

Canadian Tire Corporation (TSX: CTC/A)

Margin improvement amid a challenging environment

Business Description

Canadian Tire Corporation "CTC" operates in three segments: Retail (Canadian Tire, Mark's apparel & footwear, FGL Sports and Gas Bar), Financial Services and CT REIT. The retail business provides products for life in Canada across its living, playing, fixing, automotive and seasonal categories. The CTR stores and Petroleum stations are operated by independent dealers whereas Mark's and FGL Sports are operated through corporate-run and franchise stores.

Overview: Our target price for CTC is C\$150.27 based on four different pricing methods. The result is excellent despite our conservative approach to projections. We believe that the company will seek new opportunities to grow as the acquisition of FGL and sports goods sales have set a precedent and introduced robust growth since 2005.

Angel Tso, CPA

16oyat@queensu.ca
647.992.1479

Andy Guo

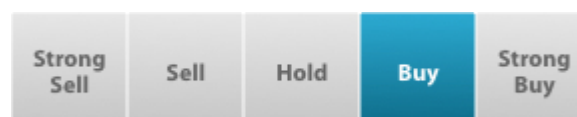
16cg20@queensu.ca
226.808.3060

Grace Dong

16qd@queensu.ca
647.928.6266

Janice Lin

Janice.Lin@queensu.ca
647.909.4967

**Key Statistics***

GICS Sector: Consumer Discretionary
Sub-Industry: General Merchandise Stores

Stock Overview

Price as at 10/03/16	\$132.27
12-mo Target Price	\$150.27
52-wk Price Range	\$101.50 – 147.00
Beta	0.64
Market Cap	\$9.73B
Shares O/S	68.46M

Profitability & Yield

ROE	13.38%
ROA	4.23%
Profit Margin	34.25%
Diluted EPS (ttm)	\$2.44
Payout Ratio	23.29%
Dividend per Share	\$2.44
Dividend Yield	1.84%

Valuation

Price/Earnings (ttm)	15.30
Price/Sales (ttm)	0.73
Price/Book (mrq)	1.97

**data retrieved from Bloomberg Terminal*

Economic Outlook

Canada GDP and unemployment forecast

The Canadian GDP growth rate is forecasted to rise from 1.5% in 2016 to 2% by 2020 (Source: Trading Economics). The weak economic momentum this year has been further intensified by the Fort McMurray wildfires and oil price retrenchment. Economic growth is anticipated to be moderate and somewhat subdued, leading to a relatively weak labour market; unemployment rate is projected to hover around 7% in 2016 and 6.7% by 2020 (Source: Trading Economics).

Inflation forecast

Inflation is trending up at a slow pace; in our model, it is projected at 2.05% from 2016 to 2.45% in 2020 and 2.25% beyond 2020. Although cheaper fuel costs have contributed towards low inflation, the flip side is that Canadian households are expected to divert their savings towards discretionary spending.

Interest rate forecast

The U.S. has experienced a modest and steady expansion that has shifted the Fed's focus to a tightening of monetary policy. Given the mixed data in U.S. and the soft numbers globally, the interest rate is expected to rise at a marginal pace. An interest rate increase will likely translate into higher interest payments on mortgages and other credit facilities. As such, the higher interest rate would have an unfavourable impact on consumer spending; every dollar diverted towards debt servicing is a dollar taken away from discretionary spending.

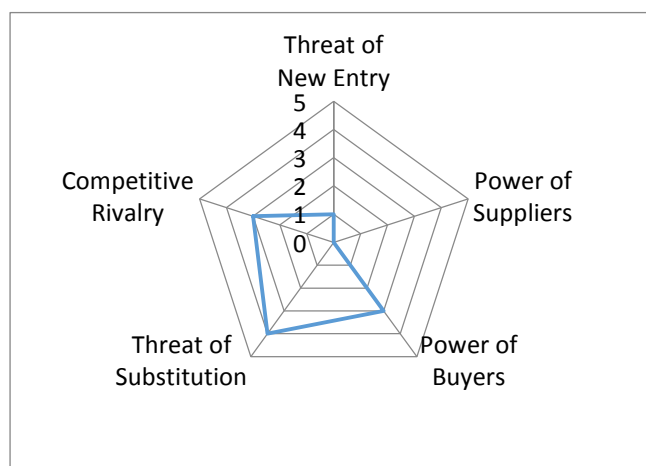
Company Analysis

Porter's Five Forces

Threat of New Entry - LOW: The retail market is mature and requires a high capital outlay. As such, market entry is challenging. CTC has been building its brand for over 90 years which is testament to the fact that brand reputation, loyalty and recognition is not achieved overnight.

Power of Suppliers - INSIGNIFICANT: There are many suppliers around world that offer similar products. Also, due to the scale of CTC's operation, it is easy for the company to secure favourable contracts with suppliers.

Power of Buyers - HIGH: Due to the high number of competitors within the retail industry, the power of buyers is also high. Since the cost of switching for consumers is none, consumers will tend to migrate



towards brands which meet their evolving needs. However, due to the product range offered by, there's no specific consumer target for CTC.

Threat of Substitution - SIGNIFICANT: The products offered by CTC are very similar to those offered by competitors. Thus consumers are always picking the products that offer the best price and quality. Furthermore, consumers are also free to switch between retailers, so they are always open to a better shopping experience (both online and in-person).

Competitive Rivalry - HIGH: No other retailer can compete directly with CTC due to its diversity. FGL Sports, for instance, has dominated the sporting goods market in Canada despite an abundant presence of specialty sporting goods stores. However, CTC faces strong competition for its Canadian Tire Retail and Mark's segments. Canadian Tire Retail faces both domestic and international competitors such as Rona, Lowe's, Home Depot and Wal-Mart. Mark's is also facing significant competition in the specialty retail sector.

Strengths

A highly trusted brand in Canada

Canadian Tire Corporation was founded in 1922 and has been serving Canadians for more than 90 years with more than 498 stores across Canada. The company continues to strengthen the store brand and is committed to be a "brand-led" organization as part of their overall strategy. CTC continues to build on its reputation by growing their customer-loyalty programs, creating private labels and investing in Olympic and other sports partnerships. Canadian Tire is also one of top 10 trusted brands in 2016.

Different retail segments within the same company

Canadian Tire Corporation has a unique business structure that offers a wide range of products and services that no other retailers can compete directly with. CTC offers products from automotive parts, kitchen appliances, toys, clothing, sporting goods and gasoline. CTC also offers financial services including Canadian Tire Options MasterCard and Gas Advantage MasterCard. The retail segment of CTC are Mark's, FGL Sports, Petroleum and Canadian Tire Retail. The company is focused on differentiating its banners to ensure Canadian consumers have the products they want to meet their lifestyle needs.

Unique "Associate Dealer" structure

CTC has a unique structure of independent dealers who operate Canadian Tire retail stores. Entrepreneurial dealers own the fixture, equipment, and inventory of the store and are responsible for their store's performance and subsequently earn profits after licensing fees. The new dealership contract provides a guideline for margins, cost sharing and processes to achieve cost efficiencies, which creates mutual benefits to dealers and CTC. The dealership structure generates CTC's greatest strength and helps it to remain competitive in a mature retail market.

REIT

CTC owns an effective 85.2% interest in CT REIT and is continuing to develop its existing portfolio in REIT. In 2015 alone, CT REIT added 1.2 million square feet of leasable area and its earnings increased almost 8%; this contributed a total of 26.6M in other income. In terms of financial flexibility and liquidity, CT REIT

successfully issued debentures in 2015 via debt issuance, demonstrating its worthy credit rating and an ability to raise financing independently.

Increase in retail sales

Despite the strong competition in the retail industry, CTC's retail sales have increased 2% (excluding Petroleum) in 2015. This was contributed by the higher sales at Canadian Tire with 2.4% increase and FGL Sports with 2.7% increase.

Many store locations

CTC has over 498 (as of 2015) retail stores across Canada. The store network is regularly refreshed to showcase the latest assortments and merchandise in order to enhance the in-store shopping experience. Comparing to its closest competitors, Lowe's has 42 stores and Home Depot has 182 stores across Canada (as of 2015 also). As such, CTC holds a distinct advantage in terms of absolute square footage.

Risks

Intensive competition from traditional brick-and-mortar to omni-channel retailing

Competition in retail sector remains intense due to the expansion of domestic and international retailers. Domestic and international retailers, including but not limited to, Walmart, Home Depot, Rona, Lowe's, HBC and Nordstrom, continue to penetrate the market throughout Canada. In addition, the trend on "omni-channel" and "channel blur-ring", has further accelerated the competition, leading CTC to offer products that are typically outside the scope of their traditional product categories. This could result in a higher inventory cost. Finally, in our view, we believe consumer buying behaviour is mainly driven by price and convenience. To remain competitive on pricing, CTC has been offering weekly promotions, which may put further pressure on operating margins. CTC also needs to keep up on the footprint and increase investments on its digital platform. Nonetheless, we expect net profit margin to remain at a steady rate of approximately 5.5% over the next five years as we believe CTC could differentiate their banners through improving the in-store experience.

Weak economy overshadows consumer confidence and expenditure

The Canadian economy is looking bleaker as a result of the decreasing oil price, lackluster growth in GDP, and an elevated unemployment rate of 7%. In particular, the unemployment rate in Alberta edged up to 8.4% as of August 2016 (Source: Alberta Government). The increase was attributed to the Fort McMurray wildfires, which led to a lower output for the province. As such, consumer confidence on job security has been weak, which could make consumers less inclined to cut back on household spending.

Weaker Lonnie squeezes profit margin

With a moderate portion of products (44% for CT, 42% for FGL, 6% for Mark's) being purchased in U.S. dollars, CTC faces headwinds from foreign currency volatility. In our model, we anticipated the exchange rate of USD would be inflated from 9-13%. However, CTC has been working on improving productivity and cost reduction initiatives which should at least partially offset exchange rate woes.

Operational risks

CTC renewed its contracts with dealers to create synergy on a collaborative approach to further improve store performance where the dealer is responsible for the store staff and operating expenses. However, this could contribute to an inconsistent in-store experience across several locations. Furthermore, CTC is expanding its digital channels to improve its online shopping experience as online retail continues to grow. The success of such implementation depends largely upon CTC's ability to manage inventory, orders, and fulfillment across multiple warehouse locations. Other operational risks associated with expanding the online channel include, but are not limited to, order fulfillment accuracy, shipping costs, and return logistics. CTC's ability to launch the new distribution center in the Town of Calidon and execute associated process and logistics smoothly remains to be seen.

Unseasonable weather

CTC offers seasonal merchandise such as patio furniture and barbecue grills for summer, and winter sports and snow-clearing equipment for winter. Extreme or unseasonable weather condition would cause a material and adverse impact on the retail businesses by declining customer traffic to stores. Unseasonable weather would also affect their business strategy and cause an inventory backlog; as such margins may become pressured when inventory needs to be marked down.

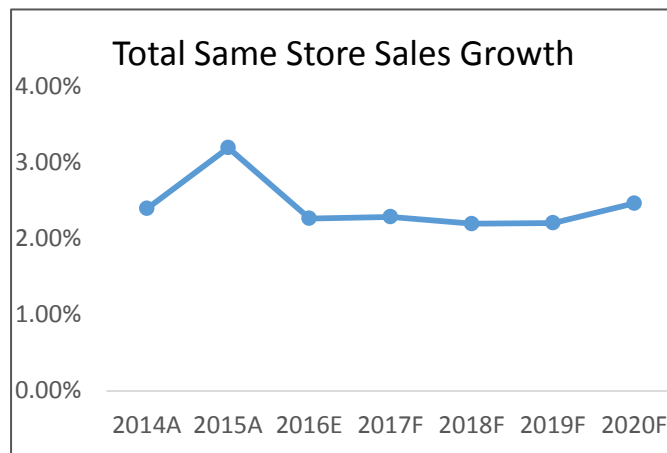
Mediocre-to-low quality on proprietary brands

Canadian Tire and Mark's sell their own private label brands such as Noma, Motomaster®, MasterCraft®, Denver Hayes®, WindRiver®, Diadora®, Firefly, McKINLEY®, and Nakamura®. Unfortunately, some of the proprietary goods are just a plain, low-quality offering at the lowest price point. To narrow this quality gap between private-label and brand-name products, CTC should improve their procurement processes and be more careful about monitoring quality. We believe, in the long run, the proprietary brands strategy could help combat retail competition.

Financial Analysis

Same Store Sales Growth

In the last 5 years, CTC had 1.1% to 3.2% increase in SSS growth. We forecasted strong revenue growth at FGL and CTR (6% & 3% in 2016), attributed to the diversification of product and improved in-store experience. We are more conservative on other retail banners as Mark's is heavily influenced by the economy in Alberta; Petroleum is pressured by the low oil price; CT Financial Service & CT REIT are more exposed to economic conditions and the interest rate environment. We forecasted 1% growth for



PORTFOLIO MANAGEMENT GROUP

Canadian Tire Corporation | October 2016

Marks & 1.8% growth for CTFS and CTREIT.

(data from S&P IQ as of Oct 3, 2016)

The total same store sales growth in our model was improved at a marginal pace, 2.27% to 2.3%, from 2016 to 2020.

Forecasted Income Statement

Canadian Tire Corp.							
Consolidated Income Statement							
	Projected						
	<u>2015A</u>	<u>2016E</u>	<u>2017F</u>	<u>2018F</u>	<u>2019F</u>	<u>2020F</u>	<u>Term</u>
Revenue	12,280	12,795	13,135	13,401	13,693	14,071	14,341
COGS	8,144	8,437	8,625	8,808	9,007	9,237	
Gross Margin	4,135	4,358	4,509	4,594	4,686	4,833	
Other Income	(54.9)	0.0	0.0	0.0	0.0	0.0	
SG&A	2,792.2	2,942.9	3,021.0	3,082.3	3,149.3	3,236.2	
EBITDA	1,398.0	1,415.1	1,488.2	1,511.6	1,536.2	1,596.9	1,616.3
Depreciation	303.9	318.6	343.4	368.8	394.7	421.3	430.8
EBIT	1,094.1	1,096.5	1,144.9	1,142.9	1,141.5	1,175.6	1,185.5
Net Finance Cost	92.8	159.6	139.5	131.8	122.9	112.8	0.0
EBT	1,001.3	936.9	1,005.4	1,011.0	1,018.6	1,062.9	1,185.5
Income Tax	265.4	248.3	266.4	267.9	269.9	281.7	314.2
Net Income	735.9	688.6	738.9	743.1	748.7	781.2	871.4
NI Contribute to:							
Shareholders of CTC	659.4	617.1	662.1	665.9	670.8	700.0	780.8
Non-Controlling Interest	76.5	71.6	76.8	77.3	77.8	81.2	90.6
Average Diluted Shares O/S	76.6	73.2	73.2	73.2	73.2	73.2	73.2
Diluted EPS	8.6	8.4	9.0	9.1	9.2	9.6	10.7

Improvement of Revenue and Net Income

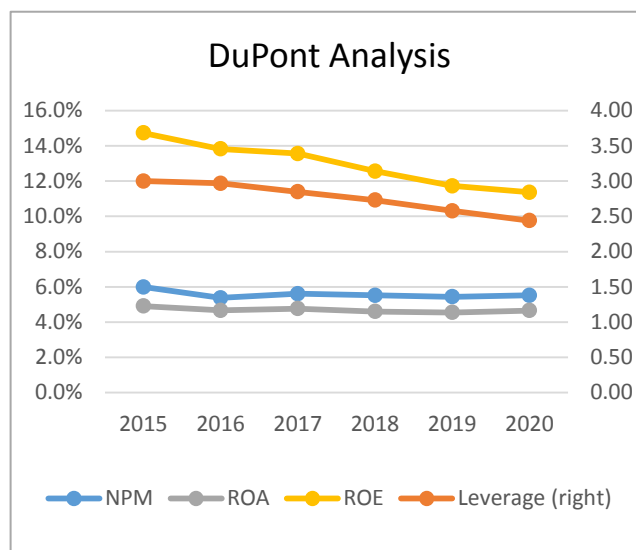
We believe CTC has performed well in terms of growing its revenue across all banners. In our model, we projected the overall revenue raised from 12.7B in 2016 to 14B in 2020, which represented 9.9% revenue growth. In term of EBITDA growth, we projected it increased 12.8% from 2016 to 2020. Finally, the net income continued to improve, increased 13.4% from 2016 to 2020. In our view, the improvement of revenue and net income were mainly due to a focus on product mix and optimizing assortments.

Stable Profitability margins

All the profitability margins for the firm are very stable in our five-year forecast period. As discussed in the *risks* section, a moderate portion of CTC's inventory (44% for CT, 42% for FGL, 6% for Mark's) comes from the U.S.; in our model, we have projected that the US dollar will keep rising over the next five years, USD to CAD, 1.37 to 1.5.

Balance Sheet Highlights

Canadian Tire Corp. Balance Sheet Highlight						
		Projection				
	2015A	2016E	2017F	2018F	2019F	2020F
Net Working Capital	5,039	5,187	5,454	5,644	5,667	5,705
Net PP&E	3,978	4,390	4,796	5,193	5,434	5,664
Total Asset	14,988	14,785	15,528	16,174	16,502	16,839
S-T Debt	969	652	705	706	434	120
L-T Debt	4,344	4,275	4,359	4,410	4,411	4,438
Total Equity	5,790	5,859	6,416	6,976	7,540	8,128

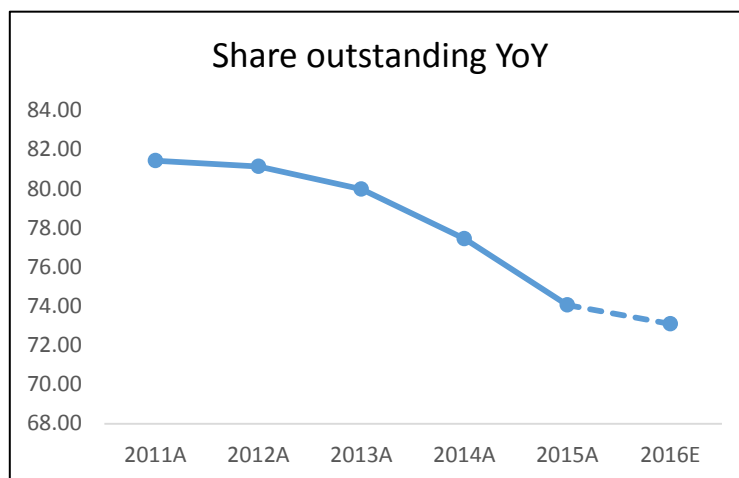


ROE declined slowly

CTC has maintained a steady net profit margin in the previous five years, from 4.5% to 5.4%. In our model, we forecasted net profit margin and ROA remained steady while the leverage ratio declined gradually. This is because the firm has a large portion of long-term liabilities due in the next five years and we have been conservative on projecting new issuance of long-term debt. As a result of an increase in retained earnings YoY, the ROE is expected to decrease over time and this is aligned with the fact that the firm is in a mature stage where the growth rate is slowing down.

Financial engineering vs. real return

As of July 2, 2016, CTC had repurchased 330MM worth of shares. In fact, CTC has been constantly buying back shares from the market in the past five years. We are more conservative in our model, we forecasted 450MM buyback in 2015 and do not anticipate this trend would continue over our forecast period since the common share outstanding has been decreased 10% over the last five years. With lower floating shares, this is simply a temporary method to



improve various financial metrics. While not a negative point in its entirety by any means, we believe that a sustainable and more favorable method of returning cash to shareholders would be via steady dividend increase.

Valuation

Canadian Tire Corp.						
Unlevered Free Cash Flow Schedule						
<i>(C\$ Millions)</i>	<i>Projected</i>					
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Term.</u>
Unlevered Free Cash Flow						
EBITDA	1,417.4	1,493.2	1,519.2	1,546.5	1,610.5	1,646.5
Current Taxes	(307.3)	(325.1)	(329.1)	(333.0)	(346.3)	(322.7)
Changes in working capital	(170.0)	(290.0)	(214.7)	(46.5)	(63.0)	0.0
CAPEX	(729.0)	(745.0)	(760.7)	(629.5)	(643.4)	(656.2)
Unlevered Free Cash Flow (DCF Valuation)	\$211.1	\$133.1	\$214.7	\$537.5	\$557.9	\$667.6

Lower UFCF due to weaker loonie and economic conditions in the next few years

Based on our five years' financial projection, CTC appears to be able to generate more free cash flow in the last two years than it has in the first three years. This is mainly due to lower expectation in the growth of the Canadian economy and weaker foreign exchange rate for Canadian dollars. The growth rate for the company will decrease as a result of a lower economic growth, which will also diminish the ability for CTC to manage its working capital. We expect that economic conditions will turn around from 2019, and the firm will then need fewer investments in working capital. The construction of a new warehouse and distribution center in Town of Calidon is expected to finish by the year 2018, and as a result, CAPEX is expected to decrease.

Recommendation - Buy

We find CTC's valuation compelling compared to other Canadian retailer and consumer stocks; our target price is C\$150.27, based on a weighted average calculation from DCF, Single and Two-Stage DDM and Forward P/E Multiple estimates (50%, 10%, 10% and 30% respectively). We take a more conservative perspective in revenue growth prospect compared to management's guidance from 2014-2017. However, we also believe the company will seek new opportunities to grow as the acquisition of FGL and sport's good sales have set a precedent and introduced robust growth since 2005.

Competitor Analysis

	Value ratio			Margin			Profitability ratio			Leverage	Efficiency
	P/E	P/E FY1	Dividen d Yield	EBITDA Margin	Operating Margin	Net Profit Margin	ROIC	ROA	ROE	Net Debt /EBITDA (x)	EBITDA/ Interest (x)
Canadian Tire	15.39	14.53	1.71	12.04	8.46	5.13	8.25	4.27	13.21	2.27	10.34
Home Improvement											
WAL-MART STORES INC	16.55	16.54	2.77	6.78	4.78	2.86	12.36	6.99	17.83	1.11	12.91
HOME DEPOT INC	21.57	20.27	2.07	15.94	13.85	8.11	28.70	16.95	97.57	1.15	14.95
LOWE'S COS INC	19.91	17.84	1.66	12.23	9.66	5.34	16.98	9.42	41.69	1.83	12.73
RONA INC	N/A	N/A	0.50	6.20	4.06	2.55	28.40	4.22	7.55	1.86	N/A
Average	19.34	18.22	1.75	10.29	8.08	4.71	21.61	9.40	41.16	1.49	13.53
Department Store											
SEARS HOLDINGS CORP	N/A	N/A	N/A	-2.92	-4.46	-3.64	-24.62	-7.38	N/A	N/A	-1.94
HUDSON'S BAY CO	N/A	N/A	1.19	4.45	0.26	-1.26	-0.43	-1.63	-6.62	6.54	3.66
Average	N/A	N/A	1.19	0.77	-2.10	-2.45	-12.53	-4.51	-6.62	6.54	0.86
Apparel & Sport											
GAP INC/THE	10.42	11.54	4.17	13.27	9.40	5.49	21.30	11.36	32.62	0.03	33.25
FOOT LOCKER INC	15.02	14.26	1.55	14.79	12.74	8.24	22.99	16.71	24.18	-0.73	99.09
Average	12.72	12.90	2.86	14.03	11.07	6.87	22.14	14.03	28.40	-0.35	66.17

(data from Bloomberg as of Oct 3, 2016)

APPENDIX

Canadian Tire Corp. Input & Assumptions

GENERAL	
- First year of forecast in financial model:	2016
- 5-year cash flow model discounted to July 1st, 2016	

REVENUE & COST	
- Revenue & Cost Growth Rates are Listed in Scenario Tab	
- Percentage of Total COGS is Subjected to Exchange Risks	
Canadian Tire	44%
FGL	41%
Mark's	6%
- COGS as a Percentage of Revenue Retail Sector	70.0%
- COGS as a Percentage of Revenue for Financial Sector	41.0%
- SG&A as a Percentage of Revenue	23.0%

INTEREST RATES AND DEBT COVENANTS	
<u>Interest Rates</u>	
- Interest rate earned on cash balances:	0.55%
- Interest rate on the Bank Revolver (Average of Midterm Load +50)	5.50%
- Interest rate on the Senior Secured Term Debt:	3.38%
- Minimum Cash Balance	10

CAPEX & DEPRECIATION	
- Depreciation Methodology Used:	Straight Line
- Depreciation Year Used in	
Land	Does not Depreciate
Building	30
Fixture	12
Leasehold Improvement	15
Asset Under Financial Lease	15
Construction	Does not Depreciate
- CAPEX is assumed to grow with inflation	

INFLATION	
- As Described in Scenario Tab	

SHAREHOLDER'S EQUITY	
- Common Dividend Payout Rate	27.5%
- Cost of Equity Remain The Same Through Out The Forecasting	7.92%
- Fully Diluted Shares O/S (\$MM) -July 1st, 2016	77
- Average Stock Price	\$124.00

TAXES	
- Tax rate assumed in the model:	26.5%
- Blended CCA Rate assumed in the model:	12%
- Opening TLCF balance (C\$MM):	0
- Opening UCC balance (C\$MM):	1989

VALUATION	
- Cost of Equity	
- Low end of the discount rate (WACC) range:	6.23%
- Low end of the terminal value growth rate:	1.5%
- The terminal value growth rate range is 1.8% to 2.1%	

WORKING CAPITAL DAYS					
- Days in					
Accounts Receiv	27	28.5	29	28	27
Inventories	79	80	81	80	79
Accounts Payabl	90	90	90	90	90
Prepaid Expense	4	4	4	4	4
Loans Receivabl	145	146	147	146	145
Loans Payable	19	19	19	19	19

**Canadian Tire Corp.
 Input & Assumptions**

CHANGE IN L-T Liabilities					
	2016	2017	2018	2019	2020
- Deposite Payment Schedule	889.50	326.10	357.20	411.50	277.40
- Financial Lease Obligations	19.60	17.30	14.50	12.70	11.60
- Mortgages	4.10	1.20	17.10	37.60	0.10
- Current Portion of LT Debt is assumed to be 1% of total LT Debt					
- Interest rate on					
	min	max	avg		
Mortgage	2.50%	3.60%	3.05%		
Financial Lease	0.81%	11.35%	6.08%		
Deposit	1.52%	2.84%	2.18%		

New Debt and Common Share Issurance					
	2016	2017	2018	2019	2020
Debt Issuance	500.00	300.00	300.00	300.00	200.00
Common Share Issuance #	(3.36)	0.00	0.00	0.00	0.00
Common Share Issuance \$	(450.00)	0.00	0.00	0.00	0.00

Common Equity Buy Back					
	2016	2017	2018	2019	2020
Par Value (671M/70M Shares)	\$ 9.50	\$ 9.50	\$ 9.50	\$ 9.50	\$ 9.50
Shares Outstanding Beg.	70,637,987	67,279,778	67,279,778	67,279,778	67,279,778
Buy Back (Shares)	3,358,209	-	-	-	-
Shares Outstanding End.	67,279,778	67,279,778	67,279,778	67,279,778	67,279,778
Outstanding Share Value	639,157,891	639,157,891	639,157,891	639,157,891	639,157,891

TERMINAL YEAR
- This EBITDA Margin is used to calculate EBITDA
- Full cash taxes are paid (ie. no deferred taxes)
- Preferred stock dividends is zero in terminal year
- Depreciation is equal to Capex
- No changes in working capital
- Non-controlling interest in subsidiaries
- Operating , maintenance and general stays the same

Canadian Tire Corp.

Economic and Pricing Scenarios

SCENARIO SWITCH: ▼

ECONOMIC SCENARIOS

	2016	2017	2018	2019	2020	Term
Inflation	1.80%	2.20%	2.10%	2.00%	2.20%	2.00%
Base Case	1.80%	2.20%	2.10%	2.00%	2.20%	2.00%
Best Case: - 0.25%	1.55%	1.95%	1.85%	1.75%	1.95%	1.75%
Worst Case: + 0.25%	2.05%	2.45%	2.35%	2.25%	2.45%	2.25%
FX Rate - CAD\$ / USD\$	1.37	1.41	1.46	1.5	1.5	1.5
Base Case	1.37	1.41	1.46	1.5	1.5	1.5
Best Case	1.345	1.385	1.435	1.475	1.475	1.475
Worst Case	1.395	1.435	1.485	1.525	1.525	1.525

SALES SCENARIOS

Canadian Tire	3.00%	2.75%	2.50%	2.75%	3.00%	2.50%
Base Case	3.00%	2.75%	2.50%	2.75%	3.00%	2.50%
Best Case: +0.5%	3.50%	3.25%	3.00%	3.25%	3.50%	3.00%
Worst Case: -0.5%	2.50%	2.25%	2.00%	2.25%	2.50%	2.00%
Marks	1.00%	0.80%	0.50%	0.50%	0.80%	0.80%
Base Case	1.00%	0.80%	0.50%	0.50%	0.80%	0.80%
Best Case: +0.5%	1.50%	1.30%	1.00%	1.00%	1.30%	1.30%
Worst Case: -0.5%	0.50%	0.30%	0.00%	0.00%	0.30%	0.30%
FGL	6.00%	5.80%	5.50%	5.50%	5.80%	5.00%
Base Case	6.00%	5.80%	5.50%	5.50%	5.80%	5.00%
Best Case: +0.5%	6.50%	6.30%	6.00%	6.00%	6.30%	5.50%
Worst Case: -0.5%	5.50%	5.30%	5.00%	5.00%	5.30%	4.50%
Petro	0.00%	0.00%	0.50%	0.50%	0.80%	0.50%
Base Case	0.00%	0.00%	0.50%	0.50%	0.80%	0.50%
Best Case: +0.5%	0.50%	0.50%	1.00%	1.00%	1.30%	1.00%
Worst Case: -0.5%	-0.50%	-0.50%	0.00%	0.00%	0.30%	0.00%
CAPEX	1.80%	2.20%	2.10%	2.00%	2.20%	2.00%

**Canadian Tire Corp.
 Revenue Schedule**

As at million of Canadian dollars

	<i>Projected</i>						
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Term</u>
Inflation		1.80%	2.20%	2.10%	2.00%	2.20%	2.00%
Growth Rate							
Canadian Tire		3.00%	2.75%	2.50%	2.75%	3.00%	2.50%
Marks		1.00%	0.80%	0.50%	0.50%	0.80%	0.80%
FGL		6.00%	5.80%	5.50%	5.50%	5.80%	5.00%
Petroleum		0.00%	0.00%	0.50%	0.50%	0.80%	0.50%
CT REIT		1.80%	2.20%	2.10%	2.00%	2.20%	2.00%
Financial Service		1.80%	2.20%	2.10%	2.00%	2.20%	2.00%
Revenue							
Canadian Tire	6,352	6,543	6,723	6,891	7,080	7,293	7,475
Marks	1,093	1,104	1,112	1,118	1,124	1,132	1,142
FGL	2,029	2,150	2,275	2,400	2,532	2,679	2,813
Petroleum	1,735	1,735	1,735	1,744	1,752	1,766	1,775
CT REIT	378	385	393	402	410	419	427
Financial Service	1,101	1,121	1,146	1,170	1,193	1,219	1,244
Adjustment *	408	417	427	436	446	457	467
Total Revenue	12,280	12,847	13,242	13,567	13,918	14,361	14,697

* Adjusted for intercompany revenue

**Canadian Tire Corp.
 Cost Schedule**

	<i>Projected</i>						
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Term</u>
Exchange Rate Impact		4%	7%	11%	14%	14%	14%
Canadian Tire							
of Merchandise Sold 70% of Revenue	4,391	4,580	4,706	4,824	4,956	5,105	5,233
Adjusted 44% of CoGS Purchased in UND After FX Impact	4,391	4,656	4,847	5,049	5,254	5,411	5,547
Marks							
of Merchandise Sold 70% of Revenue	755	772	779	783	786	793	799
Adjusted 41% of CoGS Purchased in UND After FX Impact	755	784	800	817	830	837	844
FGL							
of Merchandise Sold 70% of Revenue	1,402	1,505	1,592	1,680	1,772	1,875	1,969
Adjusted 6% of CoGS Purchased in UND After FX Impact	1,402	1,529	1,637	1,753	1,872	1,980	2,079
Petroleum							
of Merchandise Sold 70% of Revenue	1,199	1,215	1,215	1,221	1,227	1,236	1,243
CT REIT							
of Merchandise Sold 70% of Revenue	0	0	0	0	0	0	0
Financial Service							
of Merchandise Sold 41% of Revenue	452	460	470	480	489	500	510
Adjusted for intercompany revenue	55	57	58	59	61	62	63
Total Costs	8,144	8,475	8,703	8,927	9,170	9,447	9,690
As Percentage of Revenue	66.32%	65.97%	65.72%	65.80%	65.89%	65.79%	65.93%

Canadian Tire Corp.
Consolidated Income Statement

Operation	<i>Projected</i>						Term
	2015A	2016E	2017F	2018F	2019F	2020F	
Revenue	12,280	12,847	13,242	13,567	13,918	14,361	14,697
COGS	8,144	8,475	8,703	8,927	9,170	9,447	
Gross Margin	4,135	4,372	4,539	4,639	4,748	4,914	
Other Income	(54.9)	0.0	0.0	0.0	0.0	0.0	
SG&A	2,792.2	2,954.9	3,045.7	3,120.3	3,201.2	3,303.0	
EBITDA	1,398.0	1,417.4	1,493.2	1,519.2	1,546.5	1,610.5	1,646.5
Depreciation	303.9	318.5	343.2	368.4	394.1	420.4	428.8
EBIT	1,094.1	1,098.9	1,150.0	1,150.8	1,152.4	1,190.2	1,217.7
Net Finance Cost	92.8	159.6	156.4	158.9	160.1	160.1	0.0
EBT	1,001.3	939.2	993.6	991.9	992.3	1,030.1	1,217.7
Income Tax	265.4	248.9	263.3	262.9	262.9	273.0	322.7
Net Income	735.9	690.3	730.3	729.1	729.3	757.1	895.0
NI Contribute to:							
to CTC	659.4	618.6	654.4	653.3	653.5	678.4	802.0
Non Controlling Interest	76.5	71.8	75.9	75.8	75.8	78.7	93.0
Avg Diluted Shares O/S	76.6	73.2	73.2	73.2	73.2	73.2	73.2
Dilluted EPS	8.6	8.4	8.9	8.9	8.9	9.3	11.0

Margins							
EBITDA Margin	11.38%	11.03%	11.28%	11.20%	11.11%	11.21%	11.20%
EBIT Margin	8.91%	8.55%	8.68%	8.48%	8.28%	8.29%	8.53%
ROE	13.20%	12.39%	11.97%	11.00%	10.19%	9.82%	

Canadian Tire Corp.
Consolidated Cash Flow Statement

As at million of Canadian dollars

	<u>2015</u>	<u>Projected</u>				<u>2020</u>
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	
Operating Activities						
Net Income	690.3	730.3	729.1	729.3	757.1	
Depreciation & Amortization	318.5	343.2	368.4	394.1	420.4	
Deferred Income Taxes	(16.1)	(20.3)	(24.1)	(27.7)	(30.9)	
Changes in working capital	(170.0)	(290.0)	(214.7)	(46.5)	(63.0)	
Operating Cash Flow	822.7	763.2	858.6	1,049.3	1,083.6	
Investing Activities						
CAPEX	729.0	745.0	760.7	629.5	643.4	
Other	0.0	0.0	0.0	0.0	0.0	
Investing Cash Flow	(729.0)	(745.0)	(760.7)	(629.5)	(643.4)	
Financing Activities						
Revolver Issuance / (Repayment)	49.0	206.4	170.5	(78.3)	(173.4)	
Term Debt Issuance / (Repayment)	(913.2)	(344.6)	(388.8)	(461.8)	(280.3)	
New long debt / (Repayment)	500.0	300.0	300.0	300.0	200.0	
Common Shares Issuance/ (Buy-Back)	(450.0)	0.0	0.0	0.0	0.0	
Common Dividends	(170.1)	(180.0)	(179.7)	(179.7)	(186.6)	
Financing Cash Flow	(984.4)	(18.2)	(97.9)	(419.8)	(440.3)	
Change in the Cash Position	(890.6)	0.0	0.0	0.0	0.0	
Beginning Cash	900.6	10.0	10.0	10.0	10.0	
Ending Cash	900.6	10.0	10.0	10.0	10.0	

**Canadian Tire Corp.
 Consolidated Balance Sheet**

As at million of Canadian dollars				<i>Projected</i>		
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Assets						
Current assets						
Cash and cash equivalents	900.6	10.0	10.0	10.0	10.0	10.0
Short-term investments	96.1	96.1	96.1	96.1	96.1	96.1
Trade and other receivables	915.0	947.8	1,034.0	1,077.9	1,067.7	1,059.4
Loans receivable	4,875.5	5,089.8	5,296.9	5,463.8	5,567.2	5,689.4
Merchandise inventories	1,764.5	1,829.3	1,907.6	1,981.1	2,010.0	2,039.2
Income taxes recoverable	42.2	42.2	42.2	42.2	42.2	42.2
Prepaid expenses and deposits	96.1	92.6	95.4	97.8	100.5	103.2
Assets classified as held for sale	2.3	2.3	2.3	2.3	2.3	2.3
Total current assets	8,692.3	8,110.1	8,484.5	8,771.2	8,896.0	9,041.8
Property, Plant and Equipment	6,769.8	7,276.1	8,016.2	8,772.1	9,396.9	10,035.1
Accumulated depreciation	2,791.6	(3,110.1)	(3,453.3)	(3,821.7)	(4,215.8)	(4,636.1)
Net PP&E	3,978.2	4,388.7	4,790.5	5,182.8	5,418.2	5,641.2
Other assets						
Long-term receivables and other assets	731.2	731.2	731.2	731.2	731.2	731.2
Long-term investments	153.4	153.4	153.4	153.4	153.4	153.4
Goodwill and intangible assets	1,246.8	1,246.8	1,246.8	1,246.8	1,246.8	1,246.8
Investment property	137.8	137.8	137.8	137.8	137.8	137.8
Deferred income taxes	48.1	48.1	48.1	48.1	48.1	48.1
Total other assets	2,317.3	2,317.3	2,317.3	2,317.3	2,317.3	2,317.3
Total assets	14,987.8	14,816.1	15,592.3	16,271.4	16,631.5	17,000.4

Queen's Master of Finance
PORTFOLIO MANAGEMENT GROUP

Canadian Tire Corporation | October 2016

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Liabilities and Equity						
Current liabilities						
Bank indebtedness	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	880.7	533.0	405.5	265.9	105.0	0.0
Trade and other payables	1957.1	2084.0	2146.0	2201.2	2261.2	2323.1
Provisions	216.1	216.1	216.1	216.1	216.1	216.1
Short-term borrowings	88.6	137.6	343.9	514.5	436.2	262.8
Loans payable	655.5	666.9	689.3	706.2	724.5	745.5
Income taxes payable	61.5	61.5	61.5	61.5	61.5	61.5
Current portion of long-term debt	24.3	27.9	27.9	27.9	27.9	27.9
Total Current liabilities	3883.8	3727.0	3890.3	3993.2	3832.4	3636.9
Long-term liabilities						
Long-term provisions	45.7	45.7	45.7	45.7	45.7	45.7
Long-term debt	2971.4	3444.1	3726.7	3996.0	4247.5	4437.9
Amortization	0.0	0.0	1.1	2.0	3.8	5.9
Long-term deposits	1372.2	830.4	631.8	414.2	163.6	0.0
Deferred income taxes	111.1	95.0	74.7	50.6	22.9	(8.0)
Other long-term liabilities	813.9	813.9	813.9	813.9	813.9	813.9
Total LT Liabilities	5314.3	5229.2	5291.7	5318.4	5289.8	5283.6
Total Liabilities	9198.1	8956.1	9182.0	9311.6	9122.2	8920.5
Equity						
Share capital	671.2	667.8	667.8	667.8	667.8	667.8
Contributed surplus	2.9	2.9	2.9	2.9	2.9	2.9
Accumulated other comprehensive income	148.1	148.1	148.1	148.1	148.1	148.1
Retained earnings	4172.0	4173.8	4648.3	5121.9	5595.7	6087.5
Equity attributable to shareholders of Canadian Tire Corporation	4994.2	4992.7	5467.1	5940.7	6414.5	6906.4
Non-controlling interests	795.5	867.3	943.2	1019.0	1094.8	1173.5
Total CTC Equity	5789.7	5859.9	6410.3	6959.7	7509.3	8079.9
Total Liabilities and equity	14987.8	14816.1	15592.3	16271.4	16631.5	17000.4

Canadian Tire Corp. Working Capital Schedule

(C\$ Millions)

As of July 1st,

		<i>Projected</i>					
		<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Days per Year		365	366	365	365	365	366
Income Statement Items							
Net Revenue	(C\$ MM)	12,279.6	12,847.3	13,242.3	13,566.6	13,918.1	14,360.8
Cost of Sales	(C\$ MM)	8,144.3	8,475.1	8,703.3	8,927.1	9,170.5	9,447.3
Days In							
Accounts Receivable	(days)	27.2	27.0	28.5	29.0	28.0	27.0
Inventories	(days)	79.1	79.0	80.0	81.0	80.0	79.0
Accounts Payable	(days)	87.7	90.0	90.0	90.0	90.0	90.0
Prepaid Expenses	(days)	4.3	4.0	4.0	4.0	4.0	4.0
Loans Receivable	(days)	144.9	145.0	146.0	147.0	146.0	145.0
Loans Payable	(days)	19.5	19.0	19.0	19.0	19.0	19.0
Account Balances							
Accounts Receivable	(C\$ MM)	915.0	947.8	1,034.0	1,077.9	1,067.7	1,059.4
Inventories	(C\$ MM)	1,764.5	1,829.3	1,907.6	1,981.1	2,010.0	2,039.2
Accounts Payable	(C\$ MM)	1,957.1	2,084.0	2,146.0	2,201.2	2,261.2	2,323.1
Prepaid Expenses	(C\$ MM)	96.1	92.6	95.4	97.8	100.5	103.2
Loans Receivable	(C\$ MM)	4,875.5	5,089.8	5,296.9	5,463.8	5,567.2	5,689.4
Loans Payable	(C\$ MM)	655.5	666.9	689.3	706.2	724.5	745.5
Net Working Capital	(C\$ MM)	5,038.5	5,208.5	5,498.5	5,713.2	5,759.7	5,822.6
Change in Working Capital	(C\$ MM)		(170.0)	(290.0)	(214.7)	(46.5)	(63.0)

**Canadian Tire Corp.
 Shareholder's Equity Schedule**

As at million of Canadian dollars

Projected

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Common Shares					
Amount Outstanding - Beginning	671.2	667.8	667.8	667.8	667.8
New Issuance / (Buy-Back)	(3.4)	0.0	0.0	0.0	0.0
Amount Outstanding - Ending	671.2	667.8	667.8	667.8	667.8
Dividend Payout Rate	27.5%	27.5%	27.5%	27.5%	27.5%
Net Income	618.6	654.4	653.3	653.5	678.4
Common Dividend	170.1	180.0	179.7	179.7	186.6
Dividend Per Share	2.3	2.5	2.5	2.5	2.5
Retained Earnings					
Amount Outstanding - Beginning	4,172.0	4,173.8	4,648.3	5,121.9	5,595.7
Net Income	618.6	654.4	653.3	653.5	678.4
Common Dividend	170.1	180.0	179.7	179.7	186.6
paid-in capital (result from buyback)	(446.6)	0.0	0.0	0.0	0.0
Amount Outstanding - Ending	4,172.0	4,173.8	4,648.3	5,595.7	6,087.5
Shares Outstanding					
Cost of Equity	7.92%	7.92%	7.92%	7.92%	7.92%
Average Stock Price	124.0	133.8	144.4	168.2	181.5
Fully Diluted Shares O/S (MM) - Beginning	76.6	73.2	73.2	73.2	73.2
New Issuance / (Buy-Back)	(3.4)	0.0	0.0	0.0	0.0
Fully Diluted Shares O/S (MM) - Ending	76.6	73.2	73.2	73.2	73.2

Canadian Tire Corp. Debt & Interest Schedule

As at million of Canadian dollars

Projected

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash					
Amount Outstanding - Beginning	900.6	10.0	10.0	10.0	10.0
Change in Cash	-890.6	0.0	0.0	0.0	0.0
Amount Outstanding - Ending	900.6 <u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>	<u>10.0</u>
Interest Rate	0.55%	0.55%	0.55%	0.55%	0.55%
Annual Interest Income	0.1	0.1	0.1	0.1	0.1
Revolver					
Operating Cash Flow	822.7	763.2	858.6	1,049.3	1,083.6
Investing Cash Flow	(729.0)	(745.0)	(760.7)	(629.5)	(643.4)
Mandatory Debt Repayments	(413.2)	(44.6)	(88.8)	(161.8)	(80.3)
Common Dividends	(170.1)	(180.0)	(179.7)	(179.7)	(186.6)
Repurchase of CS	(450.0)	0.0	0.0	0.0	0.0
FCF After Mandatory Debt Repayment and Dividend	<u>(939.6)</u>	<u>(206.4)</u>	<u>(170.5)</u>	<u>78.3</u>	<u>173.4</u>
Revolver Outstanding - Beginning	88.6	137.6	343.9	514.5	436.2
Additions / (Repayments)	49.0	206.4	170.5	(78.3)	(173.4)
Revolver Outstanding - Ending	88.6 <u>137.6</u>	<u>343.9</u>	<u>514.5</u>	<u>436.2</u>	<u>262.8</u>
Interest Rate	5.50%	5.50%	5.50%	5.50%	5.50%
Annual Interest Expense	6.2	13.2	23.6	26.1	19.2
Senior Secured Term Debt					
Amount Outstanding Beg	2,944.1	3,426.7	3,696.0	3,947.5	4,237.9
Additions/(Repayment)	500.0	300.0	300.0	300.0	200.0
Amount Outstanding End	2,971.4 <u>3,444.1</u>	<u>3,726.7</u>	<u>3,996.0</u>	<u>4,247.5</u>	<u>4,437.9</u>
Annual Interest Expense	159.6	156.4	158.9	160.1	160.1
Net Interest Expense	<u>165.8</u>	<u>169.6</u>	<u>182.4</u>	<u>186.2</u>	<u>179.2</u>

Canadian Tire Corp.
Tax Schedule

As at million of Canadian dollars

Projected

		<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Tax Rate	26.50%					
Earnings Before Taxes (as is on I/S) A		939.2	993.6	991.9	992.3	1,030.1
Add Back Accounting Depreciation		318.5	343.2	368.4	394.1	420.4
Deduct CCA for Tax Purposes		257.8	266.6	277.3	289.7	303.8
Earnings Before TLCF after CCA		999.9	1,070.2	1,083.0	1,096.6	1,146.6
Tax Loss Carry Forward Schedule						
Existing TLCF - Initial Balance		0.0	0.0	0.0	0.0	0.0
Existing TLCF Used		0.0	0.0	0.0	0.0	0.0
Earnings after use of Existing TLCF	0.0	999.9	1,070.2	1,083.0	1,096.6	1,146.6
Newly Created TLCF - Beginning		0.0	0.0	0.0	0.0	0.0
Newly Created TLCF Used (Added)		0.0	0.0	0.0	0.0	0.0
Newly Created TLCF - Ending	0.0	0.0	0.0	0.0	0.0	0.0
Remaining Existing TLCF		0.0	0.0	0.0	0.0	0.0
Total TLCF Available		0.0	0.0	0.0	0.0	0.0
Taxable Income (after CCA and TLCF) B		999.9	1,070.2	1,083.0	1,096.6	1,146.6
Accounting Taxes (26.5% of A)		248.9	263.3	262.9	262.9	273.0
Taxes as Appearing on Income Statement						
Current Tax (26.5% of B)		265.0	283.6	287.0	290.6	303.8
Increase (Decrease) in Deferred Income Taxes		(16.1)	(20.3)	(24.1)	(27.7)	(30.9)
Total Income Taxes (Same as Accounting Taxes Above)		248.9	263.3	262.9	262.9	273.0
CCA Schedule						
Blended CCA Rate	12%					
UCC Beginning		1,989.1	2,049.8	2,126.4	2,217.5	2,321.9
Plus: New Capex		318.5	343.2	368.4	394.1	420.4
1/2 of New Capex		159.2	171.6	184.2	197.0	210.2
UCC After New Capex (1/2 Year)		2,148.3	2,221.4	2,310.6	2,414.6	2,532.0
Less: CCA Available and Used		257.8	266.6	277.3	289.7	303.8
UCC Ending (C + D - E)	1,989.1	2,049.8	2,126.4	2,217.5	2,321.9	2,438.4

Canadian Tire Corp. Long Term Debt Schedule

As at million of Canadian dollars

Interest Payment Schedule

						<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Long Term Debt											
Start Year	End Year	Rate	Face Value	Carrying Value	Amortization						
Senior Note											
2012	2017	2.807%	200.0	199.7	0.3	5.6	5.6	0.0	0.0	0.0	0.0
2012	2017	2.394%	400.0	399.2	0.8	9.6	9.6	0.0	0.0	0.0	0.0
2013	2018	2.755%	250.0	249.1	0.9	6.9	6.9	6.9	0.0	0.0	0.0
2014	2019	2.567%	472.5	470.7	1.8	12.1	12.1	12.1	12.1	12.1	0.0
2015	2020	2.238%	465.0	462.9	2.1	10.4	10.4	10.4	10.4	10.4	10.4
2017	2022	2.552%	600.0	600.0	0.0	0.0	0.0	15.3	15.3	15.3	15.3
2018	2023	2.501%	250.0	250.0	0.0	0.0	0.0	0.0	6.3	6.3	6.3
2019	2024	2.523%	472.5	472.5	0.0	0.0	0.0	0.0	0.0	0.0	11.9
2020	2025	2.476%	465.0	465.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated Amortization						0.0	1.1	2.0	3.8	5.9	
Subordinated Notes											
2012	2017	3.827%	11.6	11.6	0.0	0.4	0.4	0.0	0.0	0.0	0.0
2012	2017	3.174%	23.3	23.3	0.0	0.7	0.7	0.0	0.0	0.0	0.0
2013	2018	3.275%	14.6	14.6	0.0	0.5	0.5	0.5	0.0	0.0	0.0
2014	2019	3.068%	27.5	27.5	0.0	0.8	0.8	0.8	0.8	0.8	0.0
2015	2020	3.237%	35.0	35.0	0.0	1.1	1.1	1.1	1.1	1.1	1.1
2017	2022	3.316%	34.9	34.9	0.0	0.0	0.0	1.2	1.2	1.2	1.2
2018	2023	3.214%	14.6	14.6	0.0	0.0	0.0	0.0	0.5	0.5	0.5
2019	2024	3.222%	27.5	27.5	0.0	0.0	0.0	0.0	0.0	0.0	0.9
2020	2025	3.211%	35.0	35.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Medium Term Notes and Debentures											
	2022	2.850%	150.0	149.2	0.8	4.3	4.3	4.3	4.3	4.3	4.3
	2025	3.530%	200.0	198.8	1.2	7.1	7.1	7.1	7.1	7.1	7.1
	2028	6.375%	150.0	148.5	1.5	9.6	9.6	9.6	9.6	9.6	9.6
	2034	6.445%	200.0	198.0	2.0	12.9	12.9	12.9	12.9	12.9	12.9
	2035	5.610%	200.0	199.3	0.7	11.2	11.2	11.2	11.2	11.2	11.2
Total Interest Payment						93.3	94.4	95.4	96.5	98.4	
L-T Debt Principal Repayment						0.0	634.9	264.6	500.0	500.0	500.0
L-T Debt Rolling Issuance						0.0	634.9	264.6	500.0	500.0	500.0
Ending L-T Debt - Debt Portion on B/S						2,787.4	2,788.5	2,789.4	2,791.2	2,793.3	2,793.3
Current Portion						27.9	27.9	27.9	27.9	27.9	27.9
Long Term						2,759.5	2,760.6	2,761.5	2,763.3	2,765.4	2,765.4

**Canadian Tire Corp.
 Long Term Debt Schedule**

As at million of Canadian dollars

Interest Payment Schedule

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Deposits						
Total Deposit Repayment		889.5	326.1	357.2	411.5	277.4
Interest Rate	2.18%					
S-T Deposit						
Beginning Balance		880.7	533.0	405.5	265.9	105.0
Repayment		347.7	127.5	139.6	160.9	105.0
Ending Balance	880.7	533.0	405.5	265.9	105.0	0.0
L-T Deposit						
Beginning Balance		1,372.2	830.4	631.8	414.2	163.6
Repayment		541.8	198.6	217.6	250.6	163.6
Ending Balance	1,372.2	830.4	631.8	414.2	163.6	0.0
Interest Payment		39.4	26.2	18.7	10.3	2.9
Financial Lease Obligations						
Interest Rate	6.08%					
Financial Lease Obligations						
Beginning Balance		145.9	126.3	109.0	94.5	81.8
Repayment		19.6	17.3	14.5	12.7	11.6
Ending Balance	145.9	126.3	109.0	94.5	81.8	70.2
Interest Payment		8.3	7.2	6.2	5.4	4.6
Mortgages						
Interest Rate	3.050%					
Mortgages						
Beginning Balance		60.1	56.0	54.8	37.7	0.1
Repayment		4.1	1.2	17.1	37.6	0.1
Ending Balance	60.1	56.0	54.8	37.7	0.1	0.0
Interest Payment		1.8	1.7	1.4	0.6	0.0

Canadian Tire Corp.
Long Term Debt Schedule

As at million of Canadian dollars

Interest Payment Schedule

2015 2016 2017 2018 2019 2020

Promissory Note

Interest Rate 0%

Promissory Note

Beginning Balance		2.3	2.3	2.3	2.3	2.3
Repayment		0.0	0.0	0.0	0.0	0.0
Ending Balance	2.3	2.3	2.3	2.3	2.3	2.3

Interest Payment **0.0** **0.0** **0.0** **0.0** **0.0**

On Balance Sheet

Current Portion of L-T Debt		27.9	27.9	27.9	27.9	27.9
Long Term Debt		2,944.1	2,926.7	2,896.0	2,847.5	2,837.9
ST Deposit		533.0	405.5	265.9	105.0	0.0
LT Deposit		830.4	631.8	414.2	163.6	0.0

Interest Payment Associated with Long Term Liabilities 142.7 129.4 121.7 112.8 106.0

On Cash Flow Statement

Cash Repayment for Long Term Liabilities		913.2	344.6	388.8	461.8	280.3
------------------------------------------	--	-------	-------	-------	-------	-------

**Canadian Tire Corp.
 Depreciation Schedule**

As at million of Canadian dollars

	<i>Projected</i>					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Inflation Rate		1.80%	2.20%	2.10%	2.00%	2.20% ¹
Land						
Cost Balance Beg.	861.0	874.4	888.0	902.0	916.2	930.7
Addition	13.4	13.6	13.9	14.2	14.5	14.8
Cost Balance End.	874.4	888.0	902.0	916.2	930.7	945.6
Acc. Dep. Beg.	(4.4)	(6.6)	(8.8)	(11.0)	(13.2)	(15.4)
Addition	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Acc. Dep. End.	(6.6)	(8.8)	(11.0)	(13.2)	(15.4)	(17.6)
Buildings						
Cost Balance Beg.	2857.7	2915.9	2975.1	3035.7	3097.5	3160.6
Addition	58.2	59.2	60.6	61.8	63.1	64.4
Cost Balance End.	2915.9	2975.1	3035.7	3097.5	3160.6	3225.0
Acc. Dep. Beg.	(1289.8)	(1385.8)	(1485.0)	(1586.2)	(1689.4)	(1794.8)
Addition	(96.0)	(99.2)	(101.2)	(103.3)	(105.4)	(107.5)
Acc. Dep. End.	(1385.8)	(1485.0)	(1586.2)	(1689.4)	(1794.8)	(1902.3)
Fixture						
Cost Balance Beg.	1071.9	1216.6	1363.9	1514.4	1668.2	1824.9
Addition	144.7	147.3	150.5	153.7	156.8	160.2
Cost Balance End.	1216.6	1363.9	1514.4	1668.2	1824.9	1985.2
Acc. Dep. Beg.	(712.0)	(794.8)	(908.5)	(1034.7)	(1173.7)	(1325.8)
Addition	(82.8)	(113.7)	(126.2)	(139.0)	(152.1)	(165.4)
Acc. Dep. End.	(794.8)	(908.5)	(1034.7)	(1173.7)	(1325.8)	(1491.2)
Leasehold Improvement						
Cost Balance Beg.	1001.1	1140.7	1282.8	1428.1	1576.3	1727.6
Addition	139.6	142.1	145.2	148.3	151.3	154.6
Cost Balance End.	1140.7	1282.8	1428.1	1576.3	1727.6	1882.2
Acc. Dep. Beg.	(365.7)	(436.2)	(521.7)	(616.9)	(722.0)	(837.2)
Addition	(70.5)	(85.5)	(95.2)	(105.1)	(115.2)	(125.5)
Acc. Dep. End.	(436.2)	(521.7)	(616.9)	(722.0)	(837.2)	(962.7)

**Canadian Tire Corp.
 Depreciation Schedule**

As at million of Canadian dollars	<i>Projected</i>					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Asset Under Finance Lease						
Cost Balance Beg.	256.5	262.8	269.2	275.8	282.5	289.3
Addition	6.3	6.4	6.6	6.7	6.8	7.0
Cost Balance End.	262.8	269.2	275.8	282.5	289.3	296.3
Acc. Dep. Beg.	(157.5)	(168.2)	(186.1)	(204.5)	(223.4)	(242.6)
Addition	(10.7)	(17.9)	(18.4)	(18.8)	(19.3)	(19.8)
Acc. Dep. End.	(168.2)	(186.1)	(204.5)	(223.4)	(242.6)	(262.4)
Construction In Process						
Cost Balance Beg.	224.3	359.4	496.9	637.5	781.0	781.0
Addition	135.1	137.5	140.6	143.5	0.0	0.0
Cost Balance End.	359.4	496.9	637.5	781.0	781.0	781.0
Acc. Dep. Beg.	0.0	0.0	0.0	0.0	0.0	0.0
Addition	0.0	0.0	0.0	0.0	0.0	0.0
Acc. Dep. End.	0.0	0.0	0.0	0.0	0.0	0.0
Total Gross PP&E	6769.8	7276.1	8016.2	8772.1	9396.9	10035.1
Total Accumulated Depreciation	(2791.6)	(3110.1)	(3453.3)	(3821.7)	(4215.8)	(4636.1)
Total Net PP&E	3978.2	4388.7	4790.5	5182.8	5418.2	5641.2
CAPEX For Operating	497.3	506.3	517.4	528.3	392.4	401.1
Other CAPEX	218.8	222.7	227.6	232.4	237.1	242.3
Total CAPEX	716.1	729.0	745.0	760.7	629.5	643.4
Total Depreciation		318.5	343.2	368.4	394.1	420.4

Canadian Tire Corp.**WACC Calculation**

Cost of Equity	
Risk Free Rate	1.43%
Beta	0.78
Market Return	8.20%
Market Risk Premium	6.77%
Cost of Equity (CAPM)	6.71%
<hr/>	
Earnings per Share 2015	8.61
5 yr avg Dividend Payout	22.34%
5 yr avg Annual Dividend	1.54
1Yr Average Share Price	124
Dividend Yield	1.24%
Growth Rate	8.43%
Cost of Equity (DGM)	9.67%
<hr/>	
Cost of Debt	3.38%
Risk Premium	4.00%
Cost of Equity (BYPRP)	7.38%

WACC	
MV of Equity	8,759
Cost of Equity (Average)	7.92%
Weight of Equity	68.84%
BV of Debt	3,965
Tax Rate	2.48%
Weight of Debt	31.16%
WACC	6.23%

Risk free rate is the latest Government of Canada 10yr bond yield

Beta is raw beta from Bloomberg

Market Return from S&P TSX 1 year growth

Market Risk Premium is calculated

Divident payout is the 5 years average of 2011 to 2015

Growth rate is an average of past 8 years growth

Cost of debt based on actual 2015 financial statement

Book value of debt has been used as the company relies on bank borrowing and has no publicly traded debt

Risk Premium assumed 4% based on analytical judgement

Cost of equity is the average of CAPM, DGM, and BYPRP.

Canadian Tire Corp.
Income Tax Schedule for Calculating UFCF

(C\$ Millions)

		<i>Projected</i>				
		2016	2017	2018	2019	2020
Tax Rate	26.5%					
Earnings Before INTEREST and Taxes	A	\$1,098.9	\$1,150.0	\$1,150.8	\$1,152.4	\$1,190.2
Add Back Accounting Depreciation		318.5	343.2	368.4	394.1	420.4
Deduct CCA for Tax Purposes		257.8	266.6	277.3	289.7	303.8
Earnings Before TLCF after CCA		1,159.6	1,226.7	1,241.9	1,256.7	1,306.7
Tax Loss Carry Forward Schedule						
Existing TLCF - Initial Balance		0.0	0.0	0.0	0.0	0.0
Existing TLCF Used		0.0	0.0	0.0	0.0	0.0
Earnings after use of Existing TLCF	0	0.0	0.0	0.0	0.0	0.0
Newly Created TLCF - Beginning		0.0	0.0	0.0	0.0	0.0
Newly Created TLCF Used (Added)		0.0	0.0	0.0	0.0	0.0
Newly Created TLCF - Ending	0	0.0	0.0	0.0	0.0	0.0
Remaining Existing TLCF		0.0	0.0	0.0	0.0	0.0
Total TLCF Available		0.0	0.0	0.0	0.0	0.0
Taxable Income (after CCA and TLCF)	B	\$1,159.6	\$1,226.7	\$1,241.9	\$1,256.7	\$1,306.7
Accounting Taxes (26.5% of A)		291.2	304.8	305.0	305.4	315.4
Taxes as Appearing on Income Statement						
Current Tax (26.5% of B)		307.3	325.1	329.1	333.0	346.3
Increase (Decrease) in Deferred Income Taxes		(16.1)	(20.3)	(24.1)	(27.7)	(30.9)
Total Income Taxes (Same as Accounting Taxes Above)		291.2	304.8	305.0	305.4	315.4
CCA Schedule						
Blended CCA Rate	12.0%					
UCC Beginning	C	1,989.1	2,049.8	2,126.4	2,217.5	2,321.9
Plus: New Capex	D	318.5	343.2	368.4	394.1	420.4
1/2 of New Capex		159.2	171.6	184.2	197.0	210.2
UCC After New Capex (1/2 Year)		2,148.3	2,221.4	2,310.6	2,414.6	2,532.0
Less: CCA Available and Used	E	257.8	266.6	277.3	289.7	303.8
UCC Ending (C + D - E)		1989	\$2,049.8	\$2,126.4	\$2,217.5	\$2,321.9
			\$2,438.4			

Canadian Tire Corp.
DCF Valuation Schedule

(CS Millions, except per share amounts)

WACC		Terminal Value Growth Rate			
		1.80%	1.90%	2.00%	2.10%
6.2%	PV of Cash Flows	1,371	1,371	1,371	1,371
	PV of Terminal Year	11,491	11,757	12,035	12,326
	Enterprise Value	\$12,862	\$13,128	\$13,406	\$13,698
	Less Net Debt (12/31/16)	2,971	2,971	2,971	2,971
	Equity Value	\$9,891	\$10,156	\$10,435	\$10,726
	Shares O/S (MM) - (12/31/16)	77	77	77	77
	Equity Value per Share	\$167.95	\$171.42	\$175.05	\$178.86
6.5%	PV of Cash Flows	1,361	1,361	1,361	1,361
	PV of Terminal Year	10,762	10,997	11,243	11,500
	Enterprise Value	\$12,124	\$12,359	\$12,605	\$12,861
	Less Net Debt (12/31/16)	2,971	2,971	2,971	2,971
	Equity Value	\$9,152	\$9,387	\$9,633	\$9,890
	Shares O/S (MM) - (12/31/16)	77	77	77	77
	Equity Value per Share	\$158.31	\$161.38	\$164.59	\$167.94
6.7%	PV of Cash Flows	1,352	1,352	1,352	1,352
	PV of Terminal Year	10,109	10,318	10,537	10,764
	Enterprise Value	\$11,461	\$11,670	\$11,888	\$12,116
	Less Net Debt (12/31/16)	2,971	2,971	2,971	2,971
	Equity Value	\$8,489	\$8,699	\$8,917	\$9,145
	Shares O/S (MM) - (12/31/16)	77	77	77	77
	Equity Value per Share	\$149.65	\$152.39	\$155.24	\$158.21
7.0%	PV of Cash Flows	1,342	1,342	1,342	1,342
	PV of Terminal Year	9,520	9,708	9,903	10,106
	Enterprise Value	\$10,862	\$11,050	\$11,245	\$11,448
	Less Net Debt (12/31/16)	2,971	2,971	2,971	2,971
	Equity Value	\$7,891	\$8,078	\$8,273	\$8,476
	Shares O/S (MM) - (12/31/16)	77	77	77	77
	Equity Value per Share	\$141.84	\$144.29	\$146.83	\$149.48

Canadian Tire Corp.
DDM Valuation Schedule

(C\$ Millions, except per share amounts)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Term</u>
ROE	13.20%	12.39%	11.97%	11.00%	10.19%	9.82%	9.82%
Ke	7.92%	7.92%	7.92%	7.92%	7.92%	7.92%	7.92%
Growth Rate	8.43%	8.67%	8.38%	7.70%	7.13%	6.88%	6.25%
DPS		2.27	2.46	2.45	2.45	2.55	2.72

Target Price			
Weight	Method	Estimated Price	Target Price
10%	DDM Single Stage	\$ 182.87	\$150
10%	DDM 2 -stages	\$ 121.04	
50%	DCF	\$ 158.49	
30%	Forward P/E	\$ 135.43	

Disclosures

About Queen's MFin Portfolio Management Group

Queen's Master of Finance Portfolio Management Group (PMG) seeks to invest a portion of the Queen's endowment. We aim to reinvest our investment proceeds to benefit the Queen's MFin program and PMG. Furthermore, a large part of the program is relevant to investment management and we believe PMG offers an excellent platform for transition to real-life application.

The purpose of our fund is to not only bridge the gap between the classroom and practical application, but we also seek to cultivate investment intuition and entrepreneurial instincts in our members while refining leadership and collaboration skills as well. The fund is directed by students and recent graduates in its entirety.

While our long-term investments follow a value-oriented selection process, we may also employ a macro-tactical framework to capitalize on short-term opportunities. Our Annual Investment Outlook helps provide direction for the latter approach, whereas the former is driven partly via fundamental analysis, sector-specific focus and the Annual Investment Outlook.

Queen's MFin Portfolio Management Group Disclaimer

Queen's MFin PMG is an independent investment research student-run organization. Queen's MFin PMG is not a registered broker dealer and does not have investment banking operations. This report is not an offer to sell or a solicitation of an offer to buy any security. Nothing in this report constitutes individual investment, legal or tax advice. Queen's MFin PMG shall accept no liability for any loss arising from the use of this report, nor shall Queen's MFin PMG treat all recipients of this report as customers simply by virtue of their receipt of this material. Investments involve risk and an investor may incur either profits or losses. Past performance should not be taken as an indication or guarantee of future performance. Queen's MFin PMG executives, analysts, and/or members may from time to time have long or short positions in, act as principal in, and buy or sell, the securities or derivatives, if any, referred to in this research. The information contained in this research report is produced and copyrighted by Queen's MFin PMG. No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of Queen's MFin PMG.