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EDITED TRANSCRIPT

CTC.A.TO - Q1 2018 Canadian Tire Corporation Ltd Earnings Call

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CORPORATE PARTICIPANTS

Allan Angus MacDonald *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

Dean Charles McCann *Canadian Tire Corporation, Limited - Executive VP & CFO*

Gregory Huber Hicks *Canadian Tire Corporation, Limited - President of Canadian Tire Retail*

Mahes S. Wickramasinghe *Canadian Tire Corporation, Limited - Executive VP & Chief Corporate Officer*

Stephen G. Wetmore *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

CONFERENCE CALL PARTICIPANTS

Derek Dley *Canaccord Genuity Limited, Research Division - MD & Consumer Products Analyst*

Irene Ora Nattel *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

James Durran *Barclays Bank PLC, Research Division - MD, Head of Canadian Equity Research & Senior Analyst*

Keith Howlett *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

Kenric Saen Tyghe *Raymond James Ltd., Research Division - SVP*

Mark Robert Petrie *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Patricia A. Baker *Scotiabank Global Banking and Markets, Research Division - Analyst*

Peter Sklar *BMO Capital Markets Equity Research - Analyst*

Ryan Li *National Bank Financial, Inc., Research Division - Associate*

PRESENTATION

Operator

Good morning. My name is Valerie and I'll be your conference operator today. At this time, I would like to welcome everyone to the Canadian Tire Corporation, Limited First Quarter Results Conference Call. (Operator Instructions)

Earlier today, Canadian Tire Corporation, Limited released their financial results for the first quarter of 2018. A copy of the earnings disclosure is available on their website and includes cautionary language about forward-looking statements, risks and uncertainties, which also apply to the discussion during today's conference call.

I would now turn the call over to Stephen Wetmore, President and CEO. Stephen?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Thank you, operator, and good morning, everyone.

Today is an exciting and action-packed day for CTC. And as a result, we've had to arrange our call a little differently. So thank you for accommodating us. In light of today's announcement, I'd like to get to your questions as soon as we can. So Dean will cover the quarter, and the only comment I'll make is that with consolidated same-store sales of 5.2% and GAAR growth of 9.4%, I couldn't be more pleased with the continued strength of our top line performance across all our businesses.

Today, also marks an important point in the evolution of Canadian Tire, a turning point for our company. But today isn't about announcements, it's about progress. 1 year ago, we laid out our strategy to become the #1 retail brand in Canada by 2022. At the core of this strategy with a stronger

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Canadian Tire, focused on one customer as one company. A company with products and brand at its core, a company who collaborates across banners and businesses that creates new avenues for growth and puts talent and community leadership at the highest priority.

In each successive quarter since our last AGM, we have announced evolutions of the company that have been critical to our vision and hopefully our consistency has shown our commitment. And while this is a journey and we are nowhere near finished, the progress we've made in the past year has been substantial. Whether it be the organizational changes to create a Canadian Tire -- or a Canadian retail division or a commitment to building and developing executive talent or the launch of the Triangle Learning Academy, we have been steadfast in our belief that great people will always be our competitive advantage.

And when it comes to products and brands, I think we've made a lot of progress. From the national relaunch of Mark's with Well Worn to the addition of some spectacular own brands like Paderno, Sher-wood, Vermont Castings and Golfgreen and the launch of Woods across Sport Chek. Successful programs like Tested for Life in Canada and celebrating our Olympic tradition, Canadian Tire has kept its promise to continue to grow its own brands and to stay true to its legacy of being a brand-led company.

Our commitment to collaborate across businesses and with our dealer partners has perhaps been mostly exemplified by today's announcements of the new Triangle Rewards program and the Triangle MasterCard. We have completely redesigned company-wide loyalty program with Triangle Rewards, which will service as of the foundation for engaging our customers, delivering great offers and creating new experiences for years to come.

With Triangle MasterCard, CTFS and the retail banners spent almost a year building Canada's best no-fee card program. This new, younger and more inspirational MasterCard program is designed to attract a new customer for CTFS and to engage and reward Canadians like never before. It's a new day for Canadian Tire money. We've also been collaborating with our Canadian Tire dealers who are enthusiastic about the future of the tire. They were essential to the relaunch of Triangle Rewards, but have also been keen supporters of our efforts to create an engaging digital experience.

Today, we are very proud to announce that we have finalized the national rollout plan for Deliver to Home at CTR. Starting in late summer, all our stores should be up and running across the country by the time we announce our Q3 results. This is another milestone in our digital strategy.

Now let me move on to our acquisition announcement, which I also see as a major step forward in our own brand strategy. We identified Helly Hansen as an acquisition target shortly after establishing the consumer brands division. We knew this was a tremendous opportunity to strengthen some of our most strategic and brand-sensitive categories. But the journey wasn't easy and worthy pursuits rarely are. It took us 18 months to get to today, and while we would have liked to have been faster, the result was worth the wait. Helly Hansen is an exceptional fit for CTC. Its brand is very closely aligned to ours, authentic, rooted in rich heritage and focused on jobs and joys, whether it's in sailing or working in the elements. Categorically, it's a great fit. Helly Hansen is a world-leading brand in outdoor adventure, sailing, skiing, casual and industrial wear, very familiar territory for Sport Chek and Mark's. Their innovation and design capability will be a great asset to strengthen our internal product development teams. I see a lot of opportunity for CTR across adjacent categories like camping, hunting, fishing, to name a few. And now the teams are anxious to get started on this opportunity to collaborate to bring Helly Hansen to CTR.

Internationally, Helly Hansen has created a substantial operation and has successfully and profitably entered many markets. This, too, will serve as a foundation for us to build upon in the future years for the existing or new own brands. Helly Hansen has had the benefit of strong leadership, and I'm pleased to say that Paul Stoneham, the CEO at the helm of Helly Hansen, will continue to lead the business along with his entire team to execute its current strategy. Mahes Wickramasinghe, who is our Executive Vice President and Chief Corporate Officer, will be responsible for the Helly Hansen business from CTC's perspective; and Paul and his team will report directly to Mahes.

I should also take the opportunity to thank Mahes and acknowledge his vision and persistence which made our announcement possible today. I couldn't possibly do justice in the few minutes I have today to give you the full perspective of the tremendous capabilities and breadth of assortment Helly Hansen has from the mountain to workwear to skiing and sailing, including the recent acquisition of Musto, an elite sailing brand out of the U.K. I encourage you to read through the materials we posted on our website and also visit Helly Hansen site.

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Before I pass it off to Dean, I want to recognize the Ontario Teacher's Pension Plan for their foresight to invest in a business with such growth potential. They have built a talented team and an impressive business with a strong performance trajectory, which CTC will guide into its next phase of growth.

And with that, I'll pass it off to Dean, who will walk you through the financials of the transaction and the quarter.

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Thanks, Stephen, and good morning, everyone.

I'll focus on the key impacts this quarter and [credit] few remarks on today's announcement before turning it back to you for the Q&A.

As I tend to remind you, Q1 is our smallest quarter, representing only 13% of our earnings in 2017 with the majority of that generated by the Financial Services business. Despite that, our retail POS growth of 6.4% and expansion of our retail gross margin, ex CTP, of 74 basis points were the key indicators of our continued operational momentum as we head into 2018. Our banners were the clear destination for winter season's jobs and joys, led by a strong performance in the automotive and living categories at CTR and winter outerwear, accessories and footwear at FGL and Mark's.

All of our winter-driven products performed exceptionally well and delivered strong POS in the first 2 months of the quarter. With March, typically a transitional month, there was not much of a spring category lift, to say the least. This was reflected in the lighter shipments volume and an overall flat revenue figure at CTR, which is the main reason our earnings don't reflect our POS performance. Still, a very strong accomplishment considering the impressive double-digit revenue growth from a year ago.

As I mentioned, our Retail segment margin improved 74 bps, reflecting a more profitable product mix with greater contribution of high margin automotive products to CTR and industrial wear at Mark's, increased penetration of owned brands in the shipment mix and lower product costs, largely a result of our sourcing and procurement operational efficiency programs.

Even with their flat shipment volume, our inventory bid addition for all banners is in great shape, increasing only marginally $12 million dollars year-over-year. Stores are well-stocked for the preparation of spring/summer season, which seems to have finally shown up.

Our Retail segment OpEx ratio on a rolling 12-month basis, excluding depreciation and amortization and Petroleum, has increased 38 bps versus the prior year. We managed our OpEx ratio against our annual business plan so Q1 was impacted by our planned expenditures for the year, many of which are items affecting the first quarter like our Olympic and Paralympic marketing costs. We are also still absorbing the year-over-year impact of opening Bolton distribution center, though to a lesser extent.

We are maintaining our long-term view of the importance of product development, data and analytics and the loyalty program. This makes the emphasis on operational efficiency even more important going forward. And with the recent appointments of Ian Kennedy as Executive Vice President of the Critical Areas of Enterprise Technology and Supply Chain, and Allan MacDonald's leadership of all our retail businesses, we are in a position to take all of our initiatives to the next level.

Last quarter, I shared with you a change to our depreciation methodology, which resulted in a $16.9 million onetime hit in the quarter. Excluding this onetime impact, we expect depreciation and amortization expenses as a percentage of consolidated revenue to improve approximately 40 to 50 basis points over the course of the year versus the prior year.

Q1 also saw the back of resulting from a $15.6 million real estate gain we realized on the disposition of a surplus property.

Our Financial Services business had another quarter of stellar power performance, growing 9.4% versus the prior year. The result of very strong new account growth and higher balances, providing hard evidence that our one company strategy and integration with retail is really resonating with the customers.

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We certainly expect that our new Triangle Rewards program will strengthen our Financial Services business even further. Unfortunately, in the short run, the IFRS methodology, which advances the timing of recognition of credit cards losses, drives a higher upfront allowance, 12.8% versus 2.06% last year. And we expect to feel its continued impact as a material part of the business growth is driven by new account acquisitions. The combination of welcome account growth in the IFRS 9 impact kept Financial Services IBT flat in Q1.

Capital expenditures for the quarter, excluding the REIT, were $45 million -- $46 million, down $34 million versus the prior year, reflecting reduced spend on the Bolton DC.

Looking forward, there are a few things to be mindful of. The launch impact of our Triangle Loyalty Program will be concentrated in Q2 as well Bolton will continue to be a factor as will IFRS 9 discussed earlier. All these planned items will have an impact on our consolidated operating expenses. We are also keeping a close eye on the potential for a CP rail strike and are planning ahead to avoid any potential disruption to our operations.

Now switching gears to the Helly Hansen transaction. I wanted to reiterate how pleased I am we have managed to acquire this important asset. Helly Hansen brings a credible value to our portfolio of brands and products and a powerful platform to advance our company's future growth, making the purchase price extremely attractive to us. In addition to fitting in exceptionally well strategically, we get a well-run profitable business, which will be immediately accretive to EPS, EBITDA and cash flow in 2018.

Over the last 12 months, Helly Hansen generated approximately $50 million in operating EBITDA and grew at an impressive average annual growth rate of 36% over the last 3 years. This is -- there is significant upside that does not get reflected when you look at the EBITDA multiple on a trailing basis.

Over the next few years, we see meaningful value accretion -- creation are -- from our ability by our stores and e-commerce platform to bring the Helly assortment to Canadians. Also the plan that had the Helly Hansen management has for international growth, which we have confidence in given their strong delivery track record over the last 3 years. And finally, the opportunity, albeit in the future, to use the Helly Hansen platform to make CTC's growing stable of own brands available to new markets. Of course, you will ask how much and when for these benefits, but as was the case with our operational efficiency program, I am a believer in the under promise and over deliver philosophy, which has served us very well in the past. Suffice it to say, I'm very comfortable with the value of this transaction and its growth potential. As well, I would point out that the Helly Hansen business is by nature very capital light. Consequently, we do not anticipate any significant changes in the way we've been allocating capital or our approach to investing in our core retail businesses, which remains our top priority. CTC has ample flexibility -- financial flexibility to fund the transaction, and we have confirmed that we will maintain our current investment-grade credit ratings.

We've also committed to our 3-year financial aspirations -- remain committed to our 3-year aspirations and expect to complete our previously announced share repurchase program by the end of the 2018.

And as Stephen stated earlier, our recent launch of the Triangle Rewards program is an important milestone which reinforces our foundation for future growth. I've been impressed with the unbelievable collaboration across the banners and with the dealers to bring this exciting program to life. It is an incredible growth engine for the Financial Services business as we take that next step function to making the Triangle Credit Card available to our customers.

And with that, I'll turn the call back to the operator for the Q&A.

Operator

(Operator Instructions) Our first question is from Kenric Tyghe with Raymond James.

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Kenric Saen Tyghe - *Raymond James Ltd., Research Division - SVP*

Dean, you flagged the significant upside on the Helly Hansen transaction, the last 12 months EBITDA not being reflective. Could you speak to some of your priorities and better handicap some of that upside? Specifically, sort of how much of what Helly Hansen does we actually see in Canada? And where you think that opportunity is most readily achievable?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Hi. It's Stephen. The -- we tried to give you in the materials on the website a little bit of a breakdown or a highlight as to where the key markets are, so you can kind of pick up from that on a ratio basis as to how much is done in Canada. But we've sold the product for almost 10 years in Canada. Mark's is most likely their largest customer in the world. We know the product inside and out. We've never carried their full assortment. We can. We can go across all our banners. I know Allan will be working hard as well to extend the assortments as much as possible within Canadian tire retail, so this is applicable to us right across-the-board. We have the retail space and shelf space to make the brand successful. Having said that, they've done a wonderful job around the world, too. They've gone about it profitably and their major markets, again, are outlined in the materials. But United States obviously is a big market for Helly Hansen. They've entered it well. And so it's a global brand. We believe it's extremely well technically supported. Therefore, a value proposition that is huge. So anyway, we -- that will give you some idea of our feeling towards the potential of the asset.

Kenric Saen Tyghe - *Raymond James Ltd., Research Division - SVP*

That's great. Stephen, just a quick follow up on Musto acquired in 2017. Could you perhaps help us better size the Musto as a percentage of the -- of Helly? And how to think about that opportunity in the sailing category, both in Canada and globally?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

It's -- from a size point of view, it's relatively, relatively small. But a lot of upside and most of the numbers don't even truly reflect Musto from that aspect. But it is a world brand. It fits very, very well with Helly Hansen as well. Great acquisition and lots and lots of potential, so they are now taking it around the world as Helly can. So I think they made a very, very good acquisition. And an indicative acquisition, I think, of the potential that Helly Hansen has to identify great brands in their channel categories and expertise. And so a great example of what can be done in the future post our acquisition.

Operator

Our next question is from Irene Natell with RBC Capital Markets.

Irene Ora Nattel - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

Just continuing the Helly Hansen discussion. How should we think about the various kind of layers of benefits and upside to both revenue and margin over the next 1, 3, 5 years, both kind of as you extend the offering within Canadian Tire, but then also expand -- build on a global basis?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Oh, give me some clue. Anybody else wants to dive in, they're more than welcome to. Irene, it's Stephen. From a -- I guess just looking at what we've been able to do in the Canadian context that Allan and Greg Hicks have been able to do within Canadian Tire, for example, in developing our own brands, giving them the shelf space, the positioning within our categories that, that particular product was designed for, we can generate a tremendous amount of sales and revenue from those products. And so the opportunity, the same type of opportunity in developing Helly Hansen's products in Canada carrying their complete range of products, we don't even deal with the -- their children's products and things like that, so we

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don't do anything in sailing, et cetera, et cetera. To take those, have the team concentrate on them is worth a lot of money. And so -- and it substantiates categories, it's our own brand, it's a differentiator, a tremendous asset. If you look around the world at brands that in apparel and footwear and special channels like they have, there's not too many that actually compare to Helly. So that's why we're very, very pleased and why it took us such a long time to be able to acquire the asset because I believe Teachers saw the same things that we see, only they believe that we can execute faster and supplement their offering. So it's a -- the beauty about it, Irene, from my point of view, is that an acquisition can become extremely complex in what you buy. Sometimes, it's 60% or 70% of what you want, you have to deal with the other 30% or 40% or you're picking up manufacturing facilities in countries around the world, et cetera, et cetera. This is a as simple a business as you could possibly acquire. It's a brand and it's a substantiated brand with tremendous design and technical competence supporting it. So entry costs to new markets are relatively low. As Dean mentioned, the CapEx requirements are relatively low. This is a radically different asset, for example, than the acquisition of the Forzani Group. So we're, from a technology point of view, we've analyzed it. From a growth perspective, we've analyzed it. So it kind of hits -- when we need to have to tick off the boxes of what we should invest in both in Canada and have a potential international expansion opportunity, it ticks all the boxes.

Irene Ora Nattel - *RBC Capital Markets, LLC, Research Division - MD of Global Equity Research*

That's really helpful. And then just a follow-up. In terms of the financing, what are you thinking at this point? I mean, I understand you're going to stay investment-grade. And in theory, you have a lot of borrowing capacity in the Retail segment, but how should we be thinking about that?

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Essentially -- Irene, its Dean. We think of it as a cash transaction. We can close it with our cash and available operating lines, but we'll look to what the best way to handle the issue of permanent financing on a go-forward basis, but it will be some form of mix of cash and debt.

Operator

Our next question is from Peter Sklar with BMO Capital Markets.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

Again on Helly Hansen. How will you turn Helly Hansen into a proprietary house brand in Canada? Because I presume I've seen Helly Hansen in many retail banners in Canada. So are you going to withdraw the brand from other Canadian retailers?

Allan Angus MacDonald - *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

Hi, Peter. Good morning. It's Allan. No. Short answer. I wouldn't necessarily think of it as turning into a proprietary house brand. We've got a whole category of strategy that we're executing. And now we're integrating Helly as a big part of that. When you think about the spaces it plays and it's in sailing, skiing, outdoor, casual, industrial, and it commands a premium to a luxury space. And we certainly want to protect and grow that. It's also got lots of ability to migrate into adjacent categories that might be really relevant for CTR or other categories that will be relevant to the other banners of Mark's and Sport Check. So we see a lot of potential there. In terms of having it as a sort of extended play or worrying about diminishing the brand in Canada, I don't have any concerns there. And I think Helly is really excited about the opportunities they see. So yes, I'm very, very pleased with what we're going to be doing here in Canada.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

But Allan...

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Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Peter, just to add to that. The -- I mean, we are the -- you may see it in some places, but the vast majority of Helly's business in Canada is us.

Allan Angus MacDonald - *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

Oh, yes. Sorry, the -- yes, the replacement piece. Sorry, Peter. Yes. Vast majority is us, and there's a -- you always want to balance sort of having a brand as your own as a competitive advantage, but also the brand itself has a certain cachet and certain credibility to it. And sometimes, appearing in other banners and being available across the market is -- it adds to that. So we're pretty comfortable there.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

So it sounds like you're already a very large customer of Helly Hansen, and your strategy is to expand the offering even further within the Canadian Tire banners. But why did that require the acquisition of the brand? I mean, you could have done that under your old relationship as a customer of the brand.

Allan Angus MacDonald - *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

Yes. We could have. I mean, when you do that, you're building sort of value and equity for a third party, not for yourself. And it doesn't really give you any of the growth potential beyond that. And that's only as sort of permanent as your relationship. So where we -- we have lots of relationships that are licensed. We have great partnerships with national brands, but we always -- also want to complement that with having our own investment in all [those national] (inaudible) . So it's really about horses for courses.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

And then my last question is, long term, as you think about Helly Hansen as a platform for taking the Canadian Tire house brands international, I mean, how -- what kind of categories do you think you can take through the Helly Hansen system? Like does it have to be apparel? Or can it broaden out into some of Canadian Tire's hard good private-label brands?

Allan Angus MacDonald - *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

That's a great question. Really early days. We're not even there yet. I mean, we have so much to do just in getting our head wrapped around our immediate plans. And working with the Helly team, I think we're going to get a lot of insight about what the potential of our brand capability here is as we continue to refine development in Canada domestically for -- our Canadian companies and then what opportunities might exist internationally. But I think I'd be getting ahead of myself if I said here is our exact plan and here is what's going to work. I think one of the reasons we're doing this acquisition is to be able to -- to really understand that with a much greater depth of sophistication.

Peter Sklar - *BMO Capital Markets Equity Research - Analyst*

But it's like tools and kitchenware, is that just so far off the beaten path from the brand, that's just not a possibility?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Well, the thing is that they -- today on the call, yes. But I think the -- I think where they offer us the benefit of all this is that setting up business operations in countries, knowing how to import the product, store the product, distribute the product, et cetera, et cetera, the B2B connections

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they offer us, all of that with their international business. And they have -- I know in talking to Allan and Greg express -- their teams have expressed the interest in a whole raft of our products. But -- and believe they could do a lot with it. That is not priority #1, as Allan said. And -- but our intent of setting up consumer brands and setting up an international piece of our consumer brands internally within CTC was to accomplish just this. So yes. I mean, over the longer term, most definitely it has a benefit. But it's not -- like I said, it can't be a out-of-the-gate priority for us.

Operator

Our next question is from Mark Petrie with CIBC.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Just continuing on with the Helly Hansen. Obviously, based on the numbers you guys put up, the business has seen a substantial improvement in their profitability over the last 3 years. Could you just help us understand a little bit in terms of what the drivers were there? And then going forward, do you see more opportunity on revenue growth or on profitability improvement?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Mark, it's Stephen. The -- they are entering as you know -- as we mentioned earlier, they're entering new markets and they're able to enter them profitably. They have a lot of runway ahead of them, obviously, in the United States. And so over the last few years, United States has contributed substantially. I think the Helly team would simply tell you that they believe that their design capability and their product offerings and the presentation of their complete line of offerings is really what is driving growth as opposed to just entering new markets. So they are very, very bullish in what they have to offer. So it is a -- I think starting 3 or 4 years ago with this management team and our refocus on the iconic part of the brand has just rejuvenated their whole product assortment, footwear as well. And I believe they're hitting the market at a very good time internationally. It's a new introduction from that point of view because they're only achieving roughly $500 million. So they -- the sky is the limit for them internationally. I think they're hitting it at a very, very good time. Unique design capabilities, and so they would say it's a combination, I believe, of great product offering and entry into new markets.

Mark Robert Petrie - *CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research & Research Analyst*

Okay. And then I wanted to ask you just about the mix as it relates to wholesale versus direct to consumer. How was the profitability of those 2 different channels? How is it different for you guys today? And what are your strategies to try and drive the direct-to-consumer part of the business?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Well, from a profitable -- I mean, it's a growing segment of their business. It's not a huge part of their business, because they were concentrating more on what I referenced earlier, as opposed to direct to home. We -- if you do look at an area that I believe we can help them with tremendously, it would be with direct to home. I think Ian Kennedy has assessed their technology requirements. And I think they would say, overall, that yes, they've got a foundation. I believe that it -- want to invest a lot of our efficiencies and abilities behind it and our marketing efforts behind it in order to grow it around the world. It's a -- but they have all that. Like every OEM, they have a -- they have the ability to go direct to home. So you've got to substantiate your product offering in your market. So in 4, 5 of the markets, they would be perfectly capable of going direct to home because of the substantiation of their brand in those markets. Others, we'll see. But I think it also gives us a platform, as you know, to put some of our products online around the world, too, if we wanted to.

Operator

Our next question is from Derek Dley with Canaccord Genuity.

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Derek Dley - *Canaccord Genuity Limited, Research Division - MD & Consumer Products Analyst*

Just on that Helly -- on the Helly Hansen acquisition. In terms of the 12% revenue CAGR that we've seen over the last 3 years, can you just talk about where a lot of that growth was coming from? Was it North American? Or was it more expansion into international? Or was it incremental product lines? Just some more color on that growth would be great.

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Well, it is a combination because they have entered -- they have expanded their existing markets. And their lines are going extremely well in our market here even though our -- we're their biggest customer, but -- and entry into the United States. They've been clever, I think, in trying to only bite off what they can chew and not try to go into 25 markets at the same time, not trying to promote all of their assortments everywhere at the same time and trying to focus in on certain ones. We believe we can bolster that for them in areas like where I think the opportunity for us to put our muscle and knowledge behind their work where the line is going to be tremendous for them. But the -- I think one of the areas that is most encouraging is that the brand has a -- for example, in the United States, the brand has an unbelievable Net Promoter Score. And so the customers that are using their apparel and footwear absolutely love it. And that is driving their growth in basic terms. If they offer it to consumers in the right way with the right distribution, then the product is taken off. So just -- good for them. Great presentation. Great product.

Derek Dley - *Canaccord Genuity Limited, Research Division - MD & Consumer Products Analyst*

And then internationally, do they control or own most of their distribution? Or do they have distribution partners?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Mahes can answer this better than I can.

Mahes S. Wickramasinghe - *Canadian Tire Corporation, Limited - Executive VP & Chief Corporate Officer*

Mostly they do -- I mean, some countries they do have distributors, but mostly they control it.

Operator

Our next question is from Jim Durran with Barclays.

James Durran - *Barclays Bank PLC, Research Division - MD, Head of Canadian Equity Research & Senior Analyst*

I'm going to start off with a question about this year and the core business. So I'll break away from Helly Hansen for a second. With the CTR revenue flat year-over-year as far as the dealers are concerned, like how do you view your inventory going into what's been a very difficult to find spring? And what's your sense of optimism with respect to Q2? I know that's a forward-looking question, but I'm hoping you can at least provide us with some color.

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

As usual, Jim -- well, I'll start and then the guys that actually do something for a living will chip in. But -- so it's just the one caution, and I know you know this, is that a year ago we were up 10% of our revenue, right, in CTR, right? So the flat is versus 10%. Secondly, inventory is in great shape. I mean, we're up $12 million overall. The nature, if you will, of the inventory related to CTR, both at the corporate level and at the dealer level, is in

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great shape. Prepared for spring, right? So the reality is the winter sell-through in January and February was exceptional. That's what drove most of the top line growth, quite frankly. And then I don't know if anybody's gotten a golf game in the last 2 months, good for you. But March was nothing, right? We didn't have the transition to spring. And really, it doesn't happen in April. It's just coming on now. So our stores are well positioned obviously for spring. But it's spring inventory. They had great sell-through in -- as I said, in January and February on the winter stuff. So absolutely, no issues from my end in terms of looking at the inventory position, we're in great shape.

Allan Angus MacDonald - *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

Yes. I'd echo that, Jim. I'll just add -- let Greg make a comment here. But just categorically, I just want to I think remind everybody of, is when you have a big core like we did in Q4 of '16 that took us -- I wouldn't say, by surprise, but it really was overwhelming. We were at 8 -- almost 9% comp. You get a huge replenishment in the subsequent quarter, which messes up your timing a little bit. The following year later, you're planning to comp that big quarter, so you're loading in, in a much more methodical way. And when you don't get surprised, the way we didn't in Q4 2017 in a much more sort of reasonable and a quarter much closer to our forecast, you don't get this big replenishment bubble. So I'd always factor that in that when you see a big spike in PLS, you're going to see a big replenishment to follow on. And depending on when that spike happens, it may lapse a couple of quarters, in which case, the next year, you're liable to see it flat because it's just much more planned. With that, Greg, how are you feeling about this?

Gregory Huber Hicks - *Canadian Tire Corporation, Limited - President of Canadian Tire Retail*

Yes. I mean, we suggested in the last call that we didn't expect the same level of inventory replacement and that's kind of exactly what played out. We didn't get the spring/summer category replenishment, to Dean's point, and we certainly didn't get it in the last, which was a big difference on a year-over-year basis. So there -- they had to endure a long winter just like Central Canada did so. I think also if you recall coming out of Q3, we said that we came out a little heavier in the store than we wanted to in some backyard living categories, which had a mild negative impact as well. But looking at the variance in shipments to sails in any 1 quarter really doesn't tell the whole story. And I think if you look over the course of the last 6 months, there's much more congruence. If you look at the whole year in 2017, much more congruence. The dealers are doing the best that they can to drive some efficiencies in their working capitally -- capital, while challenging the sales line. So which we think is healthy. But overall, I think if you take a longer view, there is much tighter correlation. And to Dean's point, we're feeling really good about our inventory, both corporately and in-store. Especially in winter categories, we're coming out clean, which hopefully will bode well for strong replenishment activity as we head into this year's winter.

James Durran - *Barclays Bank PLC, Research Division - MD, Head of Canadian Equity Research & Senior Analyst*

And just with respect to the quarter for Q2, right? Just trying to make sure that I have a proper perspective on this. Like the way that spring and early summer work is that the demand hopefully does come on eventually once Mother Nature gives us some favorable sustained decent weather. And so do you view Q2 as a quarter where the inventory situation doesn't necessarily translate into a markdown impact in the quarter on the seasonal part of the business as long as the demand finally shows up?

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Jim, it's Dean. I'll put this in the nice try category. But the reality is that revenue, if you will, recorded by CTR is on sale into the dealers, right? So it's less of that kind of markdown for us. I wouldn't say that we wouldn't do some promotional-type activity, that kind of thing, right? But that would be more competitive related. If others in the marketplace started to get more aggressive, we would probably get more aggressive too, I would assume. But I think -- there's no reason to panic here. And that's -- I've heard that from the guys, I've heard that from the dealers kind of thing. From the point of view of the slow start, this has happened time and time again in our history. And I know you know that. So as I've said before, a few sunny days makes everybody pretty smart really quick, right? So I think from that perspective -- and April is the smallest month of the quarter anyway, right? It all really -- it all comes down to kind of the last 6 weeks of the quarter. So like I said, I think Greg said it, and Allan said it best is,

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the dealer system and corporately, we're sitting very, very strong with respect to inventory. And I think that sets us up well for the quarter and it will get sunny.

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Said another way, as you just heard, Dean is not letting us off the hook.

James Durran - *Barclays Bank PLC, Research Division - MD, Head of Canadian Equity Research & Senior Analyst*

And we appreciate that. Just one last question, if I might, on Helly Hansen. So I mean, this is a pretty meaningful step in terms of revenue outside of Canada. On a business, you've not done that in a meaningful way before. I'm just trying to get a sense of how much focus you will put on the international growth as you might lever it to your existing product expertise? It's probably a veiled way of talking about like, if I'm looking at Woods and the product offering that it has, like it feels to me that maybe Helly Hansen's brand positioning is more premium than that? Like would you see introducing like products but at a higher price point and maybe slightly higher quality level?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Well, Jim, it's Stephen. I think the -- I think it will be very interesting when Allan sits down with the Helly Hansen team, say, what's the future potentially of Woods. And they'll give him their opinion and their positioning and their product line where they want to go with it. And we'll, I'm sure rebel in the part in terms of where the heck do you want to take yours? And the two will get blended together and put together. Both -- the same we do in Canada, and they'll do it internationally. I think with that -- with a lot of the products that we would have and expertise design and whether it's new ones like Woods, this does offer us an extremely good platform to be able to take it internationally, position properly and perhaps changed a bit. But it's whatever the folks want to do. But their design and presentation is extremely good. We never developed that depth of design from an international perspective. So I think we can complement each other on that one.

James Durran - *Barclays Bank PLC, Research Division - MD, Head of Canadian Equity Research & Senior Analyst*

Yes. Is there any -- do you still own a portion of Intersport through Forzani?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

We do.

James Durran - *Barclays Bank PLC, Research Division - MD, Head of Canadian Equity Research & Senior Analyst*

And so is there any business opportunity there that you would see in terms of that relationship?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

They do business now. But the short answer is yes. Yes.

Operator

Our next question is from a Patricia Baker with Scotiabank.

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Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

I have two questions. One on Canadian Tire and one on Helly Hansen. I'll start with Helly Hansen. On the slide deck that you included this morning with the announcement on Page 11, you gave a 3-year overview and that's where we get the revenue growth of 12% and the 36% CAGR in EBITDA and you note what the drivers are there. First of all, when did Ontario Teachers take ownership of Helly Hansen?

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

They bought it in 2012, Patricia. And then the current management team basically went into place as of kind of the end of 2014. They took it over as of essentially 2015 when the growth really kind of kicked in.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Right. And all of the -- where -- it looks like they focused on kind of SKU reduction, revenue quality, better marketing infrastructure. They got distribution and sourcing savings. So the typical things you would see when private equity comes in and takes them under managed brand and starts to work on it. So that's kind of what drove the growth that we've seen in the last 3 years?

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Absolutely. A focus on -- I don't know whether I should be answering this question, but a focus on profitability, quite frankly, right? It moved from just pure scattergun sales, chasing sales, to a focus on profitable growth and in a very disciplined and managed way and then concentrated on kind of the key countries. You've got that list in there, sort of 5 key countries, and then the kind of the next 3-year key opportunities for them going forward. And then really managed, if you will, how they were spending in support of the business with an objective of actually being profitable, as opposed to just growing top line kind of indiscriminately. And that's what Paul and that management team has done in an extraordinary disciplined way, something we really like about these guys.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

And so now under Canadian Tire's ownership, will -- you're keeping the management, which I understand the rationale for that, but will you keep the head office in Norway as well?

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Yes.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. So that's not a source of synergy then there on the administrative side?

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

No. I mean, this is very much about top line and the stuff that it's Canada first, it's their (inaudible) their growth plan. And then it's the platform, right? The 3 buckets. And Mahes and Ian and the team has done a really good job of looking at things like sourcing synergies is another tremendous opportunity that we see. But it's not a typical expense play that you see in lots of acquisitions, and kind of back office, all that kind of thing. We'll look for ways to frankly support them in their growth, that's what it's really about.

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Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

And you referenced the fact that you see the U.S. as a big opportunity for the brand. Can you talk about where are they located in the U.S? What is the -- what distribution channel? What retailers are they in? Where is their primary focus in the U.S?

Mahes S. Wickramasinghe - *Canadian Tire Corporation, Limited - Executive VP & Chief Corporate Officer*

They have a distribution center in Seattle. That's their primary location and they have an office there as well. And their focus primarily is sports wholesale in the U.S. and also workwear.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay. So they show up in the likes of spring good stores. Where does the brand show up?

Mahes S. Wickramasinghe - *Canadian Tire Corporation, Limited - Executive VP & Chief Corporate Officer*

Yes. Go ahead.

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Yes. I mean, they would be -- you would see them in the big sporting goods stores. They have a -- they are really focused on a few customers concentrating on growth in a few areas. They have a relationship with a distributor there, if you will, that is going to be the platform for chasing new customers. And they had some specific targets that, Patricia, I'm not going to tell you. From a -- and again, it just goes back to the sort of disciplined approach in terms of entering a market, number one. And then number two is, we think we can bring actually some heft to that and some release, if you will, from the tyranny of private equities to allow them to drive the business even harder going forward.

Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Okay and then another related question. So you referenced in the package the fact that their primary countries tend to have a lot in common with Canada. And so would you see, and this is, I guess, a question for either Greg or Allan. The whole Tested for Life in Canada brand that you have kind of inside the company, is that something that you would see over the long term that you could take to these countries?

Allan Angus MacDonald - *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

So -- hi, Patricia. Probably not in its current iteration consideration, but I'll tell you where Tested really works, is when we started to talk to the likes of Helly about maybe the marriage of Woods and Helly that Stephen referenced, with one being very much soft goods and the other more hard goods. When you have a program like Tested for Life in Canada, and you can take your products to a new market and they have instant credibility because they've been, in the case of, let's say, windshield wipers, tested in a very, very difficult climate in a very authentic way. So whether or not we use that platform as a retail message or a wholesale message, it is -- it substantiates the quality and durability of the products we're bringing to market. So we think it's a real big asset from that standpoint. But it's really early days.

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Patricia A. Baker - *Scotiabank Global Banking and Markets, Research Division - Analyst*

Fair enough. And I have a question for Stephen. Stephen, you, in your opening remarks, noted that it's a year ago that you stated that what the goal is to get Canadian Tire to be the #1 retail brand in Canada by 2022. And I'm just curious how you define that. Is that a revenue goal, the #1 retail revenue brand in Canada? Or do you define it differently?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

We -- we've defined it within 3 stakeholders. So we have set ourselves a goal with our employees. And we know what we want to hit. We know the score we want to hit, which would definitely put us in the top leagues in the world with our employees. I think overall, we probably have 4 or 5 points that we have to move up. We've got a spectacular score. But we've got some ways to go which is terrific. Number two, we want to be #1 with our -- with consumers and we're relying on our work on Net Promoter Score for that. And Susan O'Brien and team have done a tremendous amount of work and are continuing. And so we've set ourselves what targets are that we believe would be representative of the #1 retail brand. And thirdly, we want to perform and meet our shareholders' expectations. And I think if you're going to do that, you're going to have to perform at the high end of the range. And so our aspirations, we believe, our financial aspirations will take us to that upper end where our shareholders believe that we are the #1 retail brand in the country. So that's how we've done it anyway, Patricia.

Operator

Our next question is from Vishal Shreedhar with National Bank Financial.

Ryan Li - *National Bank Financial, Inc., Research Division - Associate*

This is Ryan Li for Vishal. Congratulations on the acquisition. Just wanted to follow up on the Helly Hansen. Just so I have everything right. The EBITDA is elevated, but you view the ongoing EBITDA growth as a driver for future contribution. And the synergies, would that be a smaller proportion than what you expect from organic growth from what's already been done to kind of grow the business over the last few years?

Allan Angus MacDonald - *Canadian Tire Corporation, Limited - Executive Vice-President of Retail*

I mean, we -- yes. I mean, I'm not going -- as I said, I'm not going to try to give you a forecast or anything like that. We see, as I said, the 3 buckets as the place that growth will be driven from it, all in our view are going to be meaningful, the timing is different. The first being what Allan and team have talked about in terms of the opportunity to extend, if you will, the reach of this brand in Canada among our banners using our shelf is tremendous, and that's a huge driver. And secondly, is we're getting an incredibly capable management team here that's demonstrated a great track record, and we have a great business plan going forward that I think (inaudible) help, and the heft of Canadian Tire behind it, we can only see that improving on a go-forward basis. And then thirdly, obviously, the platform associated with the international to some of the things we've been talking about here in terms of our brands and taking those internationally. So yes, we really like what we see going forward. And that's why as I keep mentioning, totally comfortable with the valuation, if you will, on a trailing basis that we paid for the thing. I think that's completely irrelevant in my mind. It's all about what we're going to do with this.

Ryan Li - *National Bank Financial, Inc., Research Division - Associate*

Okay. And then just a last question. Dean called out kind of in Q1, the OpEx was slightly elevated to the kind of support growth for the rest of the year. Is the implication that we should look at how SG&A leverage is going to happen through the next couple quarters? Is that something that can be expected?

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Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Yes. I mean, you're dealing with -- again, as I said, a very small quarter. And we operate basically on an annual basis, right, when we put our business plans together with respect to OpEx. So everything that you just saw and seen in the first quarter has been completely planned. And frankly, is performing very well from an investment point of view. Things like the announcement here that the team has done to work with the dealers to get the Deliver to Home rollout. The teams that have been in place to make that happen had been working very hard over the course of the last year and we've invested in order to make that happen as an example. Not to mention, digital investments with the acquisition of John Koryl and some of those things that have been tremendously beneficial for us and will be going forward. So on a go-forward basis, obviously, as you get -- as we get into, if you will, fully realizing our revenue expectations over the course of the year then everything just kind of settles out, but it's the tyranny of the quarter. Right?

Ryan Li - *National Bank Financial, Inc., Research Division - Associate*

Right. Right. Okay. And with minimum wage, how do you guys saw it going in? Or is there any surprises there? The impact...

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

No. I mean -- yes. I mean, the system -- I mean, it just is what it is. I mean, we've dealt with far greater challenges than the minimum wage. And not to understate, it's just one more thing to kind of work with. But the teams, the various retail teams have managed this very well. And I would expect they would continue to as well as the dealer system. So we've been through far greater challenges as I've said before in the past. So I think it'll be fine.

Operator

Our last question is from Keith Howlett with Desjardins Securities.

Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

I guess I had some questions around the brand building process at Helly Hansen. Can you speak to sort of what their advertising to revenue ratio is? Or how they go about building the brand, for example, in the United States where they -- it looks like they might have less than, say, $75 million of revenue? So just how about are they building that brand there?

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Well, they -- only one thing, Keith, that we're very, very pleased with is that they set up we believe an extremely good distribution network as of late and with very confident people that have a track record of taking product into top retailers across the country. And that's going to bolster their credibility tremendously. From there, they'll work also with the retailers in order to start designing appropriate kind of advertising and marketing efforts. Their basic marketing programs, if you will, the underpinning of their content and the foundation of their content is extremely good. Their presentation is very, very good. So it's quite easy for them to have the content to advertise with and it's very, very well presented. So once they start to get into some of the markets regionally, most likely, throughout the United States they're driving for over the coming couple of years, then they'll advertise appropriately. But it's not a huge number. It depends on how fast you want to go. So if we wanted to really drive United States, then you would incur more costs, but they've gone about it very cautiously, which is why they're profitable. And they have entered some markets in the U.S., for example, skiing. You'll go to some of the most famous ski mountains in the United States, and you'll see a small Helly Hansen shop. So they're doing it in the right way. They'll move forward with sailing, et cetera and substantiate the brand that way.

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Keith Howlett - *Desjardins Securities Inc., Research Division - VP, Consumer Products & Merchandising Analyst and Retail Analyst*

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And then once the acquisition closes, will there be a separate branded segment? Or will this just be part of the Canadian Tire retail division?

Dean Charles McCann - *Canadian Tire Corporation, Limited - Executive VP & CFO*

Keith, we haven't landed on that as yet. There's various ways to handle that. And as I joked earlier, I could made -- I could have made the guys work harder to figure this all out by now. But we've got lots of time to work through that, right, in terms of close. It's essentially Q3 before we even -- we have to fully land on how we'll handle the full disclosures.

Operator

I would now like to turn the meeting back over to you, Mr. Wetmore.

Stephen G. Wetmore - *Canadian Tire Corporation, Limited - CEO, President & Non-Independent Director*

Thank you, operator. Everyone, thank you very, very much. I know this is a -- some -- a large announcement. The coming weeks, I think, we'll offer you more and more understanding of the acquisition and its importance to Canadian Tire Corporation, both within Canada and outside. So thank you for consuming it all this morning. In my mind, the biggest announcement that we are making is actually Triangle Rewards. So it's the future underpinning of our organization in Canada along with the credit card program. And I know the Helly Hansen announcement is the flavor of the day, but Triangle Rewards will be the flavor of the decade. So I just kind of include you into that one. So thank you very, very much for joining us. And hopefully, you can listen to our Annual General Meeting speech as well. So thanks and have a good day.

Operator

Thank you. This will conclude today's call. A webcast of the conference call will be archived on Canadian Tire Corporation, Limited Investor Relations website for 12 months. Please contact Lisa Greatrix or any member of the IR team if there are follow-up questions regarding today's call or the materials provided. You may now disconnect.

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