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CTC.A.TO - Q3 2018 Canadian Tire Corporation Ltd Earnings Call

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PRESENTATION

Operator

Good afternoon. My name is Valarie and I will be your conference operator today. At this time, I would like to welcome everyone to the Canadian Tire Corporation Limited third quarter results conference call. (Operator Instructions) Earlier today, Canadian Tire Corporation Limited released their financial results for the third 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 will 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 afternoon, everyone. First, in addition to commenting on our third quarter results, we won't be speaking to you formally again until February sometime, which means we will be well into executing our 2019 plans. So, we'll also spend a few minutes today highlighting some of our focus areas for next year and give you some guidance on our capital expenditure outlook as well. I've said to you before that 2018 is a year of execution for Canadian Tire and we've made extremely good progress from Triangle Rewards and the rollout of deliver-to-home to our own brand strategy (technical difficulty) new credit card. There's a long list of what we have accomplished this year with the sole intent of building a stronger, more capable company for the future. We could easily turn in better financial results this year by not spending on product design and development expertise in consumer brands, we're not launching Well Worn or investing in our digital assets and capabilities for the future.

But that's obviously not the point if you're in the game for the long term. I believe our third quarter results are a reflection of exactly what we are trying to do in building the new Canadian Tire, the new Triangle and at the same time, we turned into some pretty good results, which Allan and Dean will comment further on in a few minutes. I know you don't want to listen to me go on about the talent of our team at CTC, but our success to date and for the future is built on the foundation of our management team and our dealers and their creativity continues to be the underpinning of our top line growth. I want to mention that Helly Hansen is executing perfectly on plan. We're progressing well with our integration plans. And I want to point out that while I'm bullish on the future of Helly as part of the CTC, our businesses would have exceeded our expectations for the quarter without Helly Hansen.

Productivity will continue to play a significant role in 2019 and our stage 2 initiatives are just about planned out with execution commencing in the New Year and our technology investments will include foundational initiatives critical to our success for the next 5 years. And also for 2019, we today announced a double-digit increase in our dividend and the continuation of our share repurchase program signaling our confidence in the company's future. And finally, as part of Jumpstart's Play Finds A Way movement, we announced our first Jumpstart accessibility grants which will provide increased access to recreation in 9 communities across Canada. We proudly unveiled the Jumpstart playgrounds in Charlottetown and Winnipeg with 3 more opening in the spring and plans to break ground in new markets in 2019. And Jumpstart is undoubtedly a key contributor as our brand strength continues to grow and be recognized.

With that, I will turn it over to Allan to give you some more insight into our retail performance. Allan?

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

Thanks, Stephen. Good afternoon, everyone. Well, Q3 was another strong quarter for us with 2.5% retail comp growth. The 2.2% at CTR was solid especially considering that Q3 2017 was the highest increase in comp sales we had in over a decade. This quarter we achieved a major milestone at CTR with the successful national rollout of deliver-to-home and we're also testing self-serve pick-up towers, lockers and automated check-in terminals as we broadened our suite of e-commerce offering to our customers. Consistent performance like what we've seen in Q3 is the result of decisions we've made 18 to 36 months ago to reinvigorate our national and own brand assortments, invest in product and brand development, innovation and improved quality. We've been reviving existing brands like NOMA, MOTOMASTER and Outbound. These 3 brands have been rejuvenated over the past 2 years and drove half of our sales growth in Q3.

We've been executing our plans with newly acquired brands like Golfgreen and Paderno, which together grew over $8 -- grew $7.6 million in the quarter. We know the importance of strong partnerships with national brands and saw some great successes in Q3 through our partnerships with SodaStream, Instant Pot, Lagostina and The Rock Cookware. Coincidentally, CTR is the #1 retailer of these 4 brands in Canada, which is a testament to the strength of our partnerships with great innovative companies. I mentioned Paderno's contribution in Q3. Well, I can now tell you we had a 4 phase plan for Paderno when we made the acquisition. First, own the stovetop with the best assortment in Canada. Then soft goods, which we launched last spring. Third was kitchen tools, which launched in Q3 with 52 new products hitting the shelf this past month. And fourth, coming in Q1 countertop appliances. So stay tuned, it's going to be very, very exciting for us.

Another brand success story in the quarter has been WOODS. Last year we did a 19 store test of WOODS outerwear at Sport Chek. This year we came back aggressively with a full WOODS outerwear assortment in 194 Sport Chek stores launching the season. I'm incredibly proud of this collection. And with a stunning new brand campaign launching our original WOODS Parka, the customer response is even better than we expected. It's been a great first step in expanding a brand into an adjacent category and proving the potential to grow our owned brands at Sport Chek. Every brand we acquire, create or bring back to life will have a multi-year, multi-category plan that justifies the investment and guides the team in executing our strategy. So with that, expect 2019 to hold some surprises for Sher-wood, Paderno, Golfgreen and of course, Helly Hansen.

And now on to Mark's. With comp growth of 6.1% and strength across all categories, the beginning of Mark's reinvention is starting to bear fruit. Clearly the work to reposition Mark's brand with Well Worn along with the work PJ has done on assortment and merchandising has made a significant impact. I'm especially pleased with the rebranding success in Quebec where we're seeing double-digit sales growth this year after remerchandising 24 stores. We have 16 remaining, which we'll tackle in 2019. The same approach to reinvention is in its infancy at Sport Chek. At Chek, our comp growth 1.4% was driven by solid performance in casual wear, accessories and outerwear. We also had strong growth in our own brands portfolio, which grew by 20% in the quarter. We saw some very encouraging results, but we're not running on all cylinders and we still have work to do.

It's about customer, brand, assortments and merchandising. Our job now is to get them all aligned. So, that's why we've made WOODS and other own brands a priority for Chek this season. Over the coming weeks, we'll execute a plan to re-merchandise our athletic and outerwear departments by category instead of by brand as they are today in more than 75% of the chain or over 1 million square feet of retail -- of retail will be transformed. Much of this merchandising also includes some subtle, but meaningful changes to our assortments. More focus on accessories and new categories like kids and better depth in categories we're trying to be famous for in both national and own brands. And we'll be launching our new brand positioning in mid-November, expect to see a wider age demographic and a broader definition of activity beyond just competition.

On that note, let me give you a quick update on Triangle Rewards. Our early success demonstrates that our customers are engaging with us across all banners. We're seeing increased participation in our loyalty and credit card programs, which is creating a much more engaged Canadian Tire customer. And to date, we're exceeding our targets with issuance up 40%, redemption up 23% and spend per Triangle member up 15%. Now this program is the foundation of our strategy to make data driven decisions and engage our customers as individuals with personalized offers. Our progress with Triangle is bearing fruit and in Q4, we'll be issuing about 4.5 million personalized offers to Canadians each week. To summarize quickly, in 2019 this will continue to expand to include other properties. For example, by Q3 2019, 75% of our web visits will display a version of canadiantire.ca personalized for the individual customer.

Now speaking of 2019, our focus continues to be on generating long-term sustainable growth driven by continued product innovation and design with consumer brands. We'll transform the Sport Chek brand and operations. We'll accelerate our customer experience and digital capabilities. We'll bring newly designed store concepts to market and we'll drive engagement with Triangle loyalty and the credit card. These are just a few of the initiatives we got in the pipeline.

With that, I'll turn it over to Dean to talk about the financials.

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

Thanks, Allan, and good afternoon. I want to spend a few minutes covering retail results, hopefully helping you to understand the Helly Hansen impact and then also the financial services business. Retail revenue was really strong, up 11.4%. Pulling Canadian Tire Petroleum out of the retail segment, revenue was up 10.6%. Now about 2/3 of that growth was from Helly Hansen given it's our first quarter reporting it, but the balance was our base businesses which grew 3.6%. CTR was the prime contributor in the quarter, up 4.2% and this closed a bit of the in-year imbalance we've been seeing between POS and revenue. Retail gross margin ex-petroleum was up 99 basis points and again Helly Hansen was a huge contributor. Ex Helly Hanson, we still expanded our margins as the type of margin driving programs we've had success with, particularly in CTR, continued to contribute.

Our retail EBITDA ex Helly Hansen is only up a couple of points versus last year. I would have liked to see about another $15 million on our EBITDA line this quarter, but we got hit by some long-term incentive expenses primarily due to the recent drop in the share price, which resulted in a hit to our equity hedging programs. And importantly, we continue to invest in future capabilities like digital and own brands, et cetera. To be clear, we could step back from this type of investment and drive more short-term earnings, but that's not the right way forward. A quick comment on inventory, no issues going into our biggest quarter. Exceptionally clean coming out of Q3, particularly in the heat-related categories for CTR. One thing I would note is Sport Chek's inventory continues to run well below last year. You will see us work to increase that proactively going into '19. This is one of the key things that Allan and TJ have diagnosed as a big opportunity for FGL heading into next year.

Moving to financial services. First and foremost, fundamentals at financial services are extremely strong. Card growth of 11.2% driven by an 8.1% increase in average active accounts with a write-off performance that is extremely well-managed. Frankly for me, this is reminiscent of the period 2002 to 2007 when financial services became a tremendous driver of growth for CTC. In the quarter, financial services benefited from 2 items. We were able to update the way we account for recoveries on accounts previously written off moving to an accrual versus cash basis model and got a bump on our results of $21 million year-to-date. Essentially, 3/4 of a year's benefit. We will benefit again in Q4 as well, but to a lesser extent. We also adjusted the IFRS 9 model allowance compared to our original assumptions given the portfolio's good performance in terms of risk. This added $15 million to IBT in the quarter offsetting the additional allowance in the quarter being driven by portfolio growth and performance.

I expect that in '19 given we will have cycled through a full year of the IFRS 9 allowance effects, the results will be less noisy and reflect the strong operating performance of our financial services business. Briefly on Helly Hansen, we provide some additional disclosure of Helly Hansen results. Revenue of $181 million and EBITDA of $28 million pre any consolidation or eliminations. Suffice it to say, a strong start for the operations. We booked all the one-time costs in the quarter, $22.4 million and should be clean going forward. CapEx was a little higher than last year in Q3, but the annual expenditure will likely come in below the low end of our guidance of $450 million to $500 million. 2019 guidance is $475 million to $550 million with a similar profile; investing to keep the network fresh, multi-year technology projects and enterprise platforms. Helly Hansen's capital is included, but represents less than 5% of the total. And lastly, ROIC improved versus last year to 8.94%, in line with our expectations.

And with that, I'll turn it over to the operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question is from Mark Petrie with CIBC.

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

Dean, you provided a little bit of color on the gross margin, but wondering if you could just give us a better sense in terms of the magnitude of the drivers of the expansion there be it Helly or the own brands? And then you had some better sort of SG&A performance just given Bolton and Triangle costs flowing, but what's your outlook there? And broadly speaking, do you think EBITDA margin expansion is sort of an achievable aspiration given the areas of the business where you want to continue to invest?

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

Well, I'll start and then the guys can chip in. Ex -- the retail gross margin, as I said, ex-petroleum increased 99 basis points in the quarter. The majority of that to be fair was Helly Hansen because it's the first time we've had Helly Hansen in our results, but a substantial portion of it also was driven by the existing retail businesses primarily CTR, to be honest, FGL and Mark's. FGL's still learning that sort of teeter-totter balance between driving top line and investing in margin so I think the guys have done an exceptional job kind of working through that. And on the Mark's side, I know PJ would say he's done some clearance of like women's inventory, some of those kinds of things that helped drive the top line, but the overall margin -- still maintained his overall margin performance. So, what I'd say is it's kind of the same story, right, with CTR continuing to kind of deliver on those kind of initiatives that we've been talking about that have been great in terms of a new way, if you will, of operating and running the businesses that the guys have been generating. On the SG&A line, just quickly. Yes, I mean I obviously want to see EBITDA margin expansion as time goes on and I think the next phase of the productivity program is really focused on our cost structure. I think the investments we've been making to, if you will, put these capabilities that have allowed us to, as an example, get deliver-to-home, deliver to the market in terms of the operations groups that are supporting retail, the digital activity, some of the stuff Allan's talked about in a number of calls around marketing to individual customers. All those types of things around analytics, all those capabilities. I think we built in large measure the bulk of the teams that we need in order to do that. Doesn't mean we won't continue to invest, but I think the pace of investment will slow a bit. And as well then, we've got to be focused on taking costs out of the existing infrastructure on a go-forward basis. And as we said before, that's what the next phase of productivity is about.

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

Okay. And then I actually just had a question on Helly, you mentioned it as sort of the key driver on the gross margin side. But my question is more around the status of the brand. And I guess I'm interested just to sort of hear your evaluation in terms of what needs to happen? What steps need to be taken to take that brand to the next level and how big of a factor is that in making this transaction a success versus expanding distribution and those sorts of drivers?

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

Mark, it's Stephen. I'll let Allan or TJ whatever comment on what the intent is in our Canadian market, which is a little bit different than what will happen on a worldwide basis. But the -- as far as the growth on an international basis, the product design capabilities and brandings that the Helly team has done now has been adjusted by market. They do a very, very good job with it. And I do believe as well that the volume increase that will occur from Canadian operations here buying more product from Helly allows them to even expand their categories more on a worldwide basis. And we can test things here that if successful, they can take around the world as well. So, I think their branding proposition is going very well. We don't want to get ahead of ourselves. I mean building the U.S. market, you could spend an enormous amount of money building your brand very quickly. But their net promoter scores across all their markets are extremely high so they're doing very well in that regard. We got a game plan by market and obviously an assortment strategy for each market. Again I think we're going to help them tremendously within Canada and I'll let kind of Allan comment about how we're going to drive it in Canada.

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

Yes, I think I'm not at all concerned about the brand. We're down to -- I think the brand's in really, really good shape and I think Susan and TJ would agree that it's less about how the brand is going to be positioned in Canada and more about -- excuse me -- how we're going to bring the categories to life. So how big, broad an assortment, are we going to merchandise it deeply, are we going to go after categories like kids that I mentioned. And that requires a lot of work. I mean you've got to dovetail that into the priorities that they already have. Helly's launched their fall and winter line for 2019 a couple of weeks ago so that will give you an idea in terms of where we are in terms of their development cycle. So, these cycles aren't short. But they've been so good to work with. We've really, really enjoyed the team. They're smart, they get it, they understand our customers and they're very enthusiastic about building a plan for Chek that allows us to represent what they do now really, really well, to explore where we think there's opportunities in the market. And let's never forget that a good portion of their business is workwear and I know PJ and his team have been equally pleased with their engagement to say okay well, how do we bring the very, very best of Helly to life in Canada from a workwear perspective. So, I got nothing but good things to say. It's just a matter of doing the work and season after season you're going to see us get better and better.

Operator

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

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

So, I just want to build on the discussion on Helly Hansen. Based on what you've said, it sounds as though we won't really see much of a change in the in-store offering here in Canada until later in 2019 and really we should be looking to '20 and '21 in terms of how it builds. Is that fair?

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

I think if you look at my little story on Paderno and apply the same thinking we've got sort of season-after-season plans in place for Helly. And when we bought them in July, you could well imagine they didn't have a warehouse full of inventory across all the categories just sitting there I mean nor did we expect them to. So for us, we get really excited and say okay, let's do this and do this and we've got to get in their rhythm as a manufacturer. So we're planning a season-by-season cadence that's going to be I would say ambitious, but not irresponsible. And yes, by mid-next year I think you'll start to see a material change in the presence that Helly has in Canada.

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

And then just shifting gears for a moment to financial services, 8.1% increase in the number of active accounts. Can you talk about how you're managing the risk side of that business or those newly acquired accounts? And also how we should be thinking about the evolution of the account balances from those newly acquired accounts and how that kind of builds over time?

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

Irene, it's Greg here. Yes, so you're right. We had an 8.1% increase in our active account base driven primarily over the last probably 12 months to 15 months by significant growth in first -use accounts. In fact in the quarter, we had a 30% increase in our first-use accounts. As you know, we've got pretty sophisticated tools and algorithms to kind of develop scorecards for new accounts and we look at something called vintage curves and what we basically do is check accounts over time and assess their behavior against previous accounts. And I can tell you, the new accounts are continuing to act in the same behavior as accounts we've acquired historically. So, we're not seeing any change in the risk profile of the accounts when I look at those by the risk segment. So, very comfortable with where we are on a risk perspective on the new accounts. And I think you've hit on really what the opportunity is as you look forward. I mean this is the right way to grow this business is frankly getting more customers because once we get the customers in, over time we'll be able to appropriately get these customers to their average credit limit and balances kind of over time. So, I think you'll see these customers start to really grow their balances back into 2019 and 2020 whereas this year they're probably under market and under the Canadian market average and also our portfolio average. So, certainly opportunity for us as we look forward about growing the balances for these new customers.

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

And as you look at these new customers, is it safe to say that -- so I guess so you're managing the open-to-buy part of it very carefully. So your -- yes.

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

Yes, absolutely. And what I should also mention, what we've also added this year is a world lead product. So, that's actually allowing us to attract a different customer profile than we've had historically. So, we've moved. If I look at the age of the customer we're acquiring, the income of the customer we're acquiring; all those metrics are moving upstream, if you will, a little. So, we're pretty comfortable with what we're acquiring in terms of the new customers for sure.

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 just wanted to focus on the upcoming fall holiday season from an inventory standpoint. So the retailers, the dealers right now in retail, are they fulsomely loaded up and you're comfortable that they're well-positioned to capitalize on what's supposed to be the beginning of snowfall here in Toronto this weekend?

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

Jim, it's Allan. We are not afraid of running out as a matter of fact, but it would be good day if we did. Greg's sitting here right next to me so I'll let him offer comment. But when it comes to Mark's and Chek and the guys are here too, it's -- we're very, very pleased with where we are at. Greg, you want to add?

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

Yes, we're feeling good, Jim. The dealers are still bullish on the business. Their inventory levels ended higher at the end of Q3 this year than it did last year. So, we feel really good about kind of where their inventory position is so I think they're ready to attack the season as it comes to us.

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

And I know that you're obviously aware that last year in Q4 that retail sort of the reported revenue and the proxy for the dealer shipments was up 10%, right. So how do we think about that in terms of what happened last year and how to think as we progress through the fourth quarter?

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

I mean as Dean indicated, the shipments in this quarter outpaced sales unlike the first 2 quarters of the year. When you look at our rolling 12 basis, there's a pretty big difference where revenue is outpacing sales. And we were joking around, the guys internally really don't listen to me, but I've got the phone here; so that's because of a gigantic revenue quarter in Q4 last year. So as you've kind of called out, we -- the dealers ended a little bit heavy in some of those categories coming out of the quarter last year and so that helps what the inventory position going into the Q4 quarter that we just talked about. And that's why we think we're in a really good position to kind of tackle whenever the season hits. It hit a little bit for a few days out west and we were ready with inventory and as it hits here in Central Canada hopefully over the course of the next few days, we're going to be ready in this region as well.

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

And just again sort of remind me from a historical standpoint like in the Q4 quarter last year, was the ordering that came in strongest at the tail end of the quarter sort of so a setup for strong winter in Q1 or how did that play?

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

Yes. So if you remember last year, the last kind of 2, 3 weeks of December were very strong from a seasonal standpoint. It was snowing virtually everywhere in Central Canada. So, I think the commentary we provided at the time is that we saw real strong shipments in the December timeframe. And if you remember coming out of Q1, that was one of the big drivers of the softness in revenue compared to strong POS in Q1. So, it was back-end loaded, Jim.

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

Okay. And so (inaudible) mentioned about needing to take a look at the inventory situation on Sport Chek in 2019. Like how are we set up going into Q4 on that business and can you give us a little bit more detail on what you mean about addressing the inventory situation in 2019?

TJ Flood

Jim, it's TJ. I think going into Q4, we're feeling very good about where we are on inventory. I think we have some work to do in pockets on inventory as we go forward. We -- if you look at the back-to-school season, as Dean alluded to, we probably had an opportunity to bring inventory forward earlier in the season. So, we're going to go through a pretty big exercise in 2019 to get our inventories right-set relative to the opportunities that we have. But as I go into Q4, I'm feeling very good with where we're at, but we do have opportunity as we go forward to get much better at how we manage our inventories.

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

Okay. On Mark's?

PJ Czank

I think for Mark's, the seasonal businesses are well stocked. We anticipated opportunity in October and we stocked accordingly and we're ready for the cold as it hits Central Canada and the East in the next couple of days.

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

And then overall for e-commerce like are we at a point -- I know its early in terms of home delivery for CT Retail, but the other businesses have been well supported for a while. Is there any meaningful contribution from e-commerce to the comp store sales results for each of the businesses?

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

Jim, I always have my rant that we are not going to disclose it separately (inaudible) nice try kind of thing. (technical difficulty) I mean big percentage increases, that kind of thing. I mean it's a component of it. I mean as you know, my view is I don't care how we sell it, I mean we just sell it and it's definitely growing and it's definitely important, right. And probably most important in FGL and next most important in Mark's and next most important in CTR, but positioned to grow obviously, right, with the roll out of delivery-to-home. So, that's probably the best I can do for you in terms of an overall.

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

And I know it's probably early, but you've had the test in Ottawa in place now for a while. What is the sort of skew? Are customers skewing towards home delivery over click and collect or how is that playing out for your business?

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

Jim, it's Greg. It's still tilted more to Click and Collect. Obviously it's early days with the rest of the country, but the mix of e-com orders is still tilted in the favor of Click and Collect over ship-to-home.

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

And something like the toy category, I know that you appear to have a much expanded toy offering this year from what I've seen before and I know Amazon is now gone to free shipping on toys already as we enter the early part of the demand season. Are you intending to match them on that kind of offer?

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

It's Dean. I don't know, somebody just pointed at me to answer this, but anyway. The way I look at shipping rate particularly for CTR in a high-low environment, I mean shipping is just another tool in terms of how you price the product, right. So, it actually kind of plays very well into our if you will model and I think it's just another tool in terms of how do you incent the customer to buy from us as opposed to buy from somebody else. So, I certainly don't get wound up about whether shipping is free or not. It really comes down to what's the end price of the product for your customer and are we delivering great value or not and I think history shows we're pretty good at that.

Operator

Our next question is from Vishal Shreedhar with National Bank.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Just wondering what your perspective was on the recent U.S., Mexico, Canada trade agreement and do you see any impact to Canadian Tire resulting?

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

Vishal, it's Stephen. Well, the only -- the only specific area at this stage of the game that is of significance to us that we kept them around was obviously the de minimis thresholds and that for the most part has turned out to be pretty much where we had expected and wanted it to turn out. So, it's not a material consideration to us at the moment. We're going to keep -- we obviously keep a very close eye on it and it's not going to be put in place for a little bit of time. But if it turned out -- in comparison to the other countries, it turned out very well from that aspect of the negotiations for us.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Just moving to another kind of broad question. Housing and I know there's little pockets throughout Canada, but call it in some major markets, housing has been slowing for a while. And just wondering at Canadian Tire Retail specifically, are you seeing a shift in the consumer and how is the consumer responding to that?

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

I think -- well, maybe I'll start and Greg, you can chip in. I mean I get asked this question all the time, Vishal, in terms of the Canadian consumer and that kind of thing. And we've got lots of windows into how the consumer is behaving with everything from our financial services business to a multitude of categories of retail that we operate in. And I guess my overall comment would be and I'll certainly look at these guys, but everything that I've seen, I mean we haven't seen any weakness in the consumer at all or change, if you will. As you know, I always look at unemployment. I think unemployment touched down again. So the housing and wringing of hands around interest rates rising and those kinds of things, we certainly haven't seen any impact of that with respect to our businesses. I don't know, Greg, if you want to?

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

I mean to Dean's point, we look at macro factors for sure. But within the business, we look at a few things. So we look at high ticket discretionary items and category performance and our overall portfolio here are showing no signs of declines in unit sales on a year-over-year basis. We also look for evidence of the customer trading down from best to better or better to good and we don't see any material indicators of this type of activity either. And lastly, we take a look at growth rates in repair and maintenance businesses mostly in our fixing portfolio and again we're just -- we're just not seeing any indicators that there's any softening based on kind of those 3 big looks into the business.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

And if you were to see softening in some of these early indicators, what could the credit card book do to protect itself against potentially increased write-offs?

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

I think -- Vishal, it's Greg here. We have experience in this as you know in 2008, 2009 and so we are always looking for those early warning kind of indicators if you will. There's lots of things we can do around credit limit increases, new account strategies on score cards, collections activities. There's lots of tools at our disposal. I think the key thing is I don't think you want to overreact on this. You want to -- that sometimes you regret that more if you make an action too quickly. So we're watching this very closely, as Stephen said, around all these key metrics and have a pretty robust plan on activities we can take if we do see weakening. I mean even go back to what we saw in Alberta a few years ago. There was a change in Alberta, in some of those strategies in Alberta as it related to credit increases or approval. So, pretty close eye on things and a well-developed plan should we start to see some weakness.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Many of your retailer counterparts are talking about cost pressures -- pervasive cost pressures in the business and the difficulty in passing price increases. Just wondering what your perspective is on that and if you see inflation -- price inflation increasing at least for you guys looking forward?

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

I can start, it's Greg, in the Canadian Tire Retail business. We're not seeing a lot of evidence of inflation. We're seeing some increased competitive activity in key promotional weeks in real kind of discretionary items, most notably high ticket. So, I think the competition is ensuring they keep their fair share obviously and I think as we've talked about before, we've got a pretty good pulse on how to react to that in terms of what do we need to sharpen our pencil and our promotional program. But overall when we look at our competitive indices and we track this very closely with a basket of competitors across our entire business, we're not seeing a lot of price inflation in the market.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. Do you anticipate that changing or you think that's status quo for now?

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

Yes, I mean status quo for now is probably the way I think about it. It's highly competitive so nobody seems to want to give an inch. So, I would expect that to continue certainly throughout the busy Q4 season.

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

It's good that our competitors are going to increase their prices though.

Vishal Shreedhar - *National Bank Financial, Inc., Research Division - Analyst*

Okay. And lastly, just on acquisitions. Your tire has been more active than call it usual in making acquisitions both smaller and larger. I'm wondering if that's -- given the brand strategy, if that's the way to look at it going forward, continued high activity?

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

The high activity relates to everything from probably $1 million to $1 billion. So, there has been some activity in between those 2 numbers. I think the -- it truly does depend on what the opportunity is and what Allan and team feel that they can do with whatever the brand is that's caught their eye or is available. So it varies, but it has to continue to be active. In addition, once you get the brand whether it's a $5 million brand or potentially a $50 million brand, there's a lot of work to be done and I think Allan has given us some really good insight in brands like Paderno as to what is done at the second, third and fourth stages. So, lots of investment post acquisition. But I would hope that we would stay active with the smaller brands that catch our eye. And we're going to -- we've got our work to do with the Helly Hansen type acquisition before we become extremely active again.

Operator

And our next question is from Derek Dley with Canaccord Genuity.

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

I was just wondering if we could get an update on Triangle. I think last quarter you said your reward members are kind of in the collection phase of accumulating points. Have you seen any of that sort of turn more into redemption at this point and are you starting to leverage some of the learnings in terms of the analytics of Triangle yet?

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

It's Allan. I'll offer a couple of comments when it comes to the Triangle program, but Greg's here. Yes, redemption -- so first of all, really really pleased and my comments about increasing our personalized offers, Triangle's core to that. It provides us with the customers to offer -- to send the offers to and the data and insights that are required, but it also gives us a conduit through which we can speak to them whether it be via e-mail or on the app. So, we couldn't do any of that without the Triangle program so really pleased. Our issuance is up 40%, our redemption is up 23% and the spend per customer -- per Triangle customer in our banners is up 15%. So, it's a good deal all around. I really -- I have nothing to complain about. And Greg, I don't know if you want to make a comment or 2 about CTFS?

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

Yes. I think Allan's right. Last quarter we talked about you'd see it -- first of all in acquisition, you'll see it more in kind of on the earn side. What we started to transition to me on the credit card side is usage and the data point that I would point to is sales on our credit cards in our retail banners. They increased by $100 million in the quarter so that's about a 23% increase. So, it's a pretty -- so that's what you're starting to see and redemption is falling as well. We've seen a pretty, on the credit card side, sizable increase in redemption as well. So we're -- I think you're really starting to see this gain more traction with our customers. And Susan O'Brien and I spend a lot of time on this so they're really starting to turn attention now towards ongoing engagement and retention of customers as well. So that's the next chapter in this I think is seeing some of the upfront pieces, how do we then keep building out the program with a value prop like the partnership with Husky for example and then really building out kind of some great engagement strategies to really help our retention numbers as well.

Operator

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

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

Greg, were you at financial services in the crash in 2008, 2009?

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

Peter, I absolutely was yes.

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

Okay. So, could you go through like the important credit metrics and what happened during that period?

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

Sure. I think what you have to remember in 2008 and 2009 was the nature of how the economic -- it was led as you will recall by dramatic changes on unemployment. So, what you saw pretty quickly was our past due rates pretty much across all the provinces. So it wasn't localized, it wasn't in one geography or one area. It was pretty much widespread across all of the provinces and you saw pretty quickly the PD2+ rates are aging accelerate pretty quickly. One thing I do want to mention though that we learned for the recession as well is you have to remember the nature of our portfolio. Where we are typically a bit of a higher risk more of a near-prime portfolio, it actually acts almost as a natural hedge against economic downturns because these customers are more used to being kind of closer to the edge, if you will. So, we don't have as many stock brokers making $200,000 that became -- lost their jobs or went bankrupt. So, I think that was my key learning from 2008 and '09. You saw the data pretty quickly. It impacted the business pretty quickly in terms of the allowance and the aging, but I think it was more -- we didn't see the same volatility that some of the other banks had seen because of the nature of the portfolio that we had.

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

Right. So, what was the -- like what was the effect from an accounting perspective? Were your allowances sufficient or did the allowance rates go up? Like how does it impact the profitability of the division?

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

If you remember, the allowance rates would have went up pretty quickly. I would have said Q1 of 2009, if memory serves, you would have seen a pretty -- there would have been increase in Q1 -- I don't know the specific numbers, but I remember the allowance went up. That was the first driver that would have increased would have been the allowance rates and that's how it would flowed through.

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

Peter, it's Dean. I think there's a presentation probably buried on YouTube someplace around a Investor Day that we did. Like our write-off rates and our provision rates or whatever you want to call it went up about 20 some odd percent in that period. To Greg's point, that was much lower than what even the big banks or even some of the other kind of third-party players like a Citi or whoever experienced. They were sort of more in the 50% to as much as 100% range. And the reason for that is all the things Greg just articulated. I mean in addition to our investment in credit risk and our investment in collections and those activities is at that time was very strong, best-in-class and I don't think it's gotten any worse since then. So, there's lots of things to kind of manage that, but there's no question that if times turn bad, then obviously like any other banks or any financial services business, I mean you have an impact on the earnings. But we routinely stress test for that being an OSFI regulated entity, right. So, we understand kind of how that works and what the impact is on the business. But it's inevitable that you have some impact. But it's something that as I said, we have experienced managing and managed very well through the last crisis, which was supposed to be the worst since the Great Depression.

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

Right. So Greg, that kind of leads to my next question. Your business has changed somewhat as that's just so integrated with Triangle now and into the retail system. Like I'm just wondering if the character of the credit portfolio has changed since 2008, 2009 because of that integration and whether you expect the performance to be different in the downturn whether that be better, worse or the same?

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

Yes, Peter. I'm honestly not sure how to answer that question because to me it comes back to the nature of what causes the recession to begin with. I don't know how to -- we are certainly more integrated. I will say as Dean said, we continue to invest in our credit risk, our collections capabilities. So, we've got all the tools for the team to manage for when and if this does occur. But I think it's going to really depend on the nature of how this comes to us to be honest. I'm not sure I know how to answer that.

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

Okay. And Dean, just -- I've just one last question for us. It's hard for us to determine the organic growth rate in SG&A because there is -- seems there's an unusual item in there and then of course you've got the Helly Hansen SG&A. Are you able to tell us what the organic growth rate was for the company ex those 2 items?

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

Yes, I think -- I mean suffice it to say, Peter, that if you haul out Helly and you haul out petroleum, which is what we typically do when I look at it; our basis points increase was very low teens basis points. So, I'm very happy with how it kind of ended up, And frankly we also had the thing I referred to in terms of long-term compensation costs because of the drop in the share price as a factor in there. But these are all kind of basis points things. I think the one thing I would tell you is relative to the last couple of quarters because we had a strong top line growth, our metrics are much improved compared to where they were even in the first couple of quarters and frankly below what we've been planning in the year and again reflecting that sort of relentless pursuit of capabilities that we're just not going to manage this place quarter-to-quarter. We're going to manage this place for the long term and as long as it's in line with what our revenue plans are and how we're kind of managing the business, then it's the right thing to do. And as Stephen alluded to is the next phase of productivity is very important in terms of taking that opportunity to the next level after having made some of these investments and kind of getting things kind of in place to allow us to kind of take advantage of them going forward.

Operator

Our next question is from Brian Morrison with TD Securities.

Brian Morrison - *TD Securities Equity Research - Research Analyst*

A question for Greg Craig. I look at the discussion on the success metrics of the Triangle Rewards and then I see your announcement with respect to Husky and then look at the strength of your brand and your loyalty and I'm curious if you're actively seeking additional external accumulation partners or whether they're seeking you? And if you are, what are the verticals that would be of greatest interest? Are you looking at the grocery, hotels, travel, et cetera?

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

Greg, go ahead on the Husky. I can take it from there.

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

Sure. Really excited about having Husky as a partner. I mean the early data we've seen a Husky is very promising. Sales increases on the cards have been very dramatic as you know. Increases -- I think it doubles, more than doubles our number of petroleum outlets across Canada for us basically as a source of future credit card acquisition and a way to really just get more Canadian Tire money in circulation. So, we're really excited about the partnership and I think the really early data because it's literally been weeks has been very positive out of the gates.

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

As far as partners are concerned, this wasn't us kind of actively searching for Triangle Reward partners. I think Susan probably turns down people on a daily basis from that aspect of it not that she won't consider it in the future. But this was more an extension of ensuring that we have the combination of petroleum and Canadian Tire retail to offer to our customers as much as anything. I think it added another 400 sites or whatever across the country. So, it was more in line with that than it was hunting for additional partners.

Brian Morrison - *TD Securities Equity Research - Research Analyst*

Fair enough. Just a clarification question to just Dean on the commitment, the $300 million to $400 million. Could you just go through the reasoning behind maybe the size of that range relative to what it has been previously and it is a commitment, correct?

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

Yes, it's -- I mean I think we always say it's an intention, if you will, to execute that. And so I think the same wording we've used for the last 4 years so you can draw whatever conclusion you want out of that. The rationale is the same rationale we always use on these things. I mean we follow the same kind of balanced approach to capital allocation. First and foremost, invest in the business, make sure we maintain our investment grade rating and preserve our financial flexibility and then look at balancing dividend increases and opportunities to return capital to shareholders. So, the selection of that particular number with a bit of a range to it I think kind of falls right in line with our efforts to deleverage a bit over since spending $1 billion essentially and it just feels like the right number. That's the discussion that we had with our board and so on. So -- and if you look at it on an average over the last kind of 3 years, it's not really kind of at align with what we've been kind of averaging in terms of return of capital overall.

Operator

Our next question is from Patricia Baker with Scotiabank.

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

I have 2 very quick questions. First, just want to make the comment to Dean. Dean, I have to tell you that I found your phrase relentless pursuit of capabilities very interesting. My question -- first question is for Allan and thank you for providing us with a little Paderno story, Allan, and providing that that would be a framework for how we should think about how you're looking at most of the brands that you've acquired and your framework for how we should be thinking about Helly Hansen. Just curious though when you look at the 4 phase plan and own stovetops, soft goods, kitchen tools, counter-top appliances; is there any margin differential across those categories or do they all deliver very similar margin?

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

That's a great question. For the most part, similar. I mean they are pretty big when you talk about wooden spoons versus coffeemakers. But we're not using Paderno as a high velocity, low-margin traffic driving brand. This is a brand that we'd like to have as one of the best if not the best premium kitchen brands in the country. So, it's about making sure there's value in the products. We're investing in some quality and some innovation. So this isn't about getting the lowest possible cost, but also being able to charge a fair price for it. So, the brand premium that comes along with the product is well-earned and is there too. If we fail to do that, then we're really not staying true to our own brand strategy and we're really just white labeling. I mean that would be my view on it. Greg, I don't know if you'd have a different view.

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

I would just say, Patricia, in general where we're deploying a new own brand into a category, if that category -- the characteristics of the category have a high penetration of very popular and well-marketed national brands, our experience would suggest there's a little bit more juice from a margin appreciation standpoint to going on our own in those categories. And to Allan's point, when you're into kind of wooden spoons and more commodities and national brand isn't playing a role; there is still a material kind of margin benefit, but it doesn't show up quite as large as it does when national brands are very strong in the category in which we're rearchitecting.

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

Okay. When we start to say that this Paderno also part of the strategy is it would make Canadian Tire a destination store and drive traffic specifically and if you teed up that with incremental purchasing whilst the customers are in the store.

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

Absolutely. I mean when we think about creating a destination category, our share in kitchen I think led us to be that in a lot of different ways. We've been setting the stage and setting the bar I think when it comes to kitchen in particular. So for us to have a brand that we own that's a complement to our great partnerships with national brands only strengthens our ability to be a destination. We're putting some marketing behind it to remind Canadians of our credibility and our strength in this category. And I think the reason I mention all that is if you take that blueprint and apply it to categories that we're making a sort of overt signal to hold very, very important, you should expect to see the same type of strategy. So with WOODS and our outerwear, we've gone to market. And if you really look at our integrated campaigns, we've gone to market with canvas and interior decor this fall. So, these are categories that are very important to us and the own brand strategy, the integrated marketing and the complement of national brands I think really makes Canadian Tire a destination for them.

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

Okay. And can I just squeeze one last question in on Triangle? Obviously very strong performance there and was very important to Q3. When we look at acquisition, which was up -- acquisition was up significantly, spend was up on the card, is there any differential performance across that banners with respect to either acquisition or spend?

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

Well, I mean other than Greg's about to tell you how awesome it is to be able to partner with Sport Chek and Mark's.

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

Took the words right out of my mouth.

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

I thought I might have.

Gregory George Craig - *Canadian Tire Corporation, Limited - CEO & President of Canadian Tire Bank and President of Canadian Tire Financial Svcs*

I think what you see is actually interesting. It matches some of the -- so, for example, Sport Chek would tend to be a little bit younger in terms of the customer profile that we see. So, we do kind of match the -- I guess the footprints in the store to some extent with what we see. What is also interesting is you're seeing some cross-pollination. So if somebody started in Sport Chek and didn't necessarily shop at CTR, that they then come to CTR following that because they're hopefully hooked on the Canadian Tire money. So, we are seeing some unique activities dependent on where the customers are coming from.

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

And Patricia, it's the other Greg. I would just say it would stand to reason that issuance and redemption would be way up in Mark's and FCL because it's net new. But I can tell you both are way up in CTR as well, both issuance and redemption up well into double-digit and we had a fantastic quarter again with ISF. So, we're loving what the new Triangle program is doing for CTR. It's not just about the other banners.

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

Patricia, what we've established here is as you can probably guess, a little healthy competition between the 3 (inaudible).

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

Which Greg Craig is -- (technical difficulty)

Operator

Thank you. This concludes today's call. A webcast of the conference call will be archived on the 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.
