 linked members and over CAD 100 million of incremental sales.

In the quarter, 10% of Triangle members were active at Petro-Canada. In Q3, we announced our newest loyalty partnership with Tim Hortons, which, in addition to being the nation's largest quick-serve restaurant chain, is a brand loved by Canadians coast-to-coast. This partnership feels like a natural fit. And given their positive response to our announcement, we know that Canadians agree.

At the same time, we continue preparing internally to launch our RBC and WestJet loyalty partnerships. With our RBC partnership now in the soft launch phase, customers can now link their Triangle Rewards and RBC payment card to accelerate their earn. This soft launch period will provide us important learnings as we prepare for a full launch with RBC in early 2026, as well as WestJet and Tim's, both planned for later next year.

With new partnerships like these, Triangle is expanding from a loyalty program into a powerful Canadian network, offering value to the millions of Canadians who engage with these programs every day. You can expect us to make the most of these iconic Canadian partnerships, the natural customer engagements, and the associated brand awareness in 2026 and beyond.

And with that, I'll hand it over to Darren to take you through our Q3 results.

Darren G. Myers

Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.

Thank you, Greg, and good morning everyone. Our third quarter performance reflects continued strong retail execution, delivering improved profitability and higher return on invested capital. At the same time, we continue to build momentum in our True North transformation, making strategic investments to support long-term growth.

Retail revenue remained robust, and Retail sales came in at a strong margin rate, resulting in meaningful retail IBT performance up 19% year-over-year. At the back, customer risk metrics were generally in line with our expectations. As described last quarter, we are making investments to strengthen and grow the business which contributed to lower IBT. Lower leverage, reduced finance costs and continued progress against our share repurchase program contributed to the 6.5% year-over-year increase in normalized earnings per share.

Let me now take you through some of the highlights of the quarter. Retail revenue excluding Petroleum, was up close to 6%, driven by CTR dealer restocking ahead of Q4 and solid sales growth across our banners. Consolidated comparable sales grew 1.8%, led by a strong performance at SportChek. Loyalty penetration was up 117 basis points to 55.2%.

At CTR, comparable sales grew 1.2%, driven by trips and units per transaction, both which trended higher this quarter. We experienced weaker sales in essential categories and a decline in the Living division, as a result of slower sales of summer climate control products, combined with less flyer distribution towards the end of the quarter due to the Canada Post strike action. Sales were up 2% to 3% in our other four CTR divisions.

Automotive delivering a 21st consecutive quarter of growth, with auto maintenance continuing to be a strong performer in Q3. Regionally, growth was strongest in Ontario and Québec, while Alberta was down slightly after a strong performance last year. While CTR comparable sales are trailing revenue on a year-to-date basis due to strong and earlier dealer replenishment, both have been robust with CTR year-to-date revenue up 7% and comparable sales up 4%. As you know, CTR revenue growth and sales growth tend to converge over time given our dealer model.

SportChek had another great quarter. Comparable sales were up 4.2% with strong performance in back-to-school and back-to-hockey. SportChek's sharpened focus on winning with athletes and being a destination for sport continued to drive stronger sales of hard goods, including golf and hockey, as well as athletic clothing and footwear.

At Mark's, comparable sales were up 2.5%, supported by the continued success of our new Bigger, Better, Bolder stores. During Q3, we opened our 12th BBB store, including the first in the province of Québec, as we continue to expand our presence in Québec and Ontario. From a category perspective, an earlier start to fall in several provinces contributed to increased sales of casualwear categories like sweaters and jeans and workwear sales were also up.

Turning to margin now. Our retail gross margin came in strong with solid execution, favorable mix, and margin rate increases across all banners. We continue to build capabilities around promo and pricing through our Margin Nerve Center and our AI platform, DAVID, that are helping us manage a dynamic environment. Better product margins across the businesses and less foreign exchange headwind than we anticipated contributed to an excellent result on margin.

Excluding Petroleum, Retail gross margin dollars were up nearly 8% and the margin rate improved by 57 basis points year-over-year. Our Retail SG&A was up 6% year-over-year as expected, around half of the increase was a result of increased strategic investments supporting our True North transformation primarily in IT. Our SG&A also included variable costs to support our growth and business-as-usual inflationary pressures.

Initial restructuring savers – savings and higher vacancies were a small positive contributor this quarter. With our restructuring largely complete, we expect to realize a full quarter of benefit in the fourth quarter. Bringing it all together, we delivered strong operational results in our retail business. Normalized retail EBITDA increased almost 4% to CAD 484 million as revenue and margin strength more than offset our investments in the business. Cash generation from operations was more moderate this quarter, reflecting working capital and investments ahead of our largest quarter. Corporate inventory was up 5% as we exited Q3, with increases primarily driven by SportChek and Mark's. At CTR, dealer inventory was up 7% to support Q4 growth.

Moving to Financial Services. Customer spend remained robust and we continue to deepen engagement with cardholders. Receivables grew 2.3%, primarily driven by higher average account balances. We continue to leverage loyalty issuances as a tool to engage cardholders and drive retail sales with eCTM issuance up close to 8% over the last 12 months.

Increased cardholder acquisition contributed to a modest increase in active accounts during the quarter. CTFS IBT declined CAD 26 million year-over-year, primarily reflecting higher SG&A, as expected, driven by infrastructure and growth investments. Additionally, gross margin dollars decreased 3%, driven by increased write-offs this quarter. As we noted last quarter, SG&A levels are expected to remain elevated into 2026 as we continue to invest in the business.

Risk metrics remain relatively stable and were in line with expectations with PD2+ at 3.5% and the net write-off rate at 7.2%, both up approximately 10 basis points quarter-on-quarter. We continue to closely monitor the environment and are prepared to act, should we see meaningful change. With no increase in the allowance and an increase in the ending receivables balance to CAD 7.7 billion, the allowance rate ended at 12.1%, remaining within our targeted range of 11.5% to 13.5%.

Before I wrap up and hand the call back to Greg, let me provide color on what we're seeing so far in Q4 and on our capital allocation priorities for 2026. While September was cool in parts, this was followed by an unfavorably warm October most of the country, which contributed to flat to modest sales growth in the early part of Q4. Earlier restocking, including in key winter categories where CTR dealers ended lean last year, contributed to CTR revenue outpacing sales in Q3. Being in-stock combined with continued customer resilience and an extra week this year should position us for sales growth in Q4.

However, sales over the next few months will be dependent on how winter comes to us this year and how quickly Canada Post stabilizes. Strong margin management has led to a year-to-date retail gross margin rate above our North Star margin. Based on typical Q4 performance, we are positioned to overachieve our North Star this year. Of course, keep in mind that mix and other factors can drive variability quarter-to-quarter. Overall, we are pleased with our retail fundamentals and we remain watchful of the trends so we can proactively adjust should the external environment change.

Finally, let me close by outlining our 2026 capital allocation priorities. We are pleased with the position of our balance sheet, following the sale of our Helly Hansen business. Our approach to capital allocation continues to be balanced, investing in the business for long-term value, while also giving back to our shareholders. Our True North strategy is providing greater clarity on investment priorities with a continued emphasis on refreshing and enhancing the store/digital experience, rolling out loyalty partnerships, harnessing AI, and advancing our technology and processes to drive scale and operational efficiency.

We expect to spend operating capital in the range of CAD 500 million in 2026, in line with our long-term historical run rate. These investments, shaped by our True North priorities, are purposefully designed to improve our long-term financial performance. We also continue to deliver return to shareholders. As of last week, we had completed the CAD 400 million of repurchases under our 2025 share repurchase intention. Today, we announced that we plan to repurchase up to CAD 400 million more by the end of 2026.

Finally, in March, the dividend will increase to CAD 7.20 per share, which will be our 16th consecutive year of dividend increase. As I reflect on the last six months since I have joined, I'm pleased with our progress and energized by the opportunity in front of us to deliver improved results. We're building new discipline around planning, performance management, and capital allocation, and we'll continue to evaluate the returns that we're getting from our investments.

Importantly, our teams are embracing the need for change. And for that, I want to thank them. We look forward to updating you on our progress at our Q4 results in February. And with that, I will hand the call back to Greg.

Greg Hicks

President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.

Thanks, Darren. I'll conclude today by thanking our team. Our people continue to reinforce our purpose through actions that demonstrate we are truly here to make life in Canada better, not just for our customers but also our communities. For example, in Q3, the SportChek and Jumpstart teams partnered to help community sport organizations replenish their outdated equipment, and in turn, offer more programs to more participants.

And just last month, we expanded our partnership with the Downie Wenjack Fund through our commitment to revitalize the Blanket Fund by providing at least CAD 1 million each year for indigenous-led initiatives. This holiday season will mark our debut stewarding the Hudson's Bay Stripes, with products including the iconic Point Blanket hitting stores on December 5.

Step by step, we have taken great care with this brand and we believe wholeheartedly that our curated Stripes Holiday Capsule collection is a sign of that stewardship. We picked holiday favorite items, working with original vendors to maintain quality and craftsmanship, and we expect this initial run of products to fly off store shelves.

Our meaningful product presence will roll out in the back half of 2026, and our hope is to continue stories that belong to all Canadians, honoring our history while driving into the future. And Canadians are taking notice. Last week, the 2025 Canadian Harris Poll study showed that our already strong reputation with Canadians is improving, with notable gains in categories like vision and growth. Like our fellow Canadians, we remain confident that we are taking the right actions to prosper over the longer term.

Last but not least, I would be remiss if I didn't acknowledge what an exciting few weeks it's been in the world of sports. First, I want to congratulate Martha Billes on her induction into Canada's Sports Hall of Fame. Martha received Canada's highest sporting honor, The Order of Sport, for her work advancing sport nationwide through Jumpstart. And second, I must extend my congratulations to the Toronto Blue Jays on their incredible World Series run. What a thrill that was for the City of Toronto and all of Canada. Not only did this Jays team demonstrate the power sport has to bring a nation together, but their success fueled sales of fan gear, which has been a nice tailwind for us as we comp last year's strong and early winter sales.

And with that, we can open the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Irene Nattel with RBC Capital Markets. Your line is now open.

Irene Nattel
Analyst, RBC Capital Markets

Q

Thanks, and good morning everyone. Thank you for the robust commentary, really helpful. Wondering how you and we should be thinking about Q4. And you've given us your 2026 capital allocation, NCIB levels stable despite your strong balance sheet. So, wondering about your assumptions and how you're thinking about 2026 and what underpins those decisions. Thank you.

Darren G. Myers
Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah. Good morning, Irene. I think, I'd go back to what Greg said in the prepared remarks, which is, we are cautiously optimistic. I mean, if we look at this quarter, we saw trips up, we saw baskets up, we saw lots of positives. We're executing good retail fundamentals, and we are still planning for growth and we're positioned for growth.

That said, as I mentioned, for Q4, we are mindful of two things. One is just how weather is going to show up, as well as the stabilization of Canada Post. As we think about next year, again, we are positioned and planning for growth. But as we look at in a cautiously optimistic mindset, we are really watching the consumer closely. So, there are lots of dynamics going on right now. We still feel good about the business, but we're watching things closely.

Irene Nattel
Analyst, RBC Capital Markets

Q

That's really helpful. And just as a follow-up, as you – with all your data, when you look at – and clearly, you did very well in Q3. As you look at consumer spending, as you look at CTFS, are you seeing red flags, are you seeing changes? What are you seeing there?

Greg Hicks
President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.

A

Yeah, Irene, it's Greg. Good morning. I'd say more of the same and in line with previous commentary in terms of the state of the consumer. I think we continue to see similar characteristics in terms of spend regionally. Alberta was down, but that was a weather comp issue. No major shifts in terms of spend by household income.

We're seeing membership spend growth at all income levels, and we're actually seeing some real resilience with low income apartment dwellers. We continue to monitor communities hit hardest by tariffs at both sales and credit card metric levels. And there's nothing really to call out there either, it's pretty stable. And then, I think when you translate that into the performance for us in the quarter, I think it's similar to year-to-date trends. It's minimal GDP growth, but we're growing.

And to Darren's point, there's no question that the consumer demand landscape remains dynamic. There are absolutely puts and takes at the macro, but Canadian shoppers just continue to demonstrate admirable resilience.

And again, just to follow up, bridge the two questions, I totally agree with Darren, we're cautiously optimistic. We're planning in a very similar way right now to the way we thought about planning this year at this time last year, but know that there's a still good amount of uncertainty. But I think the teams are demonstrating their ability to work through that.

Irene Nattel
Analyst, RBC Capital Markets

Q

That's great. Thank you.

Darren G. Myers
Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Thanks, Irene.

Operator: Our next question comes from the line of Chris Li with Desjardins. Your line is now open.

Chris Li
Analyst, Desjardins Securities, Inc.

Q

Hi. Good morning everyone. First, I wanted just to clarify, with respect to the CTR same-store sales, did I hear you correctly that, through the quarter, it kind of slowed through the quarter mainly because of the Canada Post strike? And then, right now in October, it's kind of flattish, did I hear that correctly?

TJ Flood
Chief Operating Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah, Chris – excuse me – it's TJ, maybe I'll jump in on that. Yeah, I think, I mean, first of all, we finished the quarter at – with a growth rate of 1.3%. September definitely did slow down a little bit for us. What we felt good with respect to the quarter was that our traffic actually up and our units per basket were up. We had a slight decline in AUR at CTR, mostly driven by air conditioner sales.

We were comping a massive heat wave in Alberta year-over-year. But, yes, September definitely was impacted by the Canada Post disruption. Operationally, it's obviously a major challenge for us when we get such late notice of disruption of our flyer deliveries, so that that hurt us a little bit. And then, as we get into October, that seems – I think you characterized it right and Darren said it, we're seeing kind of flat to slightly up performance in CTR, and we continue to monitor closely how the sales are progressing.

We've certainly positioned ourselves for growth under the right circumstances when the weather shows up. We like the composition of our inventory. We like the newness in our assortments. We really like the trajectory of the discretionary side of things, and we think that's a little bit attributable to more Canadians being in Canada.

If you look at Q3 travel – auto travel products were up, gardening was up, outdoor – outdoor furniture was up, and we think that's a function also of the newness in our assortment. You may recall, coming out of COVID, we had high inventory levels and we had kind of older assortment. So, we're feeling good about our assortment. So, we're – we feel like we've positioned ourselves as well as we can going into the quarter, and we're cautiously optimistic as we look forward.

Chris Li
Analyst, Desjardins Securities, Inc.

Q

Okay. Thanks very much. That's very helpful. Are you able to at all quantify the impact of the Canada Post strike on sales?

TJ Flood
Chief Operating Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah, we're not going to do that today, Chris.

Chris Li
Analyst, Desjardins Securities, Inc.

Q

Okay, no problem. And Darren, maybe just a follow-up for you. Just when I look out to next year in terms of Retail SG&A expenses, if we assume, let's say, that the top line, the revenue environment is sort of normal, like call it low single digits, and considering you have CAD 100 million of savings benefits coming your way next year, in that sort of setup, do you think there is a potential for some SG&A leverage in 2026?

Darren G. Myers
Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Well, the way I would think about it, we're not going to give guidance on the specific number, but we are going to have the run rate savings, which we talked about, which was CAD 100 million. I think you'll see stability in our investing in the business, so we won't see the same uptick. And then, of course, you'll have regular inflation that – and variable costs that support the growth. So, I'll let you kind of put those numbers together, but those are the kind of three main components to think through as you model next year.

Chris Li
Analyst, Desjardins Securities, Inc.

Q

Okay. Great. Thanks very much.

Operator: Thank you.

Darren G. Myers
Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah. Thanks, Chris.

Operator: Our next question comes from the line of Vishal Shreedhar with National Bank Financial. Your line is now open.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.

Q

Hi. Thanks for taking my question. With respect to the gross margin rate, I think you indicated that you'd be above your North Star rate. So, is that something we should expect going forward as well in 2026, or should we anticipate the gross margin rate to subsequently decline back to that 35% rate? I ask in the context of Canadian Tire has generally been marginally above that 35% for the last few years?

Darren G. Myers
Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah, Vishal, I don't want – and good morning. I don't want to get, again, ahead of ourselves and provide – we're not providing guidance for 2026. But what I would say, as we think about that North Star, we obviously are trending well and we feel good about this year, overachieving that if all things line up in the fourth quarter. And then, we – that momentum in the capabilities we're building and DAVID and rolling out DAVID to our – to SportChek and to Mark's, we see lots of opportunity. Of course, the other side of that is you have to look at the consumer environment and see how – make sure we're stimulating demand. So, we're not going to predict what next year's rate's going to be. We haven't changed our North Star, but we feel good about where we are right now.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.
Q

Okay. And I wanted to take a few steps back and just look at Tire's positioning in the retail market. There's lots of change. And wanted to get your thoughts on high/low retailing in a world where eCommerce and price discovery – eCommerce is growing rapidly, price discovery is easier than ever, can you give me thoughts on high/low into the future? Is that a sustainable approach? Do you feel good about it? And how should we think about Tire evolving as all these tools continue to advance rapidly?

Greg Hicks
President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.
A

Well, maybe I'll take that, Vishal. It's Greg. I mean, we're – I mean, we feel good about our price positioning in the marketplace. We track all indicators relative to our competition around value, values much more than price. As you know, we constantly have work underway with squads and/or just retail fundamental practices to try and improve, continuously improve on those factors that that drive the value equation in retail.

Canadians love a good deal. And we – as we said in the prepared remarks, like the flyer and the high/low incentives that are presented within that flyer are our best way right now, with the highest degree of household penetration and distribution, to get our value messaging to our customer. And so, we – and we think we're really good at it. We can stimulate demand and manage a margin profile that is, I think, good for us and our investors, to your – to the first part of your question.

But the world is evolving, and we're moving with pace at AI – with AI, and the industry is moving with pace around AI, especially agentic AI. And so, we're going to continue to evolve and modernize the way we need to and the way we've evolved for decades. But at this point in time, we see that there's no major strategic pivot on the high/low side of our business.

Vishal Shreedhar
Analyst, National Bank Financial, Inc.
Q

Thank you.

Operator: Thank you.

Darren G. Myers
Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.
A

Thanks, Vishal.

Operator: Our next question comes from the line of John Zamparo with Scotiabank. Your line is now open.

John Zamparo
Analyst, Scotiabank

Q

Thank you very much. Good morning. I wanted to ask about the gross margin, and I was hoping you could unpack the drivers here a bit more. You listed few different sources of the improvement year-over-year. Can you rank them in order of magnitude? I'm really trying to get a sense of how much of the improvement is organic or recurring.

TJ Flood
Chief Operating Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Hey, John, it's TJ. I'll take that one. I think, as we've said numerous times, I think it's important to point out that our margin rates can be choppy quarter-to-quarter. We're coming off a quarter where we were a little bit below last year in Q2 and we had a very strong quarter in Q3. What I would say is, a lot bounced our way. We're up about 57 basis points year-over-year, as Darren articulated.

The first thing was, we saw improved margin rates across all banners. So, that was really good news. We didn't see any material effect in terms of banner mix on our margin rates. We did see a little bit of impact from a product standpoint – product mix standpoint, and what I mean by that is something like our Automotive division growing faster than our Living division helped us a little bit. So, we're feeling good about that. And then, we got a little bit of currency help, too, with the timing and – of inventory delivery, as well as the businesses that are firing a little bit better, gave us a little bit of currency relief.

But I think one of the things I wanted to point out is that we continue to build capabilities around promo and regular pricing through our Margin Nerve Center and our pricing AI platform that we've been talking about it on the call so far, DAVID. And this is really helping us manage in a very dynamic cost environment and it helps us as a high/low retailer, because DAVID stands for Data AI Value Incrementality Driver, and we use it to help run our high/low business, and it optimizes reg pricing as well as promotional pricing.

And it was a pretty significant development that was required to implement it. We had significant data ingestion and feature engineering to build it. We had to establish new forecast models to estimate elasticity, unit demand, sales and margin impact of changes. We had to establish a purpose-built optimizers, which leveraged rules-based inputs for each of our reg and promotional pricing – promotional program development, and then, we've had to develop flexible user interfaces that allows our buyers to override where required.

And an AI implementation of this this significance requires a lot of change in people and process to integrate the capabilities so we can unlock the value both financially and strategically. So, we're really, really proud of that and we're feeling like the teams have adopted it very well and we continue to add feature sets to it as we go forward. And as Greg pointed out – I think it was Greg, it might have Darren – we currently just have it in CTR, but we're about to roll it out in SportChek and Mark's going forward. So, we're very excited about that and I think that had a big contribution to our margin performance year-to-date.

So, and then we continue to plow forward with other capabilities as well. Our Triangle membership base allows us to focus investments at the individual level, and our own brand stable helps strengthen our margin rates as well. So, we're feeling very good about how we've been performing, and we feel like we've built a lot of capabilities to help manage in a, what I would describe as a very dynamic cost backdrop as we sit right now.

Darren G. Myers
Chief Financial Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah. And just to add on it, as TJ said at the beginning, just things can be choppy. So, I don't want people to get too ahead of our skis, but we're certainly pleased with what we've built and where we are right now.

John Zamparo
Analyst, Scotiabank

Q

Understood. I appreciate that color. That leads to my follow-up, which is also on your AI efforts. And I wonder, do you eventually foresee using AI externally? In other words, on a customer-facing basis, rather than only internal? I assume you've spent some time talking about this. We've seen retail banners in the US start to offer this. I wonder how you see this playing out at Canadian Tire.

Greg Hicks
President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.

A

Yeah, John, it's Greg. Absolutely. I think in my previous response, I said we're moving at pace on AI. I've yet to experience the pace of change in the industry that we're seeing right now with AI in my career and we have many use cases in deployment. Some of them are fairly mature and some of them scale, like the one that TJ just talked about.

But from a customer experience point of view, we think agentic AI is the breakthrough. We think it's the breakthrough for scaling and we are absolutely racing towards it in True North. And I think the real potential of agentic AI is – and this does apply to the back office as well, but it's not to automate the steps of a workflow, but to eliminate the workflow itself. And it requires a set of foundations that is absolutely a part of the incremental tech investment this year.

We're building for multi-agent AI orchestration, and that requires the right standards and protocols. And we're building them with a scaled partner in Microsoft. And so, in all, I think True North really has us working to evolve to be a tech-enabled retailer, not just a retailer that uses tech. And our operating model, as we've talked about, is evolving.

And we're working hard to embrace the potential that AI can bring, especially in the customer experience. And then, organizationally, from a change management standpoint, we're moving to a place where business leaders identify problems they need to solve, not IT platforms that we need to buy. And it sounds simple, but it's a profound change, and that's why the operating model change in True North is so important.

John Zamparo
Analyst, Scotiabank

Q

Okay. And I appreciate those insights. Thank you very much.

Operator: Thank you. Our next question comes from the line of Mark Petrie with CIBC. Your line is now open.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Yeah. Thanks. Good morning. I wanted to come back just to the topic of dealer sentiment. Obviously, consumers are sort of cautious, albeit trends are stable, but revenues have been outpacing sales and pretty notably in Q3. How would you characterize sort of inventory levels today? I know dealers were light on winter, was that addressed in Q3 or do you expect that to continue in Q4? And what kind of feedback are you just generally getting from dealers with regards to the selling environment?

TJ Flood
Chief Operating Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Hey, Mark, it's TJ. I'll take that one and I'll unpack our inventory position a little bit to hopefully provide a bit of context. With the customers, as Greg articulated, remaining resilient and a lot of new product newness in our assortment, as you articulated, we're seeing really positive demand from dealers. Their inventory is up 7% as we go in into Q4 and they've bought to position themselves strongly for Q4 in the winter season.

There was some timing impact for sure in our Q3 revenue, and we estimate about half of the growth that was shipped out in Q3 would have been shipped out in Q4 last year, so there was a timing impact. But certainly, they have been very bullish on the Christmas business and they have been very bullish on the revenue – or on the shipment side to restock their shelves coming off of a very strong late winter last year. And like us, back to your sentiment, they've been planning for modest growth this year and they've been buying to support it, which has obviously helped kind of spur our year-to-date up 4% in POS.

And from a dealer perspective, obviously, kind of seasonal performance is a big driver of dealer inventory levels in our business and Q3 marks the end of the spring/summer season. So, I did want to highlight that the dealers have slightly elevated inventory levels for spring/summer business, and that's in large part to the performance of climate control categories like air conditioners. So, they're a little bit heavy on those categories coming out of Q3. But the winter season is just getting started, and we'll report back in Q1 – on our Q1 call on how those categories look from a retail standpoint.

So, the situation is dynamic with consumer demand right now. I would say, the dealers continue to support and buy for growth, but they're watching it closely, just like we are. And probably the last thing I would say is, as you know, in the long run, kind of revenue growth to dealers usually gets in lockstep with POS growth. So, I'll leave it at that, but they have continued to add to buy for growth, and they're cautiously optimistic as we would be.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Okay. That's very helpful. Thank you. And I also wanted to follow-up on retail gross margin. Just looking at it a little bit different, but picking up differently and picking up on your comments about stimulating demand. Do you view the stronger than or above North Star gross margin rate as a win, because you're able to drive more dollars to the bottom line or do you feel like maybe you left some sales on the table and you could have taken some more share with a bit more promo investment and still achieved your target?

TJ Flood
Chief Operating Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah, Mark, it's TJ. I can take that, too. I think what you just articulated is the balance we're always trying to strike, right. We're trying to manage our margin rates and make sure that we're inspiring consumer demand because, at the end of the day, the more margin dollars we generate, the healthier our business is. We've been a bit choppy this year quarter-to-quarter on margin rates, but we feel really good about how it stacks up when you look at it over the long term. And we feel like we're tracking really well towards our North Star, but that's what we'll continue to do. We'll continue to try to inspire demand as best we can and manage our margin rates all the while. So, that's what we're going to be doing.

Greg Hicks
President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.

A

And, Mark, maybe I'd just add, that's why, over the years, you've heard us talk about trying to get more fidelity and understanding around market share. And we think that the market share reporting has come a long way. We've integrated market share reporting into a pile of our performance management reporting, including board oversight.

And we took share in the quarter, so that that teeter totter balancing act that TJ's talking about, if we're taking share and dropping more margin to the bottom line, that's the happy state. So, when we look to Q3 across the businesses, but in CTR, I think, was where your question was coming from. We know we took share in the quarter and we're able to appreciate margins. So, we feel like we got the balance right in the quarter.

Mark Petrie
Analyst, CIBC World Markets, Inc.

Q

Yeah. Okay. Appreciate all the comments and all the best.

Greg Hicks
President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.

A

Thanks.

Operator: Thank you. [Operator Instructions] Our next question comes from the line of Emily Foo with BMO Capital Markets. Your line is now open.

Emily Foo
Analyst, BMO Capital Markets Corp. (Canada)

Q

Hi. Good morning. And thanks for taking my questions. Okay. Just wanted to go back to the flyer disruptions. Are there any contingencies or actions that you're taking to mitigate for Q4? And if so, like have those actions begun?

TJ Flood
Chief Operating Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah, Emily, it's TJ. Maybe I'll take that one. As Greg articulated in his upfront remarks, we've – we have the most beloved and most read flyer in the country. And when less consumers receive it, it certainly becomes friction that we'd rather not have to face. But we have taken the learnings that we had from last December, so this isn't our first disruption with Canada Post, and we've reinvested and deployed marketing plans to help mitigate the impact and – because it's actually been of a longer duration so far than what we experienced last year. The teams have been able to source local distribution alternatives to get our flyer in as many households as possible.

But relative to Canada Post, it is – these actions are limited and don't have the same efficacy as Canada Post, especially when we have to act as quickly as we had to. But what I'd say is, we've built so many great capabilities over the past several years in digital marketing, our digital flyer, our app, and our Triangle membership program, which has insulated ourselves a lot from the downside of flyers not arriving in as many homes as is normal practice. So, it would have been a much bigger impact for us a few years ago. But as Greg said, we're in an environment where consumers are craving value. We're really looking forward to more stability and sustainable stability from Canada Post as we go forward here.

Emily Foo
Analyst, BMO Capital Markets Corp. (Canada)

Q

Right. Thank you. And also, with respect to DAVID, how many quarters would you say that it's been a significant contributor to your margins?

TJ Flood
Chief Operating Officer & Executive Vice President, Canadian Tire Corp. Ltd.

A

Yeah. I'd say, we – I would probably say, we're into our third or fourth quarter of kind of implementation. It was a roll out. So, I'd go back to probably Q4, late Q4 of last year when we would have started developing value from it, and then certainly throughout this year. But on a rolling basis, and it's getting to the point of pretty scaled implementation at this point, at CTR. And as I said, we are going to be rolling it out to SportChek and Mark's in the future here.

Emily Foo
Analyst, BMO Capital Markets Corp. (Canada)

Q

Thank you.

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

Greg Hicks
President, Chief Executive Officer & Director, Canadian Tire Corp. Ltd.

Thanks, Lauren, and thank you, everybody, for your questions and for joining us today. We look forward to speaking with you when we announce our Q4 and 2025 full year results in February. Bye for now.

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