



**CANADIAN TIRE CORPORATION, LTD.
Q1 2020 EARNINGS CONFERENCE CALL
Thursday, May 7, 2020 – 8:00 A.M. ET**

DISCLAIMER

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FORWARD LOOKING INFORMATION

This document contains forward-looking statements that reflect Management's current expectations relating to matters such as future financial performance and operating results of the Company.

Forward-looking statements provide information about Management's current expectations and plans and allow investors and others to better understand the Company's anticipated financial position, results of operations and operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Certain statements other than statements of historical facts included in this document may constitute forward-looking statements, including, but not limited to, statements concerning Management's current expectations relating to possible or assumed future prospects and results, the Company's strategic goals and priorities, its actions and the results of those actions and the economic and business outlook for the Company. Often, but not always, forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "believe", "estimate", "plan", "can", "could", "should", "would", "outlook", "forecast", "anticipate", "aspire", "foresee", "continue", "ongoing" or the negative of these terms or variations of them or similar terminology. Forward-looking statements are based on the reasonable assumptions, estimates, analyses, beliefs and opinions of Management, made in light of its experience and perception of trends, current conditions and expected developments, as well as other factors that Management

believes to be relevant and reasonable at the date that such statements are made.

By their very nature, forward-looking statements require Management to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that the Company's assumptions, estimates, analyses, beliefs and opinions may not be correct and that the Company's expectations and plans will not be achieved. Examples of material assumptions and Management's beliefs, which may prove to be incorrect, include, but are not limited to, the length, duration and impact of COVID-19, including measures adopted by governmental or public authorities in response to the pandemic, the effectiveness of certain performance measures, current and future competitive conditions and the Company's position in the competitive environment, the Company's core capabilities, and expectations around the availability of sufficient liquidity to meet the Company's contractual obligations. Management's expectations with respect to the Operational Efficiency program are based on a number of assumptions relating to anticipated cost savings and operational efficiencies. Although the Company believes that the forward-looking information in this document is based on information, assumptions and beliefs that are current, reasonable, and complete, such information is necessarily subject to a number of factors that could cause actual results to differ materially from Management's expectations and plans as set forth in such forward-looking statements. Some of the factors, many of which are beyond the Company's control and the effects of which can be difficult to predict, include: (a) credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, interest rates or tax rates; (b) the ability of the Company to attract and retain high-quality employees for all of its businesses, Dealers, Canadian Tire Petroleum retailers, and Mark's and SportChek franchisees, as well as the Company's financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at its stores or acquire the Company's consumer brands or its financial products and services; (d) the Company's margins and sales and those of its competitors; (e) the changing consumer preferences and expectations related to eCommerce, online retailing and the introduction of new technologies; (f) the possible effects on our business from international conflicts, political conditions, and other developments including changes relating to or affecting economic or trade matters as well as the outbreak of contagions or pandemic diseases; (g) risks and uncertainties relating to information management, technology, cyber threats, property management and development, environmental liabilities, supply chain management, product safety, changes in law, regulation, competition, seasonality,



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weather patterns, climate change, commodity prices and business disruption, the Company's relationships with suppliers, manufacturers, partners and other third parties, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by the Company and the cost of store network expansion and retrofits; (h) the Company's capital structure, funding strategy, cost management program, and share price; (i) the Company's ability to obtain all necessary regulatory approvals; (j) the Company's ability to complete any proposed acquisition; and (k) the Company's ability to realize the anticipated benefits or synergies from its acquisitions. With respect to the statements concerning the Company's Operational Efficiency program, such factors also include: (a) the possibility that the Company does not achieve the targeted annualized savings; (b) the possibility that the program results in unforeseen impacts to overall performance; (c) the possibility that the one-time costs and capital investments associated with the program are more significant than expected; and (d) the possibility that the Company does not achieve the expected payback during the anticipated timeframe for the severance, store closure and other related expenses recorded. Additional risks and uncertainties related to COVID-19 are discussed in section 3.0 (Significant Events that Impacted the Company this Quarter) of the Company's Management's Discussion and Analysis for the quarter ended March 28, 2020 ("2020 Q1 MD&A"). Management cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect the Company's results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

For more information on the risks, uncertainties and assumptions that could cause the Company's actual results to differ from current expectations, refer to section 10.0 (Key Risks and Risk Management) of the 2020 Q1 MD&A and all subsections thereunder. Also refer to section 2.8 (Risk Factors) of the Company's 2019 Annual Information Form, and all subsections thereunder, as well as the Company's other public filings, available on the SEDAR (System for Electronic Document Analysis and Retrieval) website at www.sedar.com and at <https://investors.canadiantire.ca>.

The forward-looking information contained herein is based on certain factors and assumptions as of the date hereof and does not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. The Company does not undertake to update any forward-looking statements, whether written or oral, that may be made

from time to time by it or on its behalf, to reflect new information, future events or otherwise, except as required by applicable securities laws.



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Gregory Craig

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Patricia Baker

Scotiabank

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TD Securities

PRESENTATION

Operator

Good morning. My name is Melanie and I will 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.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press star, then the number one on your telephone keypad. To withdraw your question, press the pound key. We ask that you limit your time to one question plus a follow-up question before cycling back into the queue.

This morning, Canadian Tire Corporation Limited released their financial results for the first quarter of 2020. 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 Greg Hicks, President and CEO. Greg?

Greg Hicks, President and Chief Executive Officer

Thank you, Operator, and welcome, everyone.

Today marks my first quarterly earnings call as CEO, and I am very pleased to be speaking with you this morning. I'm joined by Gregory Craig, and today is also his first quarter since being appointed as our CFO. Gregory and I have a long history of working together, and as we begin our respective tenures as CFO and CEO, I couldn't ask for a better business partner and colleague.

As you all know, we typically have our full Management Team in the room for these calls. However, given social distancing, it's Gregory and I who will take you through our results and answer your questions. Our intent is to provide you with a good understanding of what is happening in the business today, so our prepared remarks are a little longer than usual.

Before I speak to Q1, I must first address these extraordinary times in which we are living, as COVID-19 has impacted nearly every aspect of our lives, including how we do business, and as everyone knows, this crisis is fluid, with provincial and federal announcements and subsequent changes happening almost daily.

Just yesterday, we were very pleased with Premier Ford's announcement permitting CTRs to—CTR stores to reopen beginning on Saturday, and curbside pickup for all of our banners with storefront retail. This was a much-anticipated announcement, and I can sure—assure you our dealers are already working hard to safely welcome customers back in their stores.

As you know, in March, we closed several of our retail banners to the public with the exception of Canadian Tire Retail and Gas Plus locations. In our CTR stores, we swiftly implemented a number of heightened safety measures and new processes such as curbside pickup, ensuring Canadians could still get their essentials.

We also understood that we had a bigger role to play in this, supporting our communities especially in times...



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Operator

All participants, please continue to stand by. The conference will resume momentarily. We are currently experiencing technical difficulties. Please continue to stand by and we thank you for your patience.

Greg Hicks, President and Chief Executive Officer

Good morning. It's Greg speaking. We apologize for the inconvenience. We're all doing our best in these times, and we simply lost the line, so I'm going to restart from the beginning.

Welcome, everyone. Today marks my first quarterly earnings call as CEO, and I am very pleased to be speaking with you this morning. I'm joined by Gregory Craig, and today is also his first quarter since being appointed as our CFO. Gregory and I have a long history of working together, and as we begin our respective tenures as CFO and CEO, I couldn't ask for a better business partner and colleague.

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We also understood that we had a bigger role to play in this. Supporting our communities, especially in times of crisis, is one of our brand's fundamental values, which is why we launched our \$5 million Canadian Tire COVID-19 Response Fund on April 9.

As you can imagine, a crisis of this magnitude requires simultaneous attention across many priorities. In addition to protecting the health and safety of employees and customers and supporting our communities, we have prioritized frequent and transparent communication with all our stakeholders, our relationship with Canadian Tire associate dealers, as well as focusing on our Company's cash position and financial flexibility.

While we entered the COVID-19 crisis in a healthy financial position, we felt it prudent to expand the horizon of our liquidity buffer and enter into incremental credit facility agreements by leveraging our trusted relationship with our banking partners. Their confidence in CTC is demonstrated by their willingness to quickly extend these new credit facilities. Financial Services continues to maintain a level of liquidity well in excess of the required regulatory minimums. We have a strong balance sheet, and have fortified our capital and liquidity sources, equipping us to stand up to this challenge.

Another significant priority during this crisis has been our e-commerce platform. Going into March, our Mark's and SportChek platforms were scalable, which allowed us to continue serving our customers through e-commerce once our stores were closed. This was not the story at CTR.

For context, prior to COVID-19, the CTR website was receiving 5,000 orders per day. We were aware of the CTR site limitations, and knew that eventually we would run into issues with scalability. Development work was already underway with capital allocated for 2020 and 2021 to upgrade our platform, but with so many customers turning to e-commerce, combined with the closure of our CTR stores in Ontario in early April, the eventuality of this issue came much sooner than we expected. The CTR website began to see unprecedented demand overnight, and it was over capacity.

To manage this issue, we reprioritized our capital agenda to deliver on a development work earlier than planned. We had the best possible team who worked around the clock to overcome and solve this challenge with amazing results. Today, our CTR website is now processing more than 80,000 orders daily. We successfully dealt with something that was unmanageable, and now our e-



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commerce platform has scaled up in a significant way. We are able to compete on a whole new level.

While we still have significant work to do on our site and supporting processes, we believe we now have the capacity to process and sustain this monumental shift in demand. We will continue to deploy modifications to sustain the capacity, while major development work is ongoing on a new digital platform. The new platform, which involves moving to the cloud, will add significant scale and stability, allowing for more personalization and making it easier to add skews.

The progress we are making on—in e-commerce is a very important part of understanding our performance in the quarter, which brings me to our Q1 results.

As you know, our results in the quarter were impacted by a number of COVID-related impacts, and Gregory will walk us through these in more detail in a few minutes.

Q1 is our smallest quarter, and we're often at the mercy of volatile weather. This year, the mild weather paled in comparison to the unprecedented challenges brought on by COVID-19.

Our consolidated comparable sales in the quarter were relatively flat to last year at negative 0.3 percent. CTR recorded comp sales growth of 0.7 percent. Despite milder temperatures and a lack of snow early on, the impact of COVID-19 provided a tailwind to our sales in March as customers prepared for orders to stay at home and practice physical distancing.

For SportChek and Mark's, the comparable sales period ended on March 18, as this marked the last day the banners were fully operational in the quarter. Over that period, SportChek was down 1.8 percent, while Mark's was down 4.5 percent, as both banners were impacted by steep sales declines early to mid-March as growing concerns over COVID-19 deterred customer store visits and discretionary purchases.

The best way to understand the quarter is to break it into two parts; the period up to March 11 when the pandemic was declared, and then the remainder of March.

On March 11, consolidated comp sales were plus 1.3 percent, which we were quite happy with given we were up against last year's comp growth of 6 percent and a 2-year stack growth of 13 percent at CTR. CTR was up 0.9 percent, and seeing strong performance in non-seasonal categories such as kitchen, cleaning, and pet, while SportChek was up 3.2 percent, with thriving outerwear and accessories categories, and Mark's was up 0.8

percent on strong casual and ladies footwear. Performance was unfolding as expected leading into the end of the quarter.

Beginning March 12, CTR experienced significant demand for health and cleaning-focused categories, and as the month progressed, saw increased demand for what we now call boredom busters; products such as kids toys and games, exercise equipment, sports and outdoor's recreation, as Canadians prepared to spend more time at home. The increased demand for these categories drove significant traffic to our stores and website.

In addition, our own brands, such as type A for living and Frank, delivered triple-digit growth rates. CTR's need-it-now assortments has typically been trip-driving categories in automotive, fixing in seasonal, purchase through bricks and mortar due to the urgency with which customers need the products. COVID-19 has expanded the definition of what need it now means to our customers to include a wider range of products needed to live, work, and play at home, as well as products needed to keep our homes safe, clean, and healthy.

In Q1, and the last three weeks of March in particular, these products delivered leading sales growth, clearly demonstrating how relevant Canadian Tire is to its customers. With physical distancing and government restrictions in place, we were concerned that fewer trips to the store would translate into lower overall demand for our products. That has not been the case. We are seeing customers increasingly rely on Canadian Tire as the one-stop-shop for a wider range of essential products, which is driving a significantly higher basket size.

We've also been seeing a particularly strong performance with our high ticket discretionary items, which may seem somewhat counterintuitive, especially during this period of economic uncertainty. However, as Canadians equip themselves to stay and work from home, some of the top purchases include trampolines, basketball nets, backyard play structures, and treadmills. In light of these family-related purchases, it's not surprising that we drove disproportionate growth amongst our active family's customer segment in the quarter. The one thing holding consistently true is that our customers continue to see CTR as a top destination for their jobs and joys, particularly during this unprecedented time.

It was a different story at SportChek and Mark's following March 12, as they experienced double-digit sales declines, especially following March 19 when the stores were closed across the country. In a matter of three weeks, the momentum the business had gathered



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through the quarter eroded completely, and while we continued to see heightened demand on our e-commerce channels, it did not compensate for the loss of foot traffic in our closed stores.

Helly Hansen also lost momentum in the latter weeks of the quarter, as its major European and North American markets became paralyzed by increasingly stricter physical distancing measures. As a result, Helly Hansen's revenues decreased 7 percent in the quarter, but were relatively flat on a constant-currency basis, growing 0.6 percent versus prior year. As with our other banners, the e-commerce channel took on a larger role at Helly Hansen and grew at 36 percent for the quarter and ahead of our expectations. In the quarter, we were encouraged by the strong POS results of Helly Hansen outerwear categories at SportChek and Atmosphere where sales grew by 80 percent, and at Mark's, where work wear grew by 24 percent.

At Financial Services, while we saw another strong quarter of receivables growth with GAR up 4.2 percent, earnings were impacted by an increase in the estimate for expected credit losses, which Gregory will cover properly in just a few minutes. I continue to be very pleased with how our Financial Services business has responded in these times. We have an experienced team at CTFS who are more than capable of working with our customers who might be facing financial difficulties right now. We offer a number of relief measures to our customers, and today we have many customers that are benefiting from these programs.

As for our retail business, e-commerce played an increasingly larger role in our performance in the quarter and beyond. It became clear that one of the impacts of COVID-19 was that it accelerated our customers' desire to engage with CTC digitally. Site traffic, conversion rates, and e-commerce sales all increased exponentially, surpassing our previous high watermarks set by Cyber Mondays in the past. In March alone, CTR tripled its recent e-commerce sales growth rate, which speaks volumes to what we are seeing. Active families and young adults led customer acquisition to e-commerce as CTR experienced strong customer account increases and members under 30 years old. We believe that COVID-19 has permanently shifted the shopping behaviour of many, heightening the importance of delivering a compelling digital experience to our customers, which will continue to be a key priority for us going forward.

I want to switch gears slightly and tell you a little about the performance we've seen to date in Q2 to the end of April, as I'm sure you're eager to get a sense of our recent trends.

At CTR, despite the closure of 203 Ontario stores, which is 40 percent of our network, and the website capacity challenges we experienced at the start of the quarter, our national CTR sales are down 1.8 percent in April. I am so encouraged to see Canadian Tire faring as well as it has. We are an extremely resilient brand, and when coupled with our strides in omnichannel deliver—delivery, we are weathering this storm.

At SportChek and Mark's, the declines we have been seeing are steeper, which is consistent with the more discretionary nature of our assortment in these banners. On a consolidated basis, retail sales are down 19 percent on a quarter-to-date basis, and while we do not know the future impact COVID-19 will have on our business or when our business will return to full strength, we expect a more significant revenue impact from COVID-19 on our full quarter results in Q2 than it had on our full quarter results in Q1.

Before I hand it over to Greg—Gregory, I want to reiterate our heightened focus on maintaining our liquidity and ensuring a strong cash position. You may be surprised to hear that 70 percent of our cash is consumed by inventory. This is a key focus area for our merchant teams who are balancing a fine line between being there for our customers, while also keeping our working capital as lean as possible where we don't need it. We have been actively monitoring categories in the business that have seen strong consumer demand to ensure inventory is available for our customers, and that we are setting ourselves up to succeed and grow as the year unfolds.

With that, I'll hand it over to Gregory.

Gregory Craig, Executive Vice President and Chief Financial Officer

Thanks, Greg, and good morning, everyone. This is my first opportunity to address you in this form in my new role, and I want to thank you for joining us.

Today, we'll cover the key financial impacts in the quarter to bring as much clarity as possible in this time of uncertainty, so without further ado, let's get started.

Our reported diluted EPS in Q1 was a loss of \$0.22 and a loss of \$0.13 when we normalize the \$7.5 million in operational efficiency charges we recorded in the quarter compared to a normalized EPS of \$1.12 in Q1 last year. As Greg mentioned, COVID-19 has affected nearly every aspect of our business, disrupting consumer behaviours,



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equity, and foreign exchange markets, and the economy overall, leading to significant impacts on our consolidated earnings and EPS, which I'd like to highlight for you next.

First, I'll start with the most obvious one; the loss of revenue at our retail banners. In early March, anxiety over COVID-19 began to take a toll on customer foot traffic at Mark's, at Chek, and at Helly Hansen revenue in Europe and the U.S. The declining trend accelerated further following our announcement that SportChek and Mark's stores would close on March 18. Obviously, with the stores closed, our banners' ability to generate revenue at their historic levels was significantly impacted. To give you further context, we disclosed in our MD&A that SportChek, Mark's, and Helly Hansen collectively contribute \$140 million in revenue on average during the last two weeks of March 2018 and 2019.

Second, at Financial Services, we recorded a \$45 million increase in our allowance to reflect the increased probability of a recession and the resulting increase in expected account aging. This impacted EPS by \$0.43, and I will provide more colour on it in a few moments when I cover off our Financial Services business.

Third, and less obvious, is the impact that the almost 40 percent drop in the value in our share price had in the first quarter due to the impact the pandemic had on our equity—had on equity markets. We utilized equity hedge instruments to offset share-based compensation expenses from upward movement in the share price. However, the reverse holds true when the share price declines. As a result, the significant share price depreciation in the quarter led to a \$42 million increase in our net share-based compensation expense, translating into an EPS impact of \$0.44.

Finally, a smaller impact of \$7 million, or \$0.09 in EPS, related to the non-operational FX loss recorded at Helly Hansen due to the sharp weakening of the NOK relative to the appreciation in the U.S. dollar.

I now want to spend some time going over the key performance metrics of our business, and will attempt to do so while removing any COVID-related noise, and I will let you know that we provided a comprehensive summary of the COVID impacts on the quarter in Section 3.0 of the MD&A.

First, while our reported retail revenue, excluding petroleum, was down 1.8 percent for the quarter, it was trending at about 5 percent as of March 11. Despite a fairly mild winter, CTR was seeing strong dealer demand, with shipments growing across the automotive, fixing, and living categories, and SportChek was also on track

with strong performance in outerwear, accessories, and footwear.

What had started out as a healthy trend drastically reversed course in a matter of three weeks post March 11. The store closures at Mark's and at SportChek, and the impact at Helly Hansen globally, were the main drivers of this revenue decline. Partially offsetting this was the continued growth at CTR and the inclusion of Party City's revenue.

In an environment as tough as this, I am pleased with the performance of our retail gross margin rate, which, excluding petroleum, was only slightly lower, down 10 basis points compared to last year. The gross margin rate benefited from strong performance at CTR due to a favourable business mix and freight-related savings on the back of lower fuel prices. This was offset by margin pressures at Mark's and Chek due to higher e-commerce contribution to sales.

You will also notice that our consolidated op ex ratio performance, which had been on an improving trend over the past two quarters, increased by 240 basis points. This performance is directly related to a lower revenue in the last three weeks of the quarter and the sizable op ex impact in our share-based compensation I spoke about earlier. Adjusting for these impacts, the op ex ratio would improve by 16 basis points compared to the prior year attributable to lower expenses in travel and marketing, as well as the continued momentum with our operational efficiency program.

Maintaining a healthy balance sheet is a key priority for us at Canadian Tire. We are well-capitalized and have access to multiple sources of liquidity. As of the end of the quarter, we had \$1.5 billion of available liquidity within our retail segment, over \$300 million at CT REIT, and \$2.25 billion at Financial Services. Financial Services continues to maintain a level of liquidity well in excess of the required regulatory minimums.

In addition to the existing funding channels, CTC recently entered into a one-year committed bank credit facility for \$650 million with four Canadian financial institutions. These financial institutions were quick to respond to us, reflecting a high degree of confidence in CTC.

We are taking action to protect our cash position and financial flexibility. As Greg mentioned, we continue to manage our cash prudently by managing our working capital, and have taken steps to reduce discretionary costs at home office and our corporate stores. We have also announced we have taken a pause on our share



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buyback program, and we are carefully prioritizing capital projects and spending for the year.

While we are confident in the long-term outlook for our business, we are suspending the previously-communicated annual operating capital range which we indicated was going to be between \$450 million and \$500 million. We will still execute on critical projects, especially those relating to strengthening our digital platform, operational efficiency initiatives, and a new dealer ordering system, and we will defer expenditures on non-essential projects. We are also suspending our previously-disclosed annual tax guidance of 26 percent.

Now, before I hand the call back to Greg for closing comments, I want to address the performance of our Financial Services business, which continues to be strong and healthy, and is uniquely positioned to navigate through this challenging economic environment.

As discussed earlier, our earnings in the quarter reflect a \$45 million COVID-related hit to allowance incorporating the increased risk of future credit losses. Under the expected credit loss model, we are required to record expected losses up front on a forward-looking basis, incorporating changes in both economic conditions and customer behaviours. As the probability of an economic downturn increased due to COVID-19, we recorded \$30 million in incremental allowance and another \$15 million as a result of expected increases in credit card aging. Excluding the \$45 million in allowance, Financial Services IBT would have been up 2.4 percent in the quarter.

As a result of this adjustment, our allowance rate increased to 13.64 percent, slightly outside of the previously-communicated range of 11.5 percent to 13.5 percent. Given the continuing uncertainty of the economic conditions, there is always a possibility for further changes to the expected credit loss model as we look ahead in the year.

With respect to receivables, over the last 15 quarters, we've been seeing continued receivables growth, and this quarter was no exception with GAR up 4.2 percent. It's fair to assume that receivable growth will flatten over the next few quarters, as the continuing economic downturn is likely to translate into reduced discretionary spending and lower card—and lower sales on the card.

With respect to aging metrics reported in our quarterly results, I would comment that at the end of March it would still be too early to see any significant movement in our path to receivables or net write-off rates. Our PD2 plus rate at the end of the quarter was 3.07 percent, and that was only 24 basis points worse than prior year, and

our net write-off rate was 6.35 percent was still firmly within our planned range and comfort zone. We are continuing to keep a close eye on aging metrics, payment rates, and spending, and are working closely with our customers who are experiencing financial hardship by providing them with a number of options to ease their burden.

I also want to caution that while in the past the unemployment rate had been an important indicator for our performance, in light of the extensive subsidies announced by the government, unemployment rate alone may not be as strong of an indicator this time around.

Finally, I want to remind you that the extensive collections and risk management capabilities we have developed at Financial Services over the years position us well to successfully navigate through this downturn and come out of it stronger.

We shared with you today that we are withdrawing our disclosed three-year financial aspirations. I want to reinforce that, as a Management Team, we are committed to deliver long-term, sustainable growth. However, given the significant uncertainty around the impact of COVID-19 on the economy and on consumer demand, we believe the best course of action is to withdraw our financial aspirations at this time.

Though the current environment is challenging, Canadian Tire has been able to successfully navigate through difficult times over the years and adapt to changing environments. I am confident that our strong business model, financial flexibility, and resilience will continue to position us well for long-term success as we emerge from the COVID-19 crisis.

With that, I'll hand the call back to Greg.

Greg Hicks, President and Chief Executive Officer

Thank you, Gregory.

As a Company, we are resilient. We have a 97-year track record to prove it. During Q1, we demonstrated that adversity truly breeds innovation. As we work through our second quarter, I'm encouraged by the results that I'm seeing. Between the work that has been done behind the scenes, and new or accelerated processes as a result of COVID-19, we are well-equipped to win today and tomorrow.

When it comes to our previously-stated operational efficiency plans, we remain committed to our \$200 million



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goal in annualized savings by the end of 2022, and teams have continued to execute on initiatives to drive benefit this year.

Although COVID-19 forced us to reprioritize some resources to crisis management, it also gave us the opportunity to put many of our future productivity and operational effectiveness tactics in place today. For example, we have thousands of corporate employees who are currently working from home successfully. It has been an unbelievable opportunity to quantum leap our processes from a productivity standpoint. COVID-19 has truly been a catalyst for change.

As I mentioned, one of my main priorities over the past eight weeks has been our relationship with our Canadian Tire associate dealers. I continue to be impressed, but not surprised, by their hard work, innovation, and dedication to their customers during this challenge. In addition to implementing countless safety measures and new processes across their stores, dealers have independently donated countless products including 450,000 masks and 25,000 litres of hand sanitizer to local hospitals, nursing homes, and community organizations in need. Our dealers' actions throughout the COVID-19 crisis have only reinforced the vital role that they play in our Company and their communities. I'm pleased to tell you that we've signed a five-year extension to our dealer contract, which was originally set to expire in December 2024. We are thrilled with this development, which is a testament to the stability and strength of our relationship with the dealers. Our collaboration has never been better.

Although COVID-19 is not something anyone could have planned for, our previous investments in customer data and analytics, as well as our launch of Triangle Rewards in 2018, set us up for success during this crisis and for the systemic shifts in consumer behaviour that will continue over the longer term. Driven substantially by activity over the last several weeks, we've added just under one million unique users to our app and email subscription year-to-date.

Triangle Rewards now boasts more than nine million active members, and we are in a better position now more than ever before to personally and relevantly engage with our customers across multiple channels. This will continue to serve us as e-commerce and digital marketing keep playing an even bigger role moving forward. In addition, our Triangle credit card further continues to drive cross-banner engagement across our family of companies. Overall, Triangle Rewards truly connects our banners together as one Company.

Now, more than ever, our customers are relying on our entire family of companies for the essential products they need for their new normal life in Canada. We've built an ecosystem of brands, products, and services, and partners that are working together to provide locally relevant and personalized solutions for our customers, allowing them to get more done faster and easily with greater trust and rewards. By aligning our assets and capabilities, our one Company is proving essential to life in Canada.

We know that customer behaviour is shifting rapidly and permanently. Companies that have invested, as we have, in truly understanding their customer can act on and adapt to these systematic behaviour shifts. Between our investment in data analytics and our established history of always being there for life in Canada, we are well-positioned to continue winning with our customers.

Although Q1 brought unexpected challenges, it also had its share of unexpected opportunities; opportunities that will continue to foster benefits as we move forward. By leaning into our values and core purpose, supporting life in Canada regardless of what life may look like, we have set ourselves up for future success.

Before we take your questions, I want to acknowledge and thank our Leadership Group and their extended teams for their support, determination, and commitment to teamwork. I might have had an unusual start in this role, but I am so very fortunate to have been supported by such a strong and talented Leadership Team, and speaking of our Leadership Team, I'm pleased to share with you that TJ Flood has been appointed as President of Canadian Tire Retail effective immediately.

As you know, TJ has been the President of SportChek for the past two years, and has done an exceptional job. He's had a very successful career at Canadian Tire. Spending time as a merchant and leading our award-winning Marketing Team, he was named Marketer of the Year in 2014. TJ has a terrific understanding of, and respect for, our dealer model, and we're thrilled to have him lead CTR. Congratulations TJ.

I also give a tremendous thanks to our remarkable associate dealers and our brave frontline workers in our stores, call centres, and distribution centres, all of whom are working under extraordinary circumstances to serve our customers.

I'll conclude by saying that my commitment to communication is not unique to the current COVID-19 crisis and extends to our investment community. Trust



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that quarterly earnings calls will not be the only time that you hear from me.

Thank you for joining us, and I hope that you will tune into our first-ever virtual AGM at 10:00 this morning.

With that, I'll turn it back over to the Operator for questions.

QUESTION AND ANSWER SESSION

Operator

Thank you. At this time, I would like to remind everyone, in order to ask a question, please press star, then the number one on your telephone keypad. We ask that you please pick up the handset or step close to your speakerphone system when asking your question, and to limit your time to one question plus one follow-up question. We'll pause for just a moment to compile the Q&A roster.

The first question is from Peter Sklar of BMO Capital Markets. Please go ahead.

Emily Foo, BMO Capital Markets

Hi. It's Emily Foo for Peter. I'd like to talk about some of the allowance, the \$45 million that you took in total, you said \$30 million was to adjust for the macroeconomics and \$15 million was for the probability of defaults. What's the difference between the two numbers, and are they both related to COVID, and how are they linked to each other?

Gregory Craig, Executive Vice President and Chief Financial Officer

Thanks, Emily. It's Gregory here, and I should clarify for the call that, to make it simple. I'm going by Gregory for now, and our CEO is going by Greg, just so I can set the record straight now.

Yes, I would say both those absolutely are related to COVID. What we tried to do is to break them into components. One of the calculations that we have is within the actual detailed model itself is there's what's called in overlay for probability of an economic downturn or recession, so that's an assumption change around what that is going to look like. Specifically, the other is more what you're actually seeing kind of in aging

behaviour. Ultimately, you're right. Both will show up as a loss or as a write-off down the road, but we have, kind of—from a modeling perspective, they're two distinct pieces, and both are absolutely related to COVID-related impacts.

Emily Foo, BMO Capital Markets

I see, and then just as a follow-up, for a portfolio size of more than \$6 billion, we're just surprised that \$45 million is—seems small as an adjustment that you would need for something as large as COVID is at this moment.

Gregory Craig, Executive Vice President and Chief Financial Officer

Yes, it's Gregory. Yes. Thanks, Emily. It's Gregory again.

I think what you have to realize is the way that the accounting works behind this is you're basically booking at the current quarter, at the quarter close, what your expectations are based on the best information you have at that time, and I think as I've talked about previously with kind of the IFRS 9 and our allowance, every month end, every quarter end, we are going to have to revalue that allowance, if you will, so this—that \$45 million is based on the trends that we've seen. That could go up. That could stay the same. That could go down depending on the behaviour that we kind of see going forward, so it's never really a static number, if you will. It's always going to be changing based on your latest drivers and your latest projection of where you see things going forward.

Greg Hicks, President and Chief Executive Officer

Yes, and maybe I'll just add, I'm for sure been on a CEO crash course my first days eight weeks on the job, and especially getting up to speed in the bank business. The team has entertained my curiosity, which I appreciate, but here's the way I think about it. I'm confident that we have the experience in our Financial Services business to respond appropriately during these times, and we have a number of relief measures, as Greg talked about—and Gregory talked about in his prepared remarks for deployment to our customers who need financial assistance during this time, so all that relates to how we manage through this on a day-to-day basis, which is critical, but I've also been trying to understand, as you're asking about to understand, the provision, and where I've found comfort in my understanding is to think about this as a forward-looking estimate on expected credit losses.



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The provision just simply takes immediate recognition of these expected losses, so we increased the allowance by about 80—I think it was 83 bps to 13.64 percent of our receivables, as Gregory said, and so then when I ask the team about how this compares to '08/'09, they remind me that we had a provision of 2 percent of receivables at that time. Now, I understand that we are operating under a different accounting standard, but it's still an important point to consider about our level of allowance in 2020. That certainly doesn't mean we won't ever have to increase our allowance going forward dependent on how the economic situation evolves, but our starting point's an allowance of almost \$850 million, so I'm not sure if that's helpful, but it anchors me.

Emily Foo, BMO Capital Markets

Yes, that's very helpful. Thank you very much.

Operator

Thank you. The following question is from Mark Petrie of CIBC. Please go ahead.

Mark Petrie, CIBC World Markets

Hey. Good morning. Greg, you covered it with some helpful commentary, but I wanted to ask about the e-commerce business, specifically CTR, and obviously all businesses had to cope with unprecedented demand, but there were clearly some execution issues, both online and in terms of inventory visibility and fulfillment, so do you think that those issues have put you at risk of losing customers, and I'm hoping you can be a bit more specific about how you address that both from an execution standpoint, but also with regard to the customer relationships.

Greg Hicks, President and Chief Executive Officer

Yes, I mean, we did our best, Mark, to be transparent with respect to online in our prepared remarks and what we're dealing with. We're dealing with a surge of 25 times to 30 times demand virtually overnight, so we certainly knew that we were going to run into capacity issues with our site, but thought that we could grow our business two to three times before it was an issue beyond surge days like Cyber Monday and big promotions. We'd identified a major transformational project that we may have talked

about before as part of operational efficiency called ODP, or One Digital Platform, and it's a multi-year re-platform initiative across all of our banners, and has us moving all of our banners onto the same platform with modern technology, cloud-based platforms, etc., so that's, I guess, just context in terms of what we were dealing with.

For a period of about 10 to 12 days, we were managing multiple deployments every night to the site that would surge up our ability to take on more demand. At the same time, we were doing our best to manage the expectations of customers, and we were—we developed a browse site, so that allowed some of the demand to offset so people could still look through our catalogue, get access to store inventory, etc., so we did the absolute best we could to manage the customer experience.

We track NPS scores on all elements of e-commerce, in-store pickup, ship to home, curbside, etc., and I would say it dipped, for sure. Since we have the capacity, it's only—it's literally only a couple of weeks that we've really been able to process here at anywhere between 80,000 and 110,000 orders a day. It looks like our experience scores are coming right back up, but one of the things that I'm really forward—looking forward to sharing with you is we just implemented Medallia, which is a voice of the customer listening tool, and it's going to provide us unbelievable granularity on each one of our customer experience services, and so we'll be able to identify going forward how we think about that with real objective measures.

Mark Petrie, CIBC World Markets

Okay. Thanks. That's helpful. I guess anything specifically planned with regards to customer relationships and proactively reaching out to customers on this topic, and then I guess just as a follow-up, you've highlighted that your—you've accelerated some investment in your systems, but how do you expect this to affect operating costs?

Greg Hicks, President and Chief Executive Officer

Yes, I mean, it's a little early. Let me deal with the first, the operating cost piece. It certainly is a little early. We're just doing our best to make sure we're taking care of customers right now, and we're not really mindful of that. I can tell you it's expensive to run at 100 percent curbside operation. I mean, we're—the dealers will tell you they're off their feet with every single product being concierged. I would suggest to you that they're probably operating with



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about 150 percent of the labour cost for not as much sales, so part of that is just the nature of the service and part of that is friction in the technology, so we absolutely intend to interrogate, not only the customer-facing side of this, but the in-store process. It's a little clumsy right now, and so we think there's opportunities for us to drive efficiency, eliminate friction, take some steps out of the process, but no doubt, it's more expensive than whatever percentage of your business is self-serve.

On the customer experience front, we've sent at least—well, we sent a few customer letters, and we're—we've been very transparent to our Triangle membership about the issues that we're dealing with our site. We have real-time messaging looking for patience with respect to demand, and our dealers engage on a day-in and day-out basis with orders that are trending longer in terms of the service level standpoint, so I feel pretty good about how we're covering that, Mark, but like I say, I think real objective measures around how customers are feeling about our service after this, and only time's going to tell on that front.

Mark Petrie, CIBC World Markets

All right. Appreciate all the comments. All the best.

Greg Hicks, President and Chief Executive Officer

Thanks, Mark.

Operator

Thank you. The following question is from Vishal Shreedhar of National Bank. Please go ahead.

Vishal Shreedhar, National Bank Financial

Hi. Thanks for taking my questions. Just on the extra cost associated with some of these COVID-19 measures; sanitization, extra labour, who bears that cost? Is that the CTC corporate or is that the dealer, or is there a split?

Greg Hicks, President and Chief Executive Officer

Vishal, it's Greg. We're really having trouble hearing you. Let me just—I'll tell you what we think we heard. I think you were wondering on the CTR side who pays for this

incremental customer experience cost associated with e-comm.

Vishal Shreedhar, National Bank Financial

Yes, e-comm, yes, sanitization, you're right.

Greg Hicks, President and Chief Executive Officer

Oh, sanitization. Obviously, in corporate stores, that's our cost. In associate dealer stores, it's their cost, but we're in this together, Vishal, for anything that we're incurring. Here with the dealers, we've got a really good relationship, but we're not going to let traditional contractual measures impact how we—what side of the ledger that is definitively going to be on, but I can tell you, in the grand scheme of things, it's not material.

Vishal Shreedhar, National Bank Financial

Okay, including the curbside delivery, extra labour, all that, there may be...

Greg Hicks, President and Chief Executive Officer

Yes, that was more the cleaning. I mean, certainly, the most material cost in a dealer's business is their labour, so if you're increasing that in a substantial way, I would suggest to you that that is more material, and so we'll sit down with the dealers when this is all done and we'll think about how to work through that with them.

Vishal Shreedhar, National Bank Financial

Okay, and just on the Ontario store closures, obviously unexpected. Wondering if there's any way for investors to think about the health of your dealer network, the financial help, I'm talking about.

Gregory Craig, Executive Vice President and Chief Financial Officer

Sorry, again, Vishal, I'm having a hard time. The last part was the financial health of the dealers? Is that what you asked?



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Vishal Shreedhar, National Bank Financial

That's right. Sorry. Hopefully I'm more clear now.

Gregory Craig, Executive Vice President and Chief Financial Officer

I think if I talk about—we take—as Greg said, we're very close with the dealers, working hand-in-hand as part of this crisis, and we've looked at our liquidity, we've looked at dealer liquidity, and both positions are very strong across the network, and I want to go back to the data point that Greg gave around what you've seen in terms of sales across the network, and granted, they're—it's different province by province, but on an overall basis, given that stores in Ontario were closed for two thirds, let's say, of April, and only having kind of curbside, for the overall network sales only be down what Greg talked to was about 1.8 percent is incredibly promising, so I would tell you that liquidity, both at the corporation and dealer network in aggregate, is very strong.

Vishal Shreedhar, National Bank Financial

Okay, and just one last one here. The press release for Tire—hopefully you can hear me—the press release for your quarter said \$200 million of efficiency benefits, but I think in prior commentaries it was \$200 million plus, so has anything changed?

Gregory Craig, Executive Vice President and Chief Financial Officer

No, I don't think that's changed, Vishal. I think Greg said \$200 million plus in his commentary. That's a good catch. We should have included that in the press release, so it's—no, we haven't cut that down on you, Vishal. It's still \$200 million plus. Greg wouldn't let us off the hook like that. Don't worry.

Vishal Shreedhar, National Bank Financial

Thank you.

Operator

Thank you. The following question is from Irene Nattel of RBC Capital Markets. Please go ahead.

Irene Nattel, RBC Capital Markets

Thanks, and good morning, everyone. Just following up on the performance in April, would you be able to give us an idea of what you were seeing, let's say, in the 60 percent of the network that was operating versus Ontario, and generally, the cadence of performance as you move through Q2 as we come up to, I guess, the key gardening season starting soon, she says, with the polar vortex hitting this weekend?

Greg Hicks, President and Chief Executive Officer

Yes, we're hoping soon, too. Yes, it was pretty dynamic, Irene, in April. We had the weather break—the spring weather break in BC in the early part of April, which was a significant tailwind to the overall sales in the network, so the—I think I referred to the category new term, boredom busting, so it was still yard-related, but became much more gardening-focused, so all things outdoor, spring, etc., with our gardening business, watering business, essentially extremely strong, and then we moved into probably the second week of April, and that weather manoeuvred its way into Alberta. The last couple of weeks of Alberta sales have been unbelievably strong. Now we're seeing that move into the prairies, and so the same themes with respect to our seasonal business.

Our playing business has been really, really strong because of some of those boredom busting categories that I talked about; bikes and exercise and trampolines, and all those types of things, but now you're seeing our real seasonal business; barbecues, patio furniture, and gardening really start to take hold in the west, and we hope here once we get past this little vortex over the couple—next couple of days in Ontario that, as our stores open, that that good fortune comes to Ontario.

Irene Nattel, RBC Capital Markets

That's great. Thank you, and Quebec too, by the way. In terms of just thinking about how you operate overall in—sort of in the current environment, if we look at—presumably, your distribution centres, your entire supply chain needs to adapt to social distancing, so how do we think about the evolution of your op ex as we move, sort of—as we move through this period?



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Gregory Craig, Executive Vice President and Chief Financial Officer

Yes, Irene, it's Gregory here. I mean, clearly, we're experiencing that to date in terms of what we're moving through the distribution centres and call centres as examples of—those are still kind of up and running. Obviously, we get product and to service our customers over the phone, so I mean it's—clearly, as Greg alluded to, it's one of our key priorities is making sure about employee safety. I think it's one thing that we're continuing to work on. I think we're really happy with the throughput we're seeing at all the DCs and the service levels at the call centre. I don't think it's had a significant impact on our costs to date.

Clearly, we'll keep an eye on it, but again, what's paramount to us is going to be keeping our employees safe throughout this, so there might be some slight cost pressure on that going forward, but here's what I've always realized in my career at Canadian Tire. Specifically in supply chain, if you give the supply chain guys a challenge, they react very well to it, so I'm comfortable that, over time, we'll find efficiencies through operational efficiencies (inaudible) alike that would offset any increases that we'd be forced to bear in the medium/long term.

Irene Nattel, RBC Capital Markets

That's great. Thank you, and just one more if I might, and that's about inventory. How do you think about current levels of inventory in the dealer network, in your network, and really, how do you plan for as we move through the next few months and into the fall, and how are you thinking about buying, and as we move into recession and all the rest?

Greg Hicks, President and Chief Executive Officer

Yes. Irene, it's Greg. That, too, is a very dynamic situation. As you can appreciate, when the pandemic or the crisis starts and the organization kicks into crisis mode and you're thinking about managing liquidity and shoring things up, and I think I gave you the statement that 70 percent of our cash use is in inventory. That's the first place you want to go. You want to model stress test scenarios, which we've done lots of, and then you've got to react to what's actually happening because all of those scenarios are hypothetical even if you feel good about

how you've covered the risk from a liquidity standpoint, and so that's what the teams—that's exactly what the teams have been doing over the course of the last two or three weeks here; just an extreme focus.

The answer's different by banner, too. Obviously, with most of SportChek and Mark's closed until some of the relief that we've got here over the course of the last couple of days, the scenarios that we're planning for in terms of buying inventory in SportChek and Mark's right now have been pretty easy. We've been buying very little. We've been burning through our existing inventory, so I think you would have seen our inventory is up a couple of hundred million dollars. A good chunk of that is in SportChek; about, I think, two thirds of it, and that was part of a conscious decision to buy in 2019, so it was part of carryover, and we've whittled away at that, so in the SportChek banner, we're sitting about \$60 million at the end of the quarter higher than we were last year, and we're continuing to draw that down.

In the Canadian Tire Retail banner, our corporate inventory is right now a little bit lower than last year. The run that we've had in our spring/summer categories has been steep in the last few days, so we're going to—we're putting a more aggressive buy plan into the CTR business. We've done a tremendous amount of granular modeling with a view to purchase order lead times and visibility, etc., to understand what indicators we would have if things started to kind of go sideways on us, so we've got lots of the year that we can continue to impact on that, and so every banner has a little bit of a story, but hopefully that gives you a little bit of colour in terms of how we're thinking through it.

Irene Nattel, RBC Capital Markets

It does. Thank you very much.

Operator

Thank you. The following question is from Patricia Baker of Scotiabank. Please go ahead.

Patricia Baker, Scotiabank

Thank you. Good morning, everyone. Greg, thanks for all the content you gave us on what you're doing for CTR e-commerce capability, because for quite a while your capability there has been a concern for investors. Now, you indicated that there's still further development work



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going on and you anticipate that you will be moving to the cloud. Can you tell us when that will happen?

Greg Hicks, President and Chief Executive Officer

Yes. Patricia, as a result of this, as you can appreciate, we've—we're going to pour gas on that initiative from an execution standpoint. We're going to change our phasing. We originally planned on phasing the SportChek and Mark's banners to the new platform. Now we're going to move with CTR first, so we would expect our kind of existing—or sorry, our new hybrid platform to be in the cloud towards the end of this year in the fourth quarter in CTR, and any customer experience benefit that would come associated with that we would move into 20—early 2021, and then the other banners would follow in 2021, so we would expect to have some material scaling benefit as we head to the all-important fourth quarter here, which will allow us to surge even well beyond some of the order capacity that I walked you through, which is a huge increase to where we were.

Patricia Baker, Scotiabank

Okay. Thank you. Good luck with that, and my next question is for Gregory. Your cash flow in the quarter benefited from the fact that you're deferring your tax installments. When do you anticipate that you will have to pay those installments?

Gregory Craig, Executive Vice President and Chief Financial Officer

It's later in the year, I believe. I think it's kind of—Q4, I think is the timeline, Patricia, that we defer them until.

Patricia Baker, Scotiabank

Okay. Thank you, and congratulations to you both, and also congratulations on TJ's appointment and the dealer contracts.

Gregory Craig, Executive Vice President and Chief Financial Officer

Thanks, Patricia.

Greg Hicks, President and Chief Executive Officer

Thank you.

Operator

Thank you. Your last question is from Brian Morrison of TD Securities. Please go ahead.

Brian Morrison, TD Securities

Hi. Good morning. Just a question on the credit card portfolio, because I think there's a lot of focus on CTFS and the allowance provision, so can you maybe just update us about the collections or payments through maybe the month of April?

Gregory Craig, Executive Vice President and Chief Financial Officer

Thanks, Brian, it's Greg—Gregory, sorry. I'm even getting used to this. Anyway, yes, so what we—I'll start out maybe talking about our receivable position, and then talking to collections and payments and sales into April, so we ended receivables at—up 2.6 percent is the ending number. Average was a bit higher, as Greg alluded to, in the quarter, but the ending was 2.6 percent up. What we've seen in the month of April is two things.

First and foremost, we've seen a fairly significant decline in spending on the card. Categories like travel, as you would expect, is basically not there anymore, at least in April, but what we have seen on collections, or what I would call customer payments, is the absolute dollars in payments has relatively been flat April 2020 versus April '19, so even though customers are spending less, we really haven't seen pressure yet on the payments in the month of April.

Now, as we all know, one month does not make a trend, but what I think is also going to be interesting, and this is going to be the impact that the government subsidies have had. As you would have remembered, the CERB payment came out around April 11, so I think that's also helped payment activity, so clearly, a metric we keep a very close eye on. We're pleased with what we've seen in April, but as I said in my remarks, I still think there's still a few more months to go, I think, before we feel comfortable calling a trend on this.



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Brian Morrison, TD Securities

Okay. Thank you, and then two housekeeping items, if I can. Can you just, Gregory, explain the rationale behind the Class C units and rolling those to 2025 rather than other options that you may have had, and then can you just repeat the liquidity at CTR—I—or on the retail side? I missed that relative to the REIT and CTFS.

Gregory Craig, Executive Vice President and Chief Financial Officer

Yes, so let me do the second part first. If I talk about available liquidity at quarter end, the retail segment had about \$1.5 billion of available credit, the REIT had about \$300 million, and the Financial Services division was \$2.25 billion. Then I said after the quarter, though, for the retail side, we did acquire \$650 million more in lines, and I'm going to suggest on the REIT question, Brian, maybe we can follow up with you offline on that one if you don't mind.

Brian Morrison, TD Securities

Sure. Thanks very much. Appreciate it.

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 Investor Relations if there are follow-up questions regarding today's call or the materials provided. You may now disconnect your lines.
