CFA Institute Research Challenge

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Retail Sector, Consumer Discretionary Industry
Toronto Stock Exchange ("TSX")

Canadian Tire Corporation

Date: 04-Dec-2015
Ticker: TSX:CTC.A

Closing Price: $129.00
C$1.00:US$0.75

Recommendation: Buy (16.5% Total Return)
Target Price: $148.00 (US$111.00)

Figure 1: Summary of Market, Financial, and Valuation Data

Market Data	Common	Class A
Closing Price	$200.00	$129.00
Avg. Daily Vol.	449	305,914
Shares O/S	3,423,366	71,530,598
Market Cap. ($ mm)		$9,912
P / E (LTM)		15.8x
Enterprise Value ($ mm)		$16,278
EV / EBITDA (LTM)		11.0x

Financial Data	2010	2011	2012	2013	2014
Rev. Growth	6.1%	12.7%	10.0%	3.1%	5.7%
Gross Margin	30.3%	29.5%	30.6%	31.6%	32.5%
EBITDA Margin	10.8%	10.2%	10.0%	10.5%	10.8%
EPS	$5.42	$5.71	$6.10	$6.91	$7.59
ROE	11.6%	11.1%	10.9%	11.4%	12.8%
ROA	4.0%	4.0%	3.9%	4.2%	4.5%
Interest Coverage	4.3x	4.9x	5.6x	4.7x	5.3x
Debt / Equity	1.37	1.31	1.31	1.11	1.19

Valuation Results

Valuation Date: **December 31, 2015**

Component	Methodology	Value / Share
Retail	DCF	$75.00
CTFS	Trading Multiple	$30.00
CT REIT	Acq. Multiple	$29.00
Cash & Cash Equiv.		$7.00
Implied Share Price		**$141.00**
CTC Cost of Equity		5.1%
12-Month Target Price		**$148.00**
Annual Dividend		$2.30
Total Return		***16.5%***

Note: Enterprise Value includes pension obligations of $137.5mm. Average daily volume is calculated from 04-Nov-2015 to 04-Dec-2015.
Source: Company filings, S&P Capital IQ, Bloomberg

Executive Summary

Canadian Tire Corporation, Limited ("CTC" or the "Company") is a Canadian retailer, real estate owner-operator, and financial services provider. These three businesses form CTC's reportable operating segments: Retail, CT Real Estate Investment Trust ("CT REIT"), and Financial Services ("CTFS").

Investment Recommendation

We issue a **Buy** recommendation on CTC with a 12-month target price of $148.00 / Class A non-voting share with a projected total return of 16.5% from its December 4, 2015 closing price of $129.00. Our target price is calculated by (1) using a Sum-of-the-Parts approach to arrive at an implied share price valuation for the Class A non-voting shares, and (2) forecasting the 12-month target price by CTC's cost of equity. Our recommendation is driven by our:

Investment Thesis and Outline

Backed by a stable industry outlook, CTC is well positioned for growth and further market penetration of the Canadian retail sector. The combined result of the Sum-of-the-Parts valuation and current market view of CTC's dual share class structure suggests that the Class A non-voting shares are presently undervalued. The undervaluation of the Class A non-voting shares represents an opportunity to invest in highly complementary businesses in the Canadian retail sector. After determining CTC's exposure and mitigants to investment risks and evaluating the corresponding impacts on valuation, we arrived at a **Buy** recommendation.

- **Stable Industry Outlook**, based on an analysis of the drivers in the retail sector, including housing starts, the unemployment rate, and household disposable income in Canada.
- **Competitive Positioning of CTC's Retail Banners** as leading businesses in their respective subsectors, determined through analyses of the store ownership model; brand; product pricing and selection; and penetration of the Canadian market through its 1,690-store footprint.
- **Complementary Businesses** in the Canadian retail sector, built on the relationships between (1) CTC's retail loyalty program and credit card portfolio, and (2) CTC's retail brand equity and the value of the underlying real estate portfolio. The success of CTC's retail platform drives:
    - Customer loyalty, which CTC capitalizes on through its MasterCard credit cards by offering savings through its loyalty program and direct price reductions.
    - Retail store sales, which improves the value of the underlying real estate portfolio as a result of lower risk tenant profiles (i.e. through better financial performance) and higher rent payments.
- **Sum-of-the-Parts Valuation**, using the Discounted Free Cash Flow to Firm ("DCF"), Trading Multiples, and Acquisition Multiple methodologies to value Retail, CT REIT, and CTFS, respectively.
- **Current Undervaluation of Class A Non-voting Shares**, based on the results of the Sum-of-the-Parts valuation and the high discount to the common shares relative to its historical trading performance, which we believe is temporary and unwarranted.
- **Investment Risks**, including business and operational, market, and other risks that were (1) assessed for impact and likelihood and subsequently ranked in a risk matrix, and (2) modelled through a Monte Carlo simulation.
- The results of the Monte Carlo simulation show: 69% of the simulations support a buy recommendation, 16% support a hold recommendation, and 15% support a sell recommendation.

Figure 2: Historical Share Price Chart

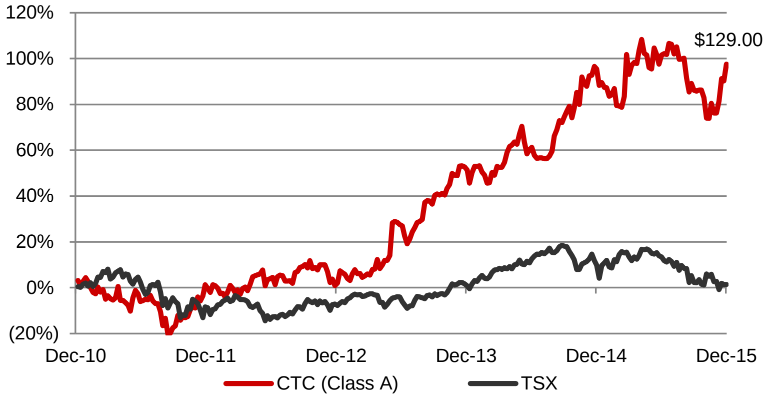
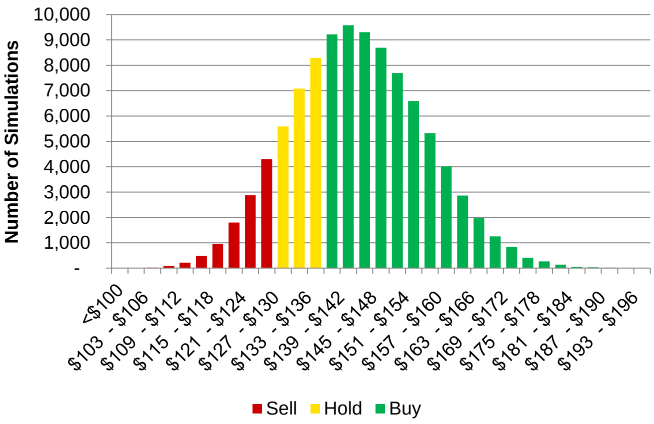
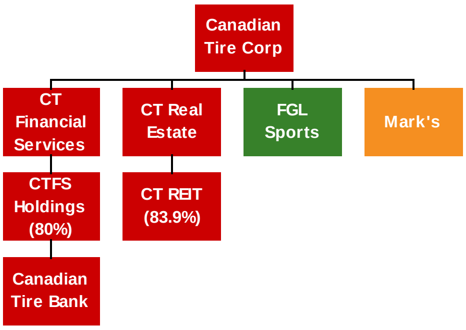


Figure 3: Monte Carlo Simulation (12-Month Target Price)



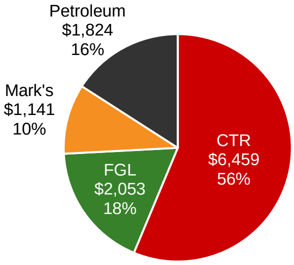
Market and financial data in C$, unless otherwise noted.

Figure 4: CTC Corporate Structure



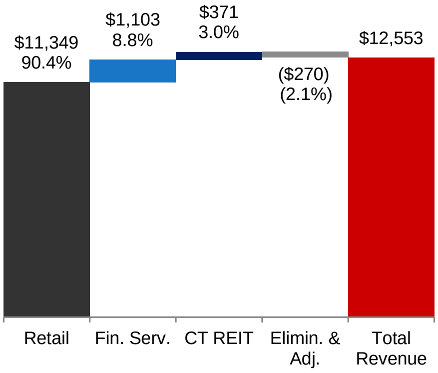
Note: Ownership of subsidiaries is 100%, unless otherwise noted.
Source: Company filings

Figure 5: LTM (Q3'15) Retail Segment Revenue ($ in millions)



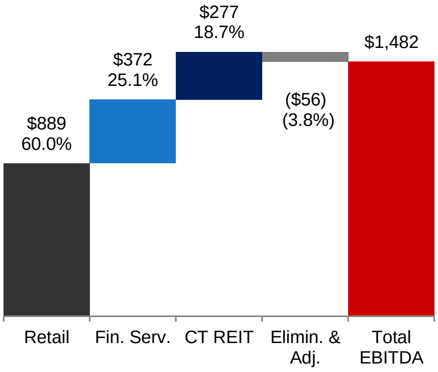
Note: Excludes Inter-segment revenue within retail banners of $128mm on an LTM basis.
Source: Company filings

Figure 6: LTM (Q3'15) Consolidated Revenue Breakdown ($ in millions)



Source: Company filings

Figure 7: LTM (Q3'15) Consolidated EBITDA Breakdown ($ in millions)



Note: EBITDA excludes change in FV of redeemable financial instrument and FV adjustments on investment properties.
Source: Company filings

Business Description

CTC was founded in 1922 and is a Canadian retailer, real estate owner-operator, and financial services provider (Figure 4). These three businesses form CTC's reportable operating segments: Retail, CT Real Estate Investment Trust ("CT REIT"), and Financial Services ("CTFS"). CTC's retail banners total 1,690 brick and mortar stores across Canada[i].

Canadian Tire ("CTR")

CTR is CTC's flagship line of business, with 495 locations nationwide. CTR offers products in the following categories: apparel, automotive, home, kitchen, outdoor living, sports & recreation, tires & wheels, and tools & hardware. CTR has earned a unique position in the Canadian retail landscape by creating a brand that has become ubiquitous for "life in Canada". Famous Canadian astronaut, Chris Hadfield, released an "ode to Canadian Tire" on YouTube in 2013[ii], claiming that "[CTR is] the common denominator that makes Canadians a unified bunch". CTR is the largest retail banner of CTC's Retail division by revenue (Figure 5) and store count. In comparison to its public competitors in the general, home improvement, and home furnishing retail subsectors, CTR follows a unique retail strategy through its 100% associate dealer structure. Management claims that this structure brings local expertise to its widespread national network.

PartSource

CTC also operates PartSource, a corporate-owned automotive parts store with 91 locations nationwide, targeting "do it yourself" consumers and businesses that require wider offerings than CTR. PartSource is consolidated under the CTR banner for financial reporting purposes.

Mark's

Mark's is a wholly-owned casual and industrial apparel retailer with 379 stores across Canada. Acquired by CTC in 2002, it is one of the largest retailers in Canada for work, safety, and industrial apparel and footwear[iii]. Management is currently executing a renewal of the Mark's store network as part of its growth plan – the renewal includes the rebranding of Mark's (formerly known as Mark's Work Wearhouse) and providing customers with a better experience by widening store aisles, cleaning sightlines, brightening interiors, and increasing private-label and national brand offerings of casual apparel and footwear. The renewal plan also includes increased marketing to help build its image as a casual retailer, while reinforcing its heritage and specialty in workwear, in order to grow its customer base[iv].

FGL Sports ("FGL")

FGL is a wholly-owned sporting goods retailer that operates 428 stores nationwide, comprised of 246 corporate-owned locations and 182 franchise locations. Acquired by CTC in 2011, FGL offers a broad selection of private-label and brand-name products through the following banners: Sport Chek, Sports Experts, National Sports, Atmosphere, Pro Hockey Life, Nevada Bob's Golf, S3 ("Snow, Skate, Surf"), and Intersport. FGL is CTC's fastest growing retail banner, posting year-over-year revenue growth of 6.9%, 15.0%, and 11.5% in 2013, 2014, and YTD 2015 Q3, respectively. Revenue growth at FGL is largely attributed to same store sales growth ("SSSG"), which has been consistently positive since being acquired (17/17 fiscal quarters from Q3'11 – Q3'15).

Petroleum

Petroleum, commonly known by consumers as Gas+, is a chain of gas retailers that accounts for 2.5% of the market share in Canada by number of locations[v]. Petroleum operates 297 gas stations, 293 of which contain convenience stores. CTC has strategically placed stations in the same complex as CTR stores – ideally, a consumer would shop at Canadian Tire and fill up their tank at Gas+ on their way out of the parking lot. Gas+ is also the exclusive gas retailer of the ONroute network, which consists of 23 state-of-the-art service centres that have become the "go-to" (because of the monopoly for highway access) rest, food, and gas refill stops for Canadians on Highway 401 and Highway 400, Ontario's longest highways.

CT REIT

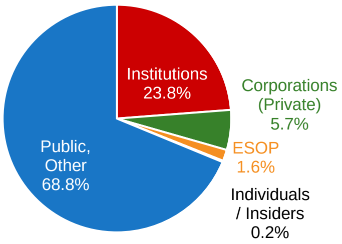
CT REIT was launched by CTC in October 2013 as a publicly traded entity. CTC owns an 83.9% effective interest in CT REIT[vi]. CT REIT was established to own and operate Canadian retail investment properties to generate reliable, durable, and growing monthly distributions on a tax-efficient basis. CT REIT's portfolio consists of 279 retail locations, 2 distribution centres, 1 mixed-use commercial property, and 4 development properties. CTC is the principal tenant – as at Q3 FY2015, CTC represented 96.5% of the CT REIT's annualized base minimum rent and 98.0% of total operating gross leasable area, with CTR stores accounting for 87.1% of the occupied gross leasable area[vii].

CTFS

CTC owns 80% of CTFS, which includes Canadian Tire Bank, a financial institution that issues, manages, and finances the company's credit card portfolio that is federally regulated by OSFI. In 2014, CTC sold a 20% interest to Scotiabank for $500mm in cash. CTFS issues MasterCard credit cards that offer points in CTR's loyalty program and direct savings (of up to 10¢ / litre) at Petroleum. As a result, the credit card portfolio's membership base generally grows as the CTR and Petroleum retail networks expand and customer loyalty increases. CTFS sells co-ownership interests in the credit card receivables to Glacier Credit Card Trust, a special purpose entity that issues debt to third party investors, and is consolidated in the financial statements for accounting purposes[viii]. Despite representing only 8.8% of consolidated revenues in LTM Q3'15, CTFS generated 25.1% of consolidated EBITDA over the same period (Figures 6 and 7)[ix].

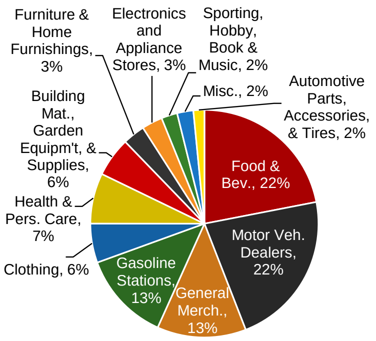
Market and financial data in C$, unless otherwise noted.

Figure 8: Ownership Summary of Class A Non-voting Shares



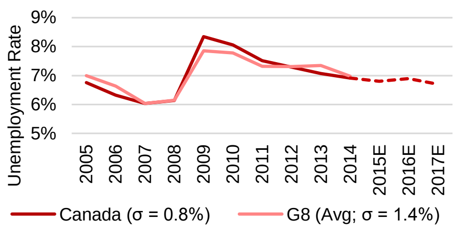
Source: S&P Capital IQ

Figure 9: 2014 Canadian Retail Industry Sales



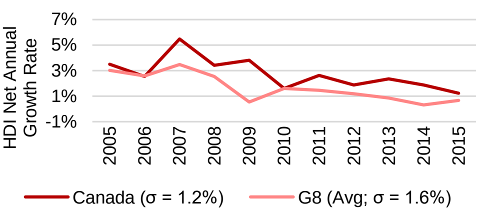
Note: Retail industry classifications are according to the NAICS.
Source: Statistics Canada (Table 080-0020)

Figure 10: Unemployment Rates from 2005 – 2017 (unadjusted)



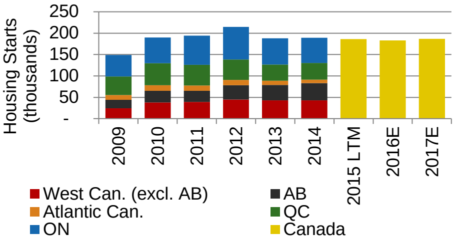
Source: Statistics Canada, Bloomberg, OECD

Figure 11: HDI Growth from 2005 – 2015



Source: Statistics Canada, OECD

Figure 12: Housing Starts from 2009 – 2017



Source: Statistics Canada, Bloomberg

Shareholder Base

CTC has a dual class share structure with common shares and Class A non-voting shares, both listed on the Toronto Stock Exchange.

- Class A and common shareholders have equal dividend rights and claims to assets[iv].
- Class A shareholders are entitled to elect the greater of (1) three directors, and (2) one-fifth of the total number of board directors (currently, the board consists of 16 directors).
- Common shareholders are entitled to elect the remaining board members.

For Class A non-voting shares, the top 10 institutional shareholders own 15.9% of the total shares outstanding (Appendix B1). With respect to the common shares, 40.9% of all common shares are held by Martha Billes (daughter of co-founder Alfred Billes), 20.5% by Owen Billes (son of Martha Billes), 12.2% by CTC's Deferred Profit Sharing Plan[x], and 20.6% by the CTC Dealers. Martha and Owen Billes are both on the board of directors. Owen Billes is also a CTR dealer.

Management's Shareholder Value Generating Initiatives

CTC's executive management team consists of 13 professionals with an average tenure of 10+ years at the company – members of the management team played roles in navigating the business through the 2008 financial crisis, integrating the acquisition of FGL, and supporting the spin-off of CT REIT. CTC management has demonstrated their commitment to generating shareholder value, through:

- **Transformative acquisition of FGL**, directly expanding its retail footprint into the sporting goods and apparel market through well-recognized brands, including the realization of ~$30mm of cost synergies[xi]. Prior to the acquisition, FGL yielded $1.4bn in sales for the LTM period ending May 1, 2011; as of Q3'15, LTM sales were $2.1bn, representing a CAGR of 8.2%.
- **Unlocking the value of real estate assets for shareholders via the spin-off of CT REIT**, allowing management to (1) retain control over its real estate properties while increasing financial reporting transparency, (2) gain access to financing flexibility through the creation of a separate entity (refer to Appendix A6 which illustrates the difference in the weighted average cost of debt for CT REIT at 3.2% versus 6.0% for the Retail division), and (3) realize multiple expansion[xii].
- **Strategic partnership with Scotiabank**, to share and reduce the balance sheet and funding risks (primarily through a credit card funding facility whereby Scotiabank will provide CTFS with credit card receivable financing of up to $2.25bn), and to allow management to better focus on managing customer relationships[xiii].
- **Earnings CAGR of 8.0% from 2010 – 2014**, contributing to the total shareholder return CAGR of 17.5%, over the same period (refer to Appendix B2 and B3 for additional details regarding management's dividend and share buyback policies).

Industry Overview and Competitive Positioning

Industry Overview

CTC operates in numerous retail subsectors through the following banners:

- **CTR** – automotive parts, accessories and tires; furniture and home furnishings; building material, garden equipment, and supplies; sporting goods, and general merchandise (collectively referred to as "diversified merchandise").
- **Mark's** – clothing and clothing accessories, work and casual footwear.
- **FGL** – sporting goods, apparel and equipment, equipment maintenance, athletic footwear.
- **Petroleum** – gasoline and convenience.

Based on sales, the aforementioned banners collectively comprise 43% of the Canadian retail industry (Figure 9). Given the complementarity of CTFS and CT REIT with respect to the Retail division, the industry overview focuses on the Canadian retail sector.

Demand Drivers

The retail industry in Canada has grown at a 4.0% CAGR (from 2009 – 2014; Appendix C1), largely due to a strong economic backdrop. The evolution of economic data over the past 6-10 years shows the recovery of the Canadian retail industry from lows in the 2008 financial crisis. With unemployment rates expected to continue to decline (Figure 10), above average growth rates of household income versus G8 countries (Figure 11), and stable new housing starts forecasted until 2017 (Figure 12), the Canadian economy is conducive for additional retail industry growth over the next few years.

Unemployment Rate Stable Nationally, Expected to Decline

Consumer spending is directly impacted by employment levels. There is a strong relationship between the amount of disposable income and the unemployment rate (correlation of -0.57 based on quarterly data from Q1'09 – Q1'15; Appendix C2). Historically, Canada's unemployment remains in-line with the average of the G8 countries and is less volatile, reflected by a lower standard deviation, than that of the G8 countries (Figure 10), with the exception of Japan. In the retail sales sector, an unemployment rate with low volatility contributes to stable consumer spending (Appendix C2). The unemployment rate in Canada is expected to gradually decline to 6.7% by 2017[xiv] – for CTC, this is a positive economic forecast for continued growth in retail consumer spending.

Growth in Canadian Household Disposable Income Exceeds G8 Countries

Household disposable income is important in assessing consumer spending as it reflects the amount consumers have available for spending on goods and merchandise. Since 2005, the annual growth rate in Canadian household disposable income has consistently been (1) greater than the average of the G8 countries, with averages over the same time period for Canada being 2.8% versus 1.7% for the G8 average, and (2) more stable, reflected by the standard deviations of 1.2% and 1.6%, respectively (Figure 11)[xv]. The Canadian economic environment is among the best of developed nations to support retail sales growth, due to higher growth and stability in consumers' ability to purchase goods and services.

Figure 13: Non-Traditional Running Events' Facebook Likes

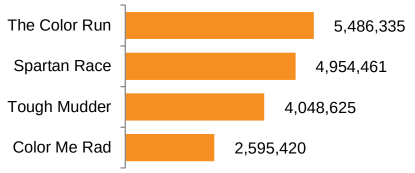
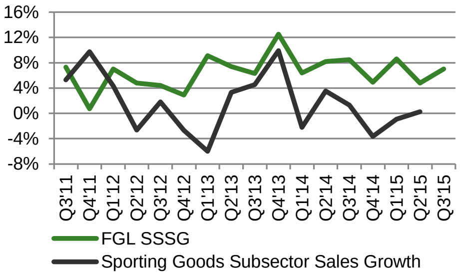
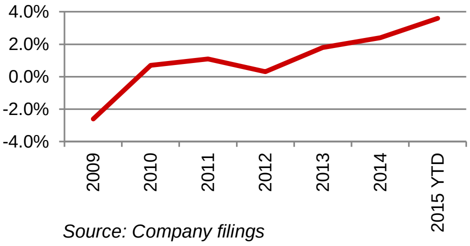


Figure 14: Canadian Sporting Goods Subsector Sales Growth



Source: Company filings, Statistics Canada (Table 080-0022)

Figure 15: CTR Annual Same Store Sales Growth



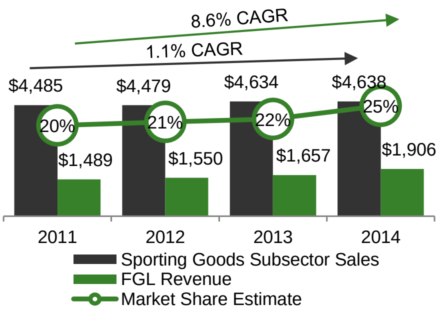
Source: Company filings

Figure 16: Employment in Canada (by industry, 2014)

	All	Male
Goods-producing sector	**3,897.1**	**3,076.6**
Manufacturing	1,711.0	1,247.9
Construction	1,371.5	1,208.1
Forestry, fishing, mining, quarrying,	372.6	301.0
Utilities	136.9	104.1
Agriculture	305.1	215.5
Services-producing sector	**13,905.1**	**6,251.4**
Trade	2,729.3	1,413.4
Transportation & warehousing	896.8	682.2
Health care & social assistance	2,219.7	391.7
Professional, scientific & technical serv.	1,333.3	758.0
Educational serv.	1,236.9	390.2
Accommodation & food serv.	1,207.5	486.3
Finance, insurance, real estate &	1,083.8	487.3
Other services	3,197.8	1,642.2
All industries	**17,802.2**	**9,328.0**

Source: Statistics Canada (Table 282-0008)

Figure 17: FGL Market Share Estimate ($ in millions)



Note: Sporting goods subsector sales are based on Statistics Canada's retail commodity survey. Market share estimate assumes industry market sales growth at the same growth rate of the sporting good sales retail commodity survey.
Source: Statistics Canada (Table 080-0022)

Strong Recovery in Housing Starts from the Financial Crisis, Stable Going Forward

Housing starts are a commonly used indicator of consumer spending, as consumers buying new homes tend to concurrently spend in other consumer categories, such as furniture and home furnishings, lawn and garden supplies, and general merchandise (Appendix C3) – retail categories in which CTC directly competes. Housing starts in Canada have shown signs of recovery from the drop experienced during the financial crisis, and are expected remain at current levels through 2017 (Figure 12).

Spotlight on the Sporting Goods Retailing Industry

The Canadian sporting goods industry has experienced low growth relative to the broader retail sales industry, with CAGRs of 2.3% and 4.0% from 2009 – 2014, respectively (Appendix C1). We expect the sporting goods industry to grow at a quicker rate over the next five years due to consumer trends shifting to more health-conscious activities and lifestyle decisions. We have seen evidence of these consumer trends through the increasing popularity of fitness events and competitions, such as Tough Mudder, Color Me Rad, Spartan Race, and The Color Run (Figure 13), as well as the growth of Canadian gym, health, and fitness chains at a CAGR of 3.4% from 2010 – 2015[xvi]. This focus of Canadian consumers towards fitness, health, and wellness is expected to drive future sales of sporting goods and apparel.

Competitive Positioning

CTR

- **CTR's "Associate Dealer" structure is unique in the retail subsectors in which it competes and capitalizes on the knowledge of local entrepreneurs:** CTR stores are operated by independent third parties, referred to as Associate Dealers ("dealers"), under a contractual relationship. Dealers own the store fixtures, equipment, and inventory, are responsible for the store staff and operating expenses, and earn profits after licensing fees. The use of dealers creates a "pull" system of inventory management and distribution (Appendix C4), whereby inventory stocking decisions are submitted by the individual dealer. This 100% dealer structure differentiates CTR from corporate store ownership structures (used by major U.S. headquartered competitors, such as Walmart, Home Depot, and Lowes) by: (1) aligning the economic interests of CTC and dealers to drive sales volume at the store-level since dealers' earnings are dependent on store performance, and (2) capitalizing on the operator's entrepreneurial spirit and understanding of local trends. The dealer contract was renewed in April 2013 (with expiry set in December 2024, other terms undisclosed), and appears to have the intended effect of streamlining processes and building stronger dealer-management relations (based on an interview with the President of the Canadian Tire Dealer Association[xvii]) – we believe this contributed to a period of historically high and increasing SSSG at CTR, rising from SSSG of 0.3% in 2012 to 3.6% for YTD Q3 2015 (Figure 15).
- **CTR offers among the lowest prices and a "price match" guarantee:** We performed a pricing analysis based on a basket of goods across multiple departments to determine the prices of CTR's product offering relative to other Canadian retailers. Our findings suggest that CTR's prices are among the lowest offered, ranking second out of five brick and mortar competitors (third out of six including Amazon; Appendix C7). To remain competitive, CTR provides a price match guarantee and offers consumers an additional 10% off any matched price through its loyalty program.
- **Through its 495 stores, CTR is more accessible to consumers than most competitors, including RONA, Walmart, Home Depot, and Lowe's:** ~90% of Canadians live within 15 minutes of a CTR location (corroborated in Appendix C10)[iv]. Through a web-scraping analysis, we were able to estimate the comparable percentage of Canadians within a 15-minute driving distance from major retail competitors. Based on our research and analysis, CTC's footprint is unmatched by RONA (484 locations, reaching 84% of Canadians)[xviii], Walmart (397 stores, reaching 75% of Canadians)[xix], Home Depot (182 stores, reaching 56% of Canadians)[xx], and Lowe's (42 stores, reaching 15% of Canadians, with plans to open an additional 12 stores)[xxi].

Mark's

- **Mark's unique focus on workwear apparel and footwear attracts consumers through its mix of nationally recognized brand and private label products:** In 2014, the goods-producing, trade services, and transportation & warehousing sectors accounted for 42.3% of the total employment in Canada (males in these sectors accounted for 29.1% of the total employment in Canada; (Figure 16)[xxii]. Mark's provides the functional (including fire resistant, all-weather, anti-slip, dri-wear gear), durable, and quality workwear for "everyday work and everyday living"[xxiii]. Management believes "Mark's has the highest market share in industrial apparel and footwear and is a leader in men's casual apparel in the Canadian retail marketplace"[xxiv]. Its selection of workwear offerings is a differentiator within the Canadian retail landscape from department stores, mass merchants, and other apparel retailers.

FGL Sports

- **FGL is the largest sporting goods retailer in Canada, with a leading market share that reflects its strong brand equity and national retail footprint[iii]:** Upon acquisition in 2011, FGL had an estimated Canadian sporting goods market share of 20%[xxv]. We estimate that FGL has since grown its market share to 25% (Figure 17). FGL's revenue CAGR was 10.9% (from 2012 – 2014), in spite of 59 net store closures from 495 to 436 total stores. Since acquisition, CTC has consolidated the FGL family of banners to focus on driving brand equity at Sport Chek, its big-box, diversified sporting goods retailer (Appendix B9). While store locations under the FGL umbrella have either declined or remained stagnant since 2011, Sport Chek stores have become even more ubiquitous – the number of Sport Chek stores has grown from 150 to 188 while the total number of FGL stores has declined from 534 to 428 from Q4'11 – Q3'15. Sport Chek

Market and financial data in C$, unless otherwise noted.

complements the sporting goods offerings of CTR with minimal product overlap, as CTR targets the recreational, middle income demographic versus Sport Chek's target of competitive, higher income consumers[xxv]. Sport Chek represents the "go-to" sporting goods retailer in Canada, with the widest selection of products in the FGL family of brands[xxvi]; FGL also owns a number of niche / specialty sports banners, such as Nevada Bob's Golf, Pro Hockey Life, S3 ("Snow, Skate and Surf"), and Intersport, which cater to the more competitive athletic demographic.

- **FGL offers among the largest selection of sporting goods products at competitive prices:** We performed a pricing and selection analysis based on a basket of goods for Sport Chek. Our findings identify Sport Chek as the leading brick and mortar retailer for selection (out of five competitors) and second in terms of pricing (Appendix C8). Sport Chek's product selection is as a result of (1) its mix of national and private label brands, and (2) greater coverage of sports[xxvi]. Like CTR, Sport Chek also commits to a price match guarantee. We view FGL (through Sport Chek) as a leading retailer in this sector, due to its competitive pricing and leading selection of products.
- **FGL's new in-store digital store model to invigorate brick and mortar shopping experiences:** FGL has defended against e-commerce rivals by transforming its in-store shopping experience**.** In 2014, FGL opened a flagship digital Sport Chek location at the West Edmonton Mall, which boasts 800 television screens strategically placed throughout the 77,000 sq ft floor space. The all-encompassing shopping experience these new stores provide is expected to inspire consumers to step away from their computer screens and into Sport Chek stores instead[xxvii]. Sport Chek`s West Edmonton Mall location offers a golf zone (Figure 18) that allows consumers to sample equipment and goods before purchasing, something that online shoppers would not experience.

Financial Snapshot of Canadian Equities in the Retail Sector

- **CTC has the second highest EBITDA margin of its Canadian publicly traded retail peers; however, we recognize the limitations of this analysis:** We compared the financial performance of Canadian equities with enterprise values greater than $1bn that operate in the retail sector (Appendix C13). Our findings show that CTC's EBITDA margin was the second highest, behind Dollarama, on an LTM Q3'15 basis, while ranking second lowest in gross margin. CTC ranked highest of non-food retail competitors for inventory turnover over the same period. We note that this relative comparison is flawed due to the lack of comparable publicly traded Canadian retail companies – of the peer set, no other equities operate in the general merchandise or sporting goods retail subsectors. The differences in retail subsector has a significant impact on gross margins, and thus EBITDA margins, as well as inventory turnover (e.g. perishability of food led to the exclusion of food retailers in the aforementioned ranking). The lack of comparable Canadian retail equities was a key consideration in determining our valuation approach.

Investment Summary

We issue a **Buy** recommendation on CTC with a 12-month target price of $148.00 / Class A non-voting share. Combined with an annual dividend forecasted at $2.30 / Class A non-voting share, this represents a total return of 16.5% from its closing price of $129.00 on December 4th, 2015. We derived our target price using a Sum-of-the-Parts approach, employing the following methodologies: Discounted Cash Flow to Firm, Trading Multiples, and Acquisition Multiple.

Investment Drivers

Retail Division Offers Exposure to Attractive Canadian Retail Subsectors

CTC offers retail exposure in retail subsectors that are either (1) among the fastest growing, or (2) among the highest in gross margin.

- Based on the five-year historical sales CAGRs, Petroleum, PartSource, CTR, and Mark's operate in four of the top five fastest growing retail subsectors (Appendix C1).
- Using Statistics Canada's estimates for industry gross margins of chain stores, Mark's, CTR, and FGL operate in four of the top five highest gross margin retail subsectors (Figure 19).

FGL's Market Leadership in the Fragmented Canadian Sporting Goods Industry

In 2011, CTC acquired FGL Sports to capture an additional 20% of the Canadian sporting goods market share[xxv]. Our research and analysis demonstrates potential to further grow market share for FGL:

- Organically, through continued SSSG driven by (1) investments in its digital business, (2) consolidation of banners and expansion of Sport Chek, focusing its marketing and branding efforts, (3) ability to steal market share and outlast competitors. ~980 or ~31% of sporting goods stores earning between $30,000 and $5 million in revenue were unprofitable in 2013 (the latest available data)[xxviii].
- Through acquisitions, such as the purchase of Pro Hockey Life in August 2013, which extended its physical presence through 23 high-end hockey stores across five provinces.

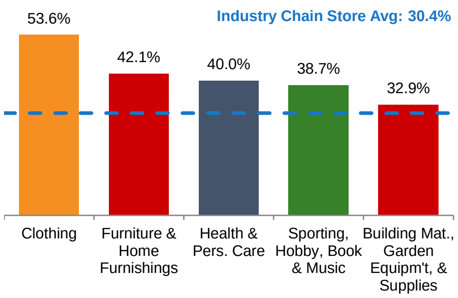
Iconic Canadian Brand

CTC has shown commitment to the Canadian consumer landscape by growing its retail store network to 1,690 stores, and by developing strong traditional & social media presences (Figure 21) amongst Canadians, largely through "Canadian"-focused marketing campaigns (Appendix B7). CTC's scale advantage and distribution strength sets it apart from smaller, regional competitors while CTC's iconic Canadian brand sets it apart from competitors of similar scale (which are primarily based in the United States, such as Walmart, Costco, Home Depot, and Lowe's). A testament to the CTR brand is the fact that "more than 80% of the population shops at Canadian Tire stores every year"[xxix]. Through CTC's athletic partnerships with Hockey Canada, the Canadian Olympic Committee, Skate Canada, Alpine Canada, and the Montreal Canadiens, Toronto Maple Leafs, and Ottawa Senators franchises, CTC has aligned itself with the Canadian fitness and sports culture.

Figure 18: Sport Chek Digital Golf Zone

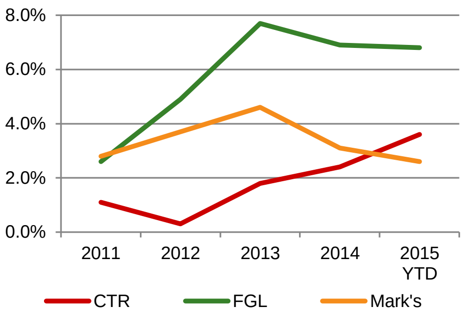
Source: Edmonton Journal

Figure 19: Top 5 Industry Gross Margins (Chain Stores) by NAICS



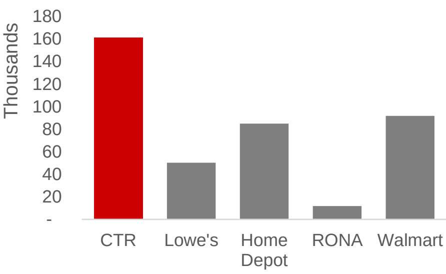
Note: Excludes the "Miscellaneous" subsector and based off the latest available data (2012). Source: Statistics Canada (CANSIM 080-0023)

Figure 20: Retail Division SSSG by Banner



Source: Company filings

Figure 21: Twitter Follower Base



Source: Twitter (as at 18-Nov-2015)

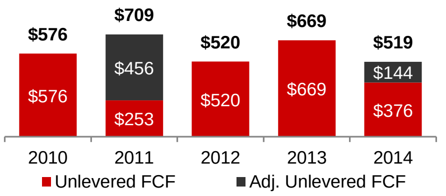
Market and financial data in C$, unless otherwise noted.

Figure 22: Store Mix by Banner

	2010	2011	2012	2013	2014	Q3 2015
Store Count at Period End						
CTR	**485**	**488**	**490**	**491**	**493**	**495**
Dealer %	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*
Mark's	**383**	**385**	**386**	**385**	**383**	**379**
Corporate %	*89%*	*89%*	*90%*	*90%*	*91%*	*93%*
Franchise %	*11%*	*11%*	*10%*	*10%*	*9%*	*7%*
FGL	**n.a.**	**534**	**495**	**421**	**436**	**428**
Corporate %	*n.a.*	*60%*	*57%*	*56%*	*56%*	*57%*
Franchise %	*n.a.*	*40%*	*43%*	*44%*	*44%*	*43%*
PartSource	**87**	**87**	**87**	**90**	**91**	**91**
Corporate %	*70%*	*71%*	*72%*	*100%*	*100%*	*100%*
Franchise %	*23%*	*22%*	*22%*	*0%*	*0%*	*0%*
Petroleum	**287**	**289**	**299**	**300**	**297**	**297**
Agent %	*100%*	*100%*	*100%*	*100%*	*100%*	*100%*

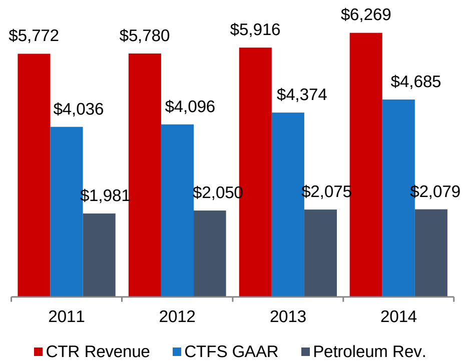
Note: CTR dealers and Petroleum agents pay licensing fees.
Source: Company filings

Figure 23: Unlevered Free Cash Flow Profile ($ in millions)



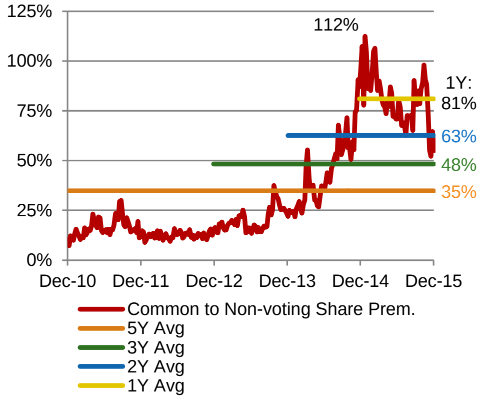
Note: Adjustments include: (1) 2011 inventory adjustment due to the material increase in inventory associated from the transformative acquisition of FGL; (2) 2014 inventory adjustment of $142.8mm due to early purchase opportunities and increases related to rebranding. Both of which are viewed as one-time items.
Source: Company filings

Figure 24: Relationship Between CTR Revenue and CTFS GAAR ($ in millions)



Source: Company filings

Figure 25: Premium of Common Shares to Class A Non-voting Shares



Source: S&P Capital IQ

Strategic Mix of Franchise & Corporate Stores

The ownership structure of the Retail division plays a critical role within the company's business model (Figure 22). As previously described, we view CTR's dealer structure as an important differentiating position in the Canadian diversified merchandise landscape. FGL operates under a mixed franchise and corporate store ownership structure. FGL relied on a franchise framework to expand into Quebec (FGL originated in Western Canada), taking advantage of the expertise and business acumen of local entrepreneurs to operate stores, and implemented a franchise framework with its other banners to "enhance the Company's capital structure"[xxx]. FGL also uses the franchise framework for specialty stores and smaller retail outlets, while using a corporate structure for wider, national chains with larger boxes (including Sport Chek). Going forward, we expect the proportion of corporate stores to increase from management's plan to expand FGL through the Sport Chek banner, driving higher revenue growth and higher SG&A as a percentage of sales (than franchise stores).

Stable Financial Performance with Demonstrated Ability to Generate Strong Cash Flows

CTC has demonstrated a stable unlevered free cash flow profile (consistently above $500mm on an adjusted, unlevered basis from 2010 – 2014; Figure 23) which has helped drive total shareholder return. From 2010 to 2014, CTC achieved total shareholder return of 17.5% on a CAGR basis[iv]. From 2010 – 2014, CTC has also (1) grown revenue at a 7.8% CAGR, and (2) grown EBITDA at an 8.4% CAGR and maintained stable EBITDA margins of ~10% (with the five-year average being 10.5%). We view this historical financial stability as critical in evaluating CTC using an intrinsic valuation methodology, as it supports management's ability to achieve targeted sales growth while simultaneously demonstrating cost management.

Exposure to Businesses that are Complementary to the Retail Division

CTFS and CT REIT provide investors with a unique exposure to real estate and financial services companies.

- The CTFS MasterCard credit card portfolio benefits directly from the brand equity and growth of CTR and Petroleum. The credit cards offer increased rewards and direct savings for consumers through the form of higher points earned with the Canadian Tire money program for CTR (up to 10x the points otherwise earned) and discounted prices at Petroleum (up to 10¢ / litre)[xxxi]. From 2011 to 2014, CTR revenue, Petroleum revenue, and CTFS' gross average accounts receivable ("GAAR") grew at CAGRs of 2.8%, 1.6%, and 5.1%, respectively (Figure 24).
- The value of CTC's real estate portfolio benefits from improving financial performance at the store level due to (1) higher rents, which CTC charges to CTR dealers as a percentage of sales[xxxii], and (2) lower risk of bad debts.

From a financial perspective, these two divisions allow investors to benefit further from the success of its retail division, contributing to CTC's profitability notably through higher EBITDA margins, with CTFS and CT REIT at 33.7% and 74.8% versus Retail at of 7.8% on an LTM Q3'15 basis, before eliminations and adjustments.

Value Opportunity Due to the Unwarranted Discount to its Non-voting Shares

We believe CTC's dual share structure creates a value investment opportunity due to the unwarranted discount on the Class A non-voting shares to its common shares. Over the past year, the premium of common shares to Class A non-voting shares rose to as high as 112% (Figure 25), since contracting to 55%. This value in ownership control derives from the belief that the firm can be operated "differently (and better)" than it is currently operated[xxxiii]. We believe this discount is unwarranted due to the competence of the majority voting shareholders in exercising governance over CTC (Appendix B5 for a review of CTC's board of directors), and further through CTR's unique dealer structure, where operational and strategic decision making at the store-level is assumed by dealers. Though some of the discount arises from illiquidity, we contend that the amount related to control is undeserved since:

- 9 of the 16 directors are independent, based on the evaluation for the nomination of directors for FY2015[xxxiv], including Chairman Maureen Sabia.
- All members of the board's committees, with the exception of the Brand and Values Committee, are independent, namely the Audit Committee, Management Resources & Compensation Committee, and Governance Committee. The Brand and Values Committee includes Stephen Wetmore, former CEO of CTC, and three dealers.

Valuation Methodology

We derived our target price using a Sum-of-the-Parts approach, employing the following methodologies: Discounted Cash Flow to Firm, Trading Multiples, and Acquisition Multiple. Our valuation supports an implied share price of $141.00 at a multiple valuation of 11.8x EV / LTM EBITDA, and a 12-month target price of $148.00.

Investment Risks

Key risks pertaining to CTC include:

- **Business and operational risks**, including execution risk related to (1) the roll-out of new stores, and limited expansion opportunities for CTR based on market saturation, entrance of foreign retail competitors, and (2) execution risk related to Mark's rebranding.
- **Market risks,** including the impact of declining oil prices on CTC's Alberta presence, regulatory risk for CTC, and foreign exchange risk.
- **Other risks,** including interdependence of CTC's complementary businesses, and the discount of the Class A non-voting shares relative to common shares.

A detailed discussion of the risks, their respective mitigating factors, and their overall impact on our investment thesis and valuation can be found below in the Investment Risks section.

Figure 26: Sum-of-the-Parts Valuation Results (Attributable Equity Value; $ in millions)

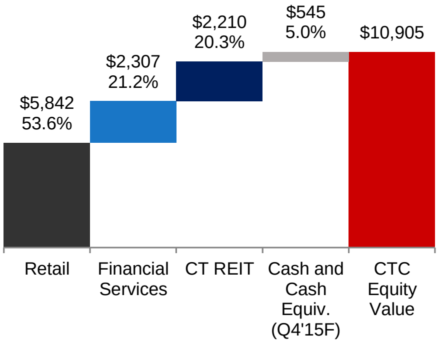


Figure 27: Retail DCF Model Summary ($ in millions)

DCF Summary – Base Case ($ in millions)	
Implied Enterprise Value	
CTR	$4,226
Mark's	$832
FGL	$1,754
Petroleum	$664
Implied Retail Enterprise Value	**$7,475**
LTM 2015 Q3 Retail EBITDA	**$889**
Implied Retail EV / EBITDA Multiple (LTM Q3'15)	*8.4x*
Implied Retail Enterprise Value	**$7,475**
Less: Total Retail Debt	($1,495)
Less: Pension Obligations	($138)
Implied Retail Equity Value	**$5,842**
Terminal Value Assumptions	
Terminal Growth Rate (CTR, Mark's, Petroleum)	2.0%
Terminal Multiple (FGL)	9.1x

Figure 28: WACC Assumptions and Calculations

Assumptions		
Global Cost of Equity Assumptions		
Risk-free Rate		1.6%
Market Return		6.8%
Market Risk Premium		5.3%
Corporate Tax Rate (Canadian HQ)		40.0%
Corporate Tax Rate (U.S. HQ)		26.5%
Retail Division Cost of Equity Assumptions		
Size Premium		1.9%
Equity / Capitalization		78.6%
Retail Division Cost of Debt Assumptions		
Debt / Capitalization		21.4%
Weighted Average Cost of Debt		6.0%
CTC Cost of Equity Assumptions		
Size Premium		1.0%
Calculations		
Retail Division (by Subsector)	**Unlev. Beta**	**WACC**
Diversified Retail (CTR)	0.70	7.9%
Workwear and Apparel (Mark's)	0.83	8.7%
Sporting Goods (FGL)	0.82	8.6%
Fuel & Convenience (Petroleum)	0.48	6.5%
	Lev. Beta	**Cost of Eq.**
CTC (CAPM)	0.49	5.1%

Note: Betas are calculated on a 5-year, weekly basis.
Source: KPMG International Cooperative (statutory tax rates), Bank of Canada, S&P Capital IQ

Valuation

The multifaceted corporate structure and business model of CTC requires an equally sophisticated valuation approach, prompting us to employ a Sum-of-the-Parts approach with tailored methodologies applied to each division (Figure 26). We valued each division individually because we believe that valuing CTC on a consolidated basis does not accurately reflect the value of the separate business models, drivers of financial performance, and investment and operating risk profiles for each of its divisions. Furthermore, each division operates in a unique industry, competes against different businesses, and is material to the overall equity and enterprise value of CTC. We valued the Retail division with a Discounted Free Cash Flow to Firm ("DCF") model, CT REIT by trading multiples (or comparable companies analysis), and CTFS by the acquisition multiple approach.

Retail Division – 5-Year DCF Model

We valued the Retail division using the discounted cash flow methodology (Figure 27) because of the inherently reliable underlying financial relationships of a retail business with respect to growth, profitability, and cash flow generation. The Retail division consists of CTC's four banners: Canadian Tire Retail, Mark's, FGL Sports, and Petroleum, which operate in the four following retail subindustries: diversified merchandise, work wear and apparel, sporting goods and apparel, and fuel and convenience. We used the historical financial and operating data of each banner to create individual DCF models, valuing the Retail division as the combination of the present value of the unlevered free cash flows and terminal values of each retail banner. We took this approach because it allowed for the most granular and rigorous financial forecasts and analyses of the Retail division, clearly modelling the valuation impact of same store sales growth / decline, store openings, and margin expansion / contraction on unlevered free cash flow and terminal value for each retail banner. To achieve further financial accuracy, we calculated banner-specific discount rates, using the comparable companies methodology to arrive at unlevered betas for each retail subsector CAPM.

The DCF model for each banner is based on the Company's historical performance, our evaluations of the industry outlook and the Retail division's competitive positioning, and management guidance. The accuracy of the implied enterprise value for the Retail division is dependent on the following modelling inputs:

Weighted Average Cost of Capital ("WACC")

To fairly value each banner of the Retail division, the WACC and cost of equity was calculated separately to reflect the risks of each retail subsector (Figure 28). We used public comparable company peer sets for each of the aforementioned retail subindustries to arrive at median unlevered betas for each retail banner, before re-levering based on the specific capital structure of the Retail division. The capital structure of the Retail division was arrived at by removing the reported debt and implied market values of CT REIT and CTFS from the consolidated CTC capital structure. We view this approach as essential and highly rigorous in fairly valuing each banner's unlevered free cash flow and terminal value. We also used the Fama French Model and CAPM to calculate the WACC of CTC as a consolidated entity and found that these two methods resulted in lower discount rates, implying that the individual banner approach that was employed in the financial model is more conservative from a valuation perspective. We argue that any approach that calculates a discount rate on a consolidated basis is not as rigorous or accurate since it incorrectly attributes the risks of CT REIT and CTFS, inherent in the consolidated entity, to the retail banners. Please refer to Appendix A7 for the comprehensive WACC calculations and supporting data.

Revenue Growth

Revenue growth was bifurcated for the base business (i.e. stores opened prior to 2015) and new stores for each retail banner. Base business revenue growth was forecasted in two phases: the first phase is derived from the recent growth trajectory implied by the historical SSSG over the last three years; the second phase growth rates exponentially decay to 2%, based on the Bank of Canada's target long-term inflation rate. We note that the base case revenue forecasts are in-line with management's most recent business goals. New store revenue is forecasted from the number of new stores, based on historical store openings and guidance from management, and store economics (i.e. revenue per square footage and average square footage per store). New store revenue is forecasted using a "ramp" approach, earning 80%, 90%, and 100% of mature store sales (approximated by the store economics) in first, second, and third year of operations, respectively. The revenue generated by new stores in the first year of operations is prorated by 50%, based on the assumption that, in general, stores are opened in the middle of the year.

Terminal Value

The terminal value was calculated using a combination of the terminal growth and terminal exit methods. The terminal growth method was used for three of the four retail banners, which were all assumed to be in the mature business stage. FGL was the only banner that did not employ the terminal growth rate because we believe that, by the end of the five-year forecast, it is not yet at the mature business stage (i.e. still possesses considerable growth potential). As an alternative to the terminal growth method, we applied the terminal multiple method and used a LTM EV / EBITDA multiple of 9.1x, based on a review of the trading multiples over time of FGL's public comparable companies peer set in the sporting goods and apparel retail subsector (Appendix A3).

Figure 29: Trading Multiples Summary ($ in millions)

CT REIT Valuation Summary	
LTM FFO (Q3'15)	$191
P / FFO Multiple (LTM, Median)	13.8x
Implied Equity Value	**$2,634**
CTC Ownership %	83.9%
Attributable Equity Value	**$2,210**

Comparable Companies - Canadian Retail REITs	P / FFO	
Company Name	**2014A**	**LTM**
Smart REIT	19.4x	17.2x
Choice Properties REIT	15.9x	12.4x
Crombie REIT	11.8x	11.4x
Riocan REIT	15.7x	15.1x
Average	**15.7x**	**14.0x**
Median	**15.8x**	**13.8x**

Source: Company filings, S&P Capital IQ

Figure 30. Acquisition Multiple Summary ($ in millions)

Transaction: Scotiabank Acquires 20% Interest in CTFS	
Announcement Date	08-May-2014
Purchase Price	$500
Implied Equity Value	**$2,500**
EBT (2013)	$320
Effective Tax Rate (2013)	28.1%
Net Income (2013)	**$230**
P / E (LTM) Multiple	**10.9x**

Acquisition Multiple Valuation	
Net Income (LTM, Q3'15)	$265
Acquisition Multiple	10.9x
Implied Equity Value	**$2,884**
Ownership %	80.0%
Value of CTC Ownership Interest of CTFS	**$2,307**

Source: Company filings

Figure 31. Sum-of-the-Parts Summary ($ in millions)

($ millions, except per share data)			
Division	**Total Implied Equity Value**	**CTC Ownership**	**Attributable Equity Value**
Retail	$5,842	100.0%	$5,842
Financial Services	$2,884	80.0%	$2,307
CT REIT	$2,634	83.9%	$2,210
			$10,360
Cash and Cash Equiv., forecasted Q4'15			$545
CTC Equity Value			**$10,905**
Add: Total Debt, forecasted as at Q4'15			$6,015
Add: Minority Interest			$1,001
Less: Cash and Cash Equiv., forecasted Q4'15			($545)
Add: Pension Obligations			$138
CTC Enterprise Value			**$17,513**
LTM EBITDA			$1,482
Implied EV / EBITDA			**11.8x**
Current Share Price			$129.00
Implied Share Price			$141.00
Upside (Downside)			*9.3%*
12 Month Target Price			**$148.00**
Annual Dividend			**$2.30**
Total Return			***16.5%***

CT REIT – Trading Multiples

To value CT REIT, we used a relative valuation approach (Figure 29). The trading multiples analysis is appropriate to value CT REIT due to the comparable set of public competitors (unlike with the Retail division and CTFS) and the importance of public market valuations given its publicly traded status. The selected competitors (Table 5) were deemed comparable on the basis of their business model (Canadian retail-focused REITs) and market capitalization. We valued CT REIT using the P / LTM FFO multiple. P / LTM FFO was selected since (1) it is an industry-specific metric which is used to measure the operational performance of income-producing properties, and (2) it is widely used and recognized as one of the primary trading multiples used in investors' valuations of REITs. We note that FFO is a non-GAAP financial measure; however, we have only included competitors in the peer set that calculate FFO in accordance with the Real Property Association of Canada, ensuring that the comparison is fair and consistent with an underlying framework.

CTFS – Acquisition Multiple

The acquisition multiple method is similar to precedent transactions analysis, which uses the prices paid by purchasers for similar companies to derive the implied valuation multiples in order to arrive at the valuation of a company. The acquisition multiple is applicable to companies that were previously acquisition targets, and uses the historical transaction multiple to give a present valuation. This is applicable to CTC since Scotiabank acquired a 20% stake in CTFS May 2014 for $500mm, implying a gross equity value of $2,500mm. This purchase was completed at a P / E (LTM) multiple of 10.9x. Using this multiple to value CTFS on its most recent LTM earnings implies an equity value of $2,884mm (Figure 30). We used this method because of the recency of the acquisition by Scotiabank (announced and completed May 2014 and October 2014, respectively) and the objectiveness of the valuation, as it was executed by a major, independent financial institution. Further, the write-up in implied equity is supported by strong growth in earnings since the announcement of the acquisition. We note that this valuation methodology is inherently conservative because the transaction multiple paid by Scotiabank is for a minority stake, and does not account for the value associated with CTC's control and majority ownership position (80%).

Sum-of-the-Parts Summary

The Sum-of-the-Parts valuation of CTC arrives at an implied equity value of $10,905mm with the Retail division valued at 8.4x EV / EBITDA, CTFS at 10.9x P / E, and CT REIT at 13.8x P / FFO on an LTM basis (Figure 31). This implies a share price of $141.00 / Class A non-voting share and 12-month target price of $148.00, based on CTC's cost of equity of 5.1%. Combined with an annual dividend of $2.30, the implied 12-month total return is 16.5%. The annualized dividend is based off of the most recent quarterly dividend announcement on 12-Nov-2015. We note that CTC has a history of increasing dividends and view this as a conservative estimate (Appendix B2).

Financial Analysis

Selected Key Financials ($ in millions)	2010	2011	2012	2013	2014
Revenue	9,213	10,387	11,427	11,786	12,463
Revenue Growth	*6.1%*	*12.7%*	*10.0%*	*3.1%*	*5.7%*
Gross Profit	**2,791**	**3,061**	**3,498**	**3,722**	**4,046**
Gross Margin	30.3%	29.5%	30.6%	31.6%	32.5%
EBITDA	**997**	**1,058**	**1,138**	**1,236**	**1,376**
EBITDA Growth	*13.8%*	*6.2%*	*7.6%*	*8.6%*	*11.4%*
EBITDA Margin	*10.8%*	*10.2%*	*10.0%*	*10.5%*	*11.0%*
EBT	587	630	677	785	878
Less: Taxes	(143)	(163)	(178)	(220)	(239)
Add: Depreciation and Amortization	274	296	335	345	372
Less: Change in Net Working Capital[1,2]	198	(146)	21	192	(160)
Less: Operating Capital Expenditures	(340)	(365)	(335)	(433)	(476)
Unlevered Free Cash Flow	**576**	**253**	**520**	**669**	**376**
Unlevered Free Cash Flow Yield	*6.3%*	*2.4%*	*4.6%*	*5.7%*	*3.0%*
Add: Inventory Adjustment		456			144
Adj. Unlevered Free Cash Flow	**576**	**709**	**520**	**669**	**519**
Adj. Unlevered Free Cash Flow Yield	*6.3%*	*6.8%*	*4.6%*	*5.7%*	*4.2%*

(1) 2011 Increase in NWC primarily due to transformational acquisition of FGL and material increase in inventory ($455.9mm associated with the acquisition).

(2) 2014 Increase in NWC due to higher inventory levels for Retail division to mitigate supply chain disruption risk and to take advantage of early purchase opportunities prior to duty and tariff increases. Also, there was higher inventory at FGL Sports was to support new stores in the network and sales growth while increases at Mark's were driven by efforts to keep a higher level of inventory to accommodate rebranding initiatives. The increase in merchandise inventories across all retail banners is $142.8mm.

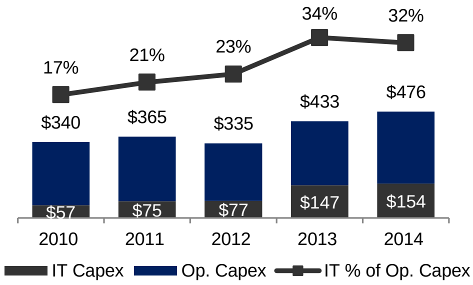
Note: Operating capital expenditures exclude CT REIT acquisitions of $183.4mm (2013 - $9.0mm) and distribution capacity capital expenditures of $62.4mm (2013 - $102.2mm), consistent with its presentation in the audited financial statements. EBITDA removes the impact from the change in FV of redeemable financial instrument for $17.0mm in 2014, consistent with its presentation in the audited financial statements.

Figure 32: ROE Decomposition

	2010	2011	2012	2013	2014
Net Profit Margin	4.8%	4.5%	4.4%	4.8%	5.1%
Asset Turnover	0.8x	0.9x	0.9x	0.9x	0.9x
ROA	**4.0%**	**4.0%**	**3.9%**	**4.2%**	**4.5%**
Asset / Equity	2.9	2.8	2.8	2.7	2.8
ROE	**11.6%**	**11.1%**	**10.9%**	**11.4%**	**12.8%**

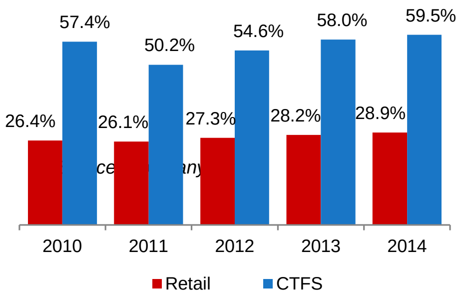
Source: Company filings

Figure 33: Capex Over Time ($ in millions)



Source: Company filings

Figure 34: Historical Gross Margin (by Division)



Note: Since CT REIT reports 100% gross margins, it was excluded from the graph above.
Source: Company filings

Figure 35: Monte Carlo Summary Statistics (Implied Share Price)

Number of Iterations	100,000
Minimum	$91.10
Maximum	$185.10
Mean	**$135.23**
Skewness	0.17
Kurtosis	2.90
Median	$134.86
5% CI	$116.50
95% CI	$155.18
% of Simulations Above $129	30.8%
% of Simulations Below $129	69.2%
Std. Dev.	$11.78
Mean - 2 Std. Dev.	$111.68
Mean - 1 Std. Dev.	$123.45
Mean + 1 Std. Dev.	$147.01
Mean + 2 Std. Dev.	$158.78

Market and financial data in C$, unless otherwise noted.

Ratio Analysis

	2010	2011	2012	2013	2014
Liquidity Analysis					
Current Ratio	2.01	1.68	1.67	1.85	1.86
Quick / Acid-test Ratio	0.44	0.33	0.41	0.42	0.40
Profitability Analysis					
Net Profit Margin	4.8%	4.5%	4.4%	4.8%	5.1%
Fixed Asset Turnover	2.9x	3.1x	3.4x	3.4x	3.4x
Return on Assets	4.0%	4.0%	3.9%	4.2%	4.5%
Return on Equity	11.6%	11.1%	10.9%	11.4%	12.8%
Credit Analysis					
Interest Coverage Ratio	4.3x	4.9x	5.6x	4.7x	5.3x
Net Debt & Deposits / EBITDA	4.1x	4.4x	3.9x	3.3x	3.1x
Other					
Payout Ratio	15.4%	19.2%	19.6%	19.1%	23.4%

Reliable Cash Flow Generation, Driven by Revenue Growth and Stable EBITDA Margins

Based on the historical 5-year analysis presented above, CTC has generated greater than $500mm of unlevered free cash flow on an adjusted basis in each year. This has largely been driven by its ability to grow revenue and EBITDA, offset by rising capital expenditures (including increasing investments in IT; Figure 33). Management expects operating capital expenditures to rise to (and stabilize between) $600mm and $650mm from 2015 to 2017. We used the midpoint of this guidance for our capital expenditure forecasts in the DCF for the Retail division, in addition to the midpoint of management guidance relating to capital expenditures for the new distribution centre in Bolton (Appendix B8). We view elevated capital expenditures (relative to historic levels) as important investments in infrastructure, driving lower SG&A margins towards the end of the forecasted period.

Gross Margin Improvements Due To Growth of CTFS and Shift in Product Mix

The gross margin improvement from 30.3% to 32.5% from 2010 – 2014 comes from growth in CTFS (which reported an average annual gross margin of 56.0% over the same time period), as well as a change in product mix within the Retail division. Through the acquisition of FGL, the Retail division margin benefited from the higher gross margins of sporting goods – the Retail division's gross margin improved from 26.4% in 2010 prior to the acquisition of FGL to 28.9% in 2014 (Figure 34). As FGL continues to grow as a proportion of the Retail division's revenue, we expect this favourable gross margin trend to continue (Appendix A2).

Strong Credit Profile and Liquidity, Aided by Favourable Supplier Terms

Based on the calculations above, CTC has a strong liquidity profile with the current ratio consistently exceeding 1.50. Additionally, from 2012 – 2014, CTC has improved its Retail division's cash collection cycle from 20 days to 11 days (Appendix A9), aided by favourable supplier credit terms extending up to 120 days in 2014. In terms of its credit profile, CTC's interest coverage ratio of >4.0x illustrates its ability to meet its interest payments and debt obligations.

Economic Backdrop Conducive for Further Retail Sales Growth

With fairly consistent levels of housing starts and unemployment rates expected at the national level from 2015 – 2017 (as identified in the Industry Overview section), the outlook for the Canadian retail market is stable, and as such, we expect CTC will be able to maintain growth rates fairly consistent with its historical levels for CTR, Mark's and FGL. We forecasted revenues for Petroleum by (1) analyzing the historical relationship between consumer gas prices and the WTI price and (2) tying it to median market forecasts for the WTI (Appendix A10).

Sensitivity Analysis – Monte Carlo Simulation

We performed a Monte Carlo analysis to simulate the impact of changes in key modelling assumptions on the implied share price and the 12-month target price. In arriving at the assumptions, we used:

- Bear and bull scenario assumptions and historical financial results to derive the upper and lower bounds of income statement forecasts.
- Ranges for the risk-free rate and the market return based on historical analyses of the 10-year government of Canada benchmark bond yields and return of the S&P/TSX Composite Index.
- Sensitivities for the terminal growth rate assumption, based on the Bank of Canada's inflation-control target range.
- Multiple expansion and contraction of P / E for CTFS and P / FFO for CT REIT based on the ten-year trading multiples analysis of its public competitors (Appendix A4).

100,000 simulations were run to illustrate the impact of the different combinations across the changes in the aforementioned key variables on the implied share price (Figure 36) and the 12-month target price (Figure 3). 69.2% of simulations gave an implied share price greater than the current market price.

Figure 36: Monte Carlo Simulation (Implied Share Price)

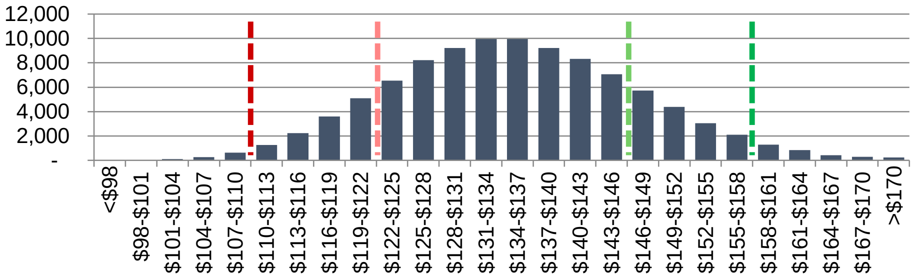


Figure 37: Risk Matrix

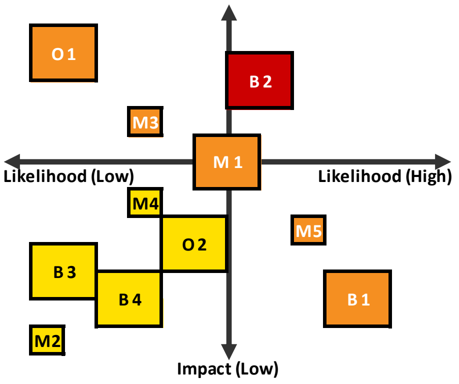
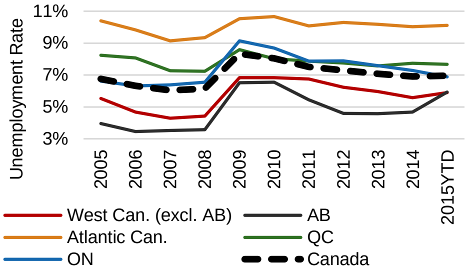
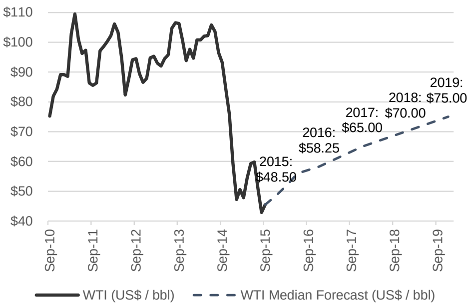


Figure 38: Unemployment Rate (by region in Canada, unadjusted)



Source: Statistics Canada

Figure 39: Historical and Forecasted WTI Price (US$ / bbl)



Source: Federal Reserve Bank of St. Louis, Bloomberg (Contributor Composite)

Figure 41: Market Risks (Continued)

Risk	Mitigant
[M 2] Financing / Funding risk	Long-time issuer in the Canadian capital markets. Credit ratings: **CTC:** BBB (DBRS) BBB+ (S&P) **CT REIT:** BBB (DBRS) BBB+ (S&P)
[M 3] Consumer Credit risk	Use of technology to employ credit-scoring models to constantly monitor creditworthiness
[M 4] Regulatory risk	Quarterly reporting by CTFS to the Financial Services' Governance and Conduct Review Committee
[M 5] FX Risk (from a cost perspective, w.r.t. global suppliers)	Use of financial instruments as a risk management tool to manage exposure to changes in FX

Investments Risks

Business and Operational Risks

[B 1] Limited Potential for Expansion of CTR Stores (High Likelihood, Low Impact)

Given its nationwide retail footprint of 495 stores and significant penetration of the Canadian market, CTR may have difficulty finding new store locations in Canada.

- **Mitigant:** CTC can focus on expanding its other retail banners, such as Mark's, FGL, and Petroleum, as well as on further promoting their e-commerce platform.
- **Impact on Valuation:** Factored into the valuation through (1) low levels of new store openings, capped at two stores per year, and (2) terminal growth assumption of long-term inflation. New store openings were also factored in as an input in the Monte Carlo simulation, using a binomial distribution.
- **Impact on Implied and Target Share Price:** Minimal since throughout the entire forecasted period of the DCF model, new store revenue contributes less than 3% total CTR revenue.

[B 2] Entrance / Expansion of Foreign Competitors (Moderate Likelihood, High Impact)

The entrance of foreign competitors, including via e-commerce, can result in lost market share across the retail subsectors CTC competes in.

- **Mitigant:** Competitors need to invest significant capital expenditures to gain the national store and distribution network to match CTC (please refer to the Porter's Five Forces analysis in Appendix C5 for additional detail).
- **Mitigant:** Target Corporation's high-profile and recent withdrawal from Canada signals the competitiveness of the Canadian retail landscape and may deter action by some foreign competitors.

[B 3] Execution Risk with Mark's Rebranding Strategy (Low Likelihood, Low Impact)

CTC's rebranding strategy for Mark's may not be successful in gaining sales and diversifying its customer base as the general apparel retail landscape is highly competitive, and consumer loyalty is difficult to earn due to the fickle nature of fashion.

- **Performance:** Since the start of the rebranding campaign in 2010, Mark's has consistently reported positive annual SSSG.
- **Management Guidance:** Management has been signaling that consumers have been receptive to the rebranding strategy and the enhanced assortment.

[B 4] Execution Risk related to the Roll-out of New Stores (Low Likelihood, Low Impact)

As part of their growth strategy, management seeks to expand its physical store network. There is a risk that new stores will not achieve historical mature store performance.

- **Performance:** Management has a proven history of opening new stores and growing CTC's footprint.
- **Impact on Valuation:** Factored into the valuation through the new store sales assumption of 80%, 90%, and 100% of mature store sales achieved in year 1, 2, and 3 of operations, respectively. As previously mentioned, new store openings were also factored in as an input in the Monte Carlo simulation, using a binomial distribution.
- **Mitigant:** Existing brand equity, customer loyalty, and brand recognition drives customer traffic in new locations.

Market Risks

[M 1] Sustained Oil Price Decline and its Impact on the Economy of Alberta (Moderate Likelihood, Moderate Impact)

A sustained oil price decline will negatively impact the employment rate of Alberta – energy accounted for 25.5% of Alberta's total GDP in 2014[xxxv]. As the oil price has declined, the average unemployment rate has risen from 4.5% to 5.6% from LTM October 2013 to LTM October 2015[xxxvi] (Figure 38).

- **Exposure:** The most recent provincial breakdown of stores (2014) shows that CTC operates 55 CTR, 53 FGL, 63 Mark's, 19 Petroleum, and 15 PartSource stores in Alberta (representing 11.2%, 12.2%,16.4%, 6.4%, and 16.5% of the footprint for each retailer, respectively)[iii]. It also important to note that the unemployment rate of Alberta remains below the national-level (See Appendix B10).
- **Mitigant:** Economic forecasts largely suggest that the oil price decline will not be sustained over the next three years with median forecasts of US$48.50 / bbl, US$58.25 / bbl, and US$65.00 / bbl for 2015, 2016 and 2017, respectively (Figure 39)[xxxvii].
- **Impact on Valuation:** Bear case DCF model assumes a 10% discount to the median economic forecasts of WTI prices in arriving at Petroleum's revenue (Appendix A10).

Please refer Figure 41 for additional market risks.

Other Risks / Causes for Investor Concern

[O 1] Interdependence Across Divisions Risk (Low Likelihood, High Impact)

The success or failure of CTC's family of retail businesses directly impacts the operations of CTFS and CT REIT. Unexpected loss in brand equity or customer loyalty to the CTR brand in particular will have a material impact on CTFS and CT REIT.

- **Mitigant:** CTC is dedicated to the Canadian retail sector and has been operating in Canada for over 90 years. Further, our analysis of marketing campaigns and social media presences shows CTC is the leading retailer among its Canadian competitors and illustrates active management of brand image (Appendix B7).

[O 2] Continued Discount to Class A Non-voting Shares (Moderate Likelihood, Low Impact)

There is a risk that the discount to the Class A non-voting shares relative to the common shares does not materially change over the indefinite future, decreasing the proportion of equity value attributable to Class A.

- **Mitigant:** Even if it does not dissipate entirely, it is important to note that the current premium of the common shares to the Class A non-voting shares is ~20% greater than the five-year average, currently at 55%, and has decreased from its 52-week high of 112% (Figure 25).
- **Impact on Valuation:** In arriving at the implied share price, we used the 3-year average premium of common shares to Class A voting shares of 48% in order to arrive at equivalent amount of Class A non-voting shares outstanding in order to arrive at the implied share price.

Market and financial data in C$, unless otherwise noted.

Section A: Valuation & Financial Analysis

Appendix A1: Valuation Summary of Bull, Base, and Bear Scenarios

Valuation Summary - Sum-of-the-Parts ($ in millions, except per share data)			**Scenarios**		
			Bull	**Base**	**Bear**
Division	**Total Implied Equity Value**	**CTC Ownership**	**Attributable Equity Value**	**Attributable Equity Value**	**Attributable Equity Value**
Retail	$5,842	100.0%	$7,876	$5,842	$2,802
CTFS	$2,884	80.0%	$2,626	$2,307	$1,989
CT REIT	$2,634	83.9%	$2,531	$2,210	$1,809
			$13,033	$10,360	$6,600
Cash and Cash Equiv., forecasted Q4'15			$545	$545	$545
CTC Equity Value			**$13,578**	**$10,905**	**$7,145**
Add: Total Debt, forecasted as at Q4'15			$6,015	$6,015	$6,015
Add: Minority Interest			$1,142	$1,001	$844
Less: Cash and Cash Equiv., forecasted Q4'15			($545)	($545)	($545)
Add: Pension Obligations			$138	$138	$138
CTC Enterprise Value			**$20,328**	**$17,513**	**$13,597**
LTM EBITDA			$1,482	$1,482	$1,482
Implied EV / EBITDA			**13.7x**	**11.8x**	**9.2x**
Current Share Price			$129.00	$129.00	$129.00
Implied Share Price			$175.00	$141.00	$93.00
Upside (Downside)			*35.7%*	*9.3%*	*-27.9%*
12 Month Target Price			**$184.00**	**$148.00**	**$98.00**
Annual Dividend			**$2.30**	**$2.30**	**$2.30**
Total Return			***44.4%***	***16.5%***	***(22.2%)***

Market and financial data in C$, unless otherwise noted.

Appendix A2: Retail Division Discounted Cash Flow Model

Below are the segmented and consolidated results for the Base case Retail DCF, as well as the consolidated results for the Bear and Bull cases.

Base Case Retail Division DCF

		2015F	2016F	2017F	2018F	2019F	2020F	Terminal
Financial Model – Base Case								
Canadian Tire Retail								
INCOME STATEMENT								
Revenue from Stores Opened 2014 and Prior		$6,428	$6,600	$6,787	$6,991	$7,174	$7,339	$7,485
Revenue from New Stores ('15E - '20E)		$10	$33	$59	$85	$111	$138	$141
Revenue		**$6,438**	**$6,633**	**$6,846**	**$7,076**	**$7,286**	**$7,477**	**$7,626**
Cost of Goods Sold		($4,452)	($4,587)	($4,734)	($4,893)	($5,038)	($5,170)	($5,274)
Gross Margin		**$1,986**	**$2,046**	**$2,112**	**$2,183**	**$2,248**	**$2,307**	**$2,353**
Selling, General, and Administrative (excl. D&A)		($1,528)	($1,584)	($1,639)	($1,697)	($1,690)	($1,680)	($1,662)
Depreciation and Amortization		($178)	($222)	($246)	($260)	($269)	($276)	($310)
EBIT		**$280**	**$240**	**$227**	**$226**	**$288**	**$350**	**$381**
Taxes		($77)	($66)	($60)	($60)	($76)	($93)	($101)
Unlevered Net Income		**$203**	**$174**	**$167**	**$166**	**$212**	**$258**	**$280**
EBITDA		**$458**	**$462**	**$473**	**$486**	**$558**	**$627**	**$690**
FREE CASH FLOW SCHEDULE								
Unlevered Net Income		$203	$174	$167	$166	$212	$258	$280
Add: Depreciation and Amortization		$178	$222	$246	$260	$269	$276	$310
Less: Capital Expenditures		($478)	($478)	($303)	($306)	($308)	($310)	($310)
Less: Change in Net Working Capital		$15	($15)	($15)	($16)	($14)	($11)	($8)
Unlevered Free Cash Flow		**($82)**	**($97)**	**$94**	**$104**	**$160**	**$213**	**$272**
Terminal Growth Rate	**2.0%**							
Terminal Value							**$5,275**	
WACC (Diversified Retail)	**7.1%**							
Present Value Factor (Mid-Year Convention)			96.6%	90.2%	84.1%	78.5%	73.3%	
PV of Unlevered Free Cash Flow			**($94)**	**$84**	**$88**	**$125**	**$4,022**	
Implied Enterprise Value	**$4,226**							
Mark's								
INCOME STATEMENT								
Revenue from Stores Opened 2014 and Prior		$1,159	$1,199	$1,244	$1,294	$1,335	$1,369	$1,396
Revenue from New Stores ('15E - '20E)		$0	$2	$8	$14	$21	$27	$28
Revenue		**$1,159**	**$1,202**	**$1,252**	**$1,308**	**$1,356**	**$1,396**	**$1,424**
Cost of Goods Sold		($643)	($673)	($708)	($746)	($773)	($796)	($812)
Gross Margin		**$516**	**$529**	**$545**	**$563**	**$583**	**$600**	**$612**
Selling, General, and Administrative (excl. D&A)		($397)	($409)	($423)	($437)	($438)	($437)	($433)
Depreciation and Amortization		($55)	($68)	($76)	($80)	($83)	($85)	($95)
EBIT		**$64**	**$51**	**$46**	**$45**	**$62**	**$78**	**$84**
Taxes		($18)	($14)	($12)	($12)	($16)	($21)	($22)
Unlevered Net Income		**$46**	**$37**	**$34**	**$33**	**$45**	**$57**	**$62**
EBITDA		**$119**	**$120**	**$122**	**$125**	**$145**	**$163**	**$180**
FREE CASH FLOW SCHEDULE								
Unlevered Net Income		$46	$37	$34	$33	$45	$57	$62
Add: Depreciation and Amortization		$55	$68	$76	$80	$83	$85	$95
Less: Capital Expenditures		($94)	($97)	($94)	($94)	($95)	($95)	($95)
Less: Change in Net Working Capital		$3	($3)	($3)	($3)	($3)	($2)	($2)
Unlevered Free Cash Flow		**$11**	**$5**	**$13**	**$16**	**$31**	**$45**	**$60**
Terminal Growth Rate	**2.0%**							
Terminal Value							**$1,045**	
WACC (Apparel and Workwear)	**7.8%**							
Present Value Factor (Mid-Year Convention)			96.3%	89.4%	82.9%	76.9%	71.4%	
PV of Unlevered Free Cash Flow			**$5**	**$12**	**$13**	**$24**	**$778**	
Implied Enterprise Value	**$832**							

Market and financial data in C$, unless otherwise noted.

Base Case Retail Division DCF (continued)

		2015F	2016F	2017F	2018F	2019F	2020F	Terminal
Financial Model – Base Case								
FGL								
INCOME STATEMENT								
Revenue from Stores Opened 2014 and Prior		$2,037	$2,179	$2,331	$2,494	$2,609	$2,688	$2,742
Revenue from New Stores ('15E - '20E)		$0	$19	$63	$111	$159	$194	$197
Revenue		**$2,037**	**$2,198**	**$2,394**	**$2,605**	**$2,768**	**$2,882**	**$2,940**
Cost of Goods Sold		($1,291)	($1,393)	($1,517)	($1,651)	($1,754)	($1,826)	($1,862)
Gross Margin		**$747**	**$806**	**$877**	**$955**	**$1,015**	**$1,056**	**$1,077**
Selling, General, and Administrative (excl. D&A)		($574)	($624)	($681)	($742)	($763)	($769)	($761)
Depreciation and Amortization		($125)	($155)	($172)	($182)	($188)	($193)	($217)
EBIT		**$48**	**$27**	**$24**	**$31**	**$63**	**$94**	**$100**
Taxes		($13)	($7)	($6)	($8)	($17)	($25)	($26)
Unlevered Net Income		**$35**	**$19**	**$18**	**$23**	**$47**	**$69**	**$73**
EBITDA		**$172**	**$182**	**$196**	**$213**	**$252**	**$287**	**$316**
FREE CASH FLOW SCHEDULE								
Unlevered Net Income		$35	$19	$18	$23	$47	$69	$73
Add: Depreciation and Amortization		$125	$155	$172	$182	$188	$193	$217
Less: Capital Expenditures		($212)	($221)	($212)	($214)	($215)	($217)	($217)
Less: Change in Net Working Capital		$5	($5)	($5)	($6)	($5)	($4)	($3)
Unlevered Free Cash Flow		**($48)**	**($51)**	**($28)**	**($15)**	**$14**	**$41**	**$70**
WACC (Sporting Goods and Apparel)	**7.7%**							
Present Value Factor (Mid-Year Convention)			96.3%	89.4%	83.0%	77.1%	71.5%	
PV of Unlevered Free Cash Flow			**($49)**	**($25)**	**($13)**	**$11**	**$29**	
Terminal Multiple	**9.1x**							
Terminal Value (using 2020F EBITDA)							**$2,611**	
Present Value Factor (Year-End Convention)							68.9%	
PV of Terminal Value							**$1,800**	
Implied Enterprise Value	**$1,754**							
Petroleum								
INCOME STATEMENT								
Revenue		**$1,835**	**$1,935**	**$1,995**	**$2,036**	**$2,076**	**$2,117**	**$2,159**
Cost of Goods Sold		($1,696)	($1,788)	($1,844)	($1,883)	($1,919)	($1,957)	($1,996)
Gross Margin		**$139**	**$146**	**$151**	**$154**	**$157**	**$160**	**$163**
Selling, General, and Administrative (excl. D&A)		($107)	($113)	($117)	($120)	($118)	($116)	($115)
Depreciation and Amortization		($2)	($2)	($3)	($3)	($3)	($3)	($3)
EBIT		**$30**	**$31**	**$31**	**$31**	**$36**	**$40**	**$44**
Taxes		($8)	($8)	($8)	($8)	($10)	($11)	($12)
Unlevered Net Income		**$22**	**$22**	**$23**	**$23**	**$26**	**$30**	**$33**
EBITDA		**$32**	**$33**	**$34**	**$34**	**$39**	**$43**	**$48**
FREE CASH FLOW SCHEDULE								
Unlevered Net Income		$22	$22	$23	$23	$26	$30	$33
Add: Depreciation and Amortization		$2	$2	$3	$3	$3	$3	$3
Less: Capital Expenditures		($3)	($3)	($3)	($3)	($3)	($3)	($3)
Less: Change in Net Working Capital		$4	($4)	($5)	($5)	($4)	($3)	($2)
Unlevered Free Cash Flow		**$25**	**$17**	**$18**	**$18**	**$22**	**$26**	**$30**
Terminal Growth Rate	**2.0%**							
Terminal Value							**$753**	
WACC (Fuel and Convenience)	**6.0%**							
Present Value Factor (Mid-Year Convention)			97.1%	91.6%	86.4%	81.5%	76.8%	
PV of Unlevered Free Cash Flow			**$16**	**$16**	**$16**	**$18**	**$598**	
Implied Enterprise Value	**$664**							

Market and financial data in C$, unless otherwise noted.

Base Case Retail Division DCF (continued)

		2015F	2016F	2017F	2018F	2019F	2020F	Terminal
Financial Model – Base Case								
Consolidated (Retail Division)								
INCOME STATEMENT								
Revenue from Stores Opened 2014 and Prior		$11,459	$11,913	$12,358	$12,816	$13,194	$13,513	$13,783
Revenue from New Stores ('15E - '20E)		$10	$55	$130	$210	$291	$359	$366
Total Revenue		**$11,469**	**$11,968**	**$12,488**	**$13,026**	**$13,485**	**$13,872**	**$14,150**
Cost of Goods Sold		($8,082)	($8,441)	($8,803)	($9,172)	($9,483)	($9,749)	($9,944)
Gross Margin		**$3,387**	**$3,527**	**$3,685**	**$3,854**	**$4,002**	**$4,123**	**$4,206**
Selling, General, and Administrative (excl. D&A)		($2,605)	($2,730)	($2,860)	($2,996)	($3,009)	($3,003)	($2,971)
Depreciation and Amortization		($359)	($448)	($496)	($524)	($543)	($558)	($625)
EBIT		**$422**	**$349**	**$329**	**$334**	**$450**	**$563**	**$609**
Taxes		($116)	($96)	($87)	($89)	($119)	($149)	($161)
Unlevered Net Income		**$306**	**$253**	**$242**	**$246**	**$330**	**$414**	**$448**
EBITDA		**$782**	**$797**	**$825**	**$858**	**$993**	**$1,120**	**$1,234**
NET WORKING CAPITAL SCHEDULE								
Trade and Other Receivables	$880	$845	$882	$920	$960	$994	$1,022	$1,043
Inventory	$1,624	$1,601	$1,672	$1,744	$1,817	$1,878	$1,931	$1,970
Prepaid Expenses	$105	$52	$55	$57	$59	$61	$63	$64
Trade and Other Payables	($1,961)	($1,878)	($1,961)	($2,045)	($2,131)	($2,203)	($2,265)	($2,310)
Net Working Capital	**$647**	**$621**	**$648**	**$676**	**$705**	**$730**	**$751**	**$767**
FREE CASH FLOW SCHEDULE								
Unlevered Net Income		$306	$253	$242	$246	$330	$414	$448
Add: Depreciation and Amortization		$359	$448	$496	$524	$543	$558	$625
Less: Capital Expenditures		($788)	($800)	($613)	($617)	($622)	($625)	($625)
Less: Change in Net Working Capital		$27	($27)	($28)	($29)	($25)	($21)	($15)
Unlevered Free Cash Flow		**($95)**	**($126)**	**$97**	**$123**	**$227**	**$325**	**$432**

DCF Summary – Base Case	
Implied Enterprise Value	
CTR	$4,226
Mark's	$832
FGL	$1,754
Petroleum	$664
Implied Retail Enterprise Value	**$7,475**
LTM 2015 Q3 Retail EBITDA	**$889**
Implied Retail EV / LTM 2015 Q3 EBITDA Multiple	*8.4x*
Implied Retail Enterprise Value	**$7,475**
Less: Total Retail Debt	($1,495)
Less: Pension Obligations	($138)
Implied Retail Equity Value	**$5,842**

Excludes Cash and Cash Equivalents, accounted for at the corporate level

COMMON SIZE INCOME STATEMENT	2015F	2016F	2017F	2018F	2019F	2020F	Terminal
Revenue from Stores Opened 2014 and Prior	99.9%	99.5%	99.0%	98.4%	97.8%	97.4%	97.4%
Revenue from New Stores ('15E - '20E)	0.1%	0.5%	1.0%	1.6%	2.2%	2.6%	2.6%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(70.5%)	(70.5%)	(70.5%)	(70.4%)	(70.3%)	(70.3%)	(70.3%)
Gross Margin	**29.5%**	**29.5%**	**29.5%**	**29.6%**	**29.7%**	**29.7%**	**29.7%**
Selling, General, and Administrative (excl. D&A)	(22.7%)	(22.8%)	(22.9%)	(23.0%)	(22.3%)	(21.6%)	(21.0%)
Depreciation and Amortization	(3.1%)	(3.7%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.4%)
EBIT	**3.7%**	**2.9%**	**2.6%**	**2.6%**	**3.3%**	**4.1%**	**4.3%**
Taxes	(1.0%)	(0.8%)	(0.7%)	(0.7%)	(0.9%)	(1.1%)	(1.1%)
Unlevered Net Income	**2.7%**	**2.1%**	**1.9%**	**1.9%**	**2.5%**	**3.0%**	**3.2%**
EBITDA	**6.8%**	**6.7%**	**6.6%**	**6.6%**	**7.4%**	**8.1%**	**8.7%**

Market and financial data in C$, unless otherwise noted.

Bull Case Retail Division DCF

		2015F	2016F	2017F	2018F	2019F	2020F	Terminal
Financial Model – Bull Case								
Consolidated (Retail Division)								
INCOME STATEMENT								
Revenue from Stores Opened 2014 and Prior		$11,574	$12,143	$12,731	$13,379	$13,826	$14,179	$14,462
Revenue from New Stores ('15E - '20E)		$10	$63	$155	$247	$331	$402	$410
Total Revenue		**$11,584**	**$12,206**	**$12,886**	**$13,626**	**$14,157**	**$14,581**	**$14,872**
Cost of Goods Sold		($8,162)	($8,599)	($9,064)	($9,564)	($9,914)	($10,202)	($10,406)
Gross Margin		**$3,423**	**$3,607**	**$3,821**	**$4,062**	**$4,244**	**$4,379**	**$4,466**
Selling, General, and Administrative (excl. D&A)		($2,631)	($2,784)	($2,951)	($3,134)	($3,151)	($3,140)	($3,099)
Depreciation and Amortization		($361)	($452)	($504)	($537)	($558)	($573)	($613)
EBIT		**$430**	**$370**	**$366**	**$391**	**$535**	**$666**	**$754**
Taxes		($118)	($102)	($97)	($104)	($142)	($176)	($200)
Unlevered Net Income		**$311**	**$269**	**$269**	**$287**	**$393**	**$489**	**$554**
EBITDA		**$791**	**$822**	**$870**	**$928**	**$1,093**	**$1,239**	**$1,367**
NET WORKING CAPITAL SCHEDULE								
Trade and Other Receivables	$880	$895	$936	$980	$1,028	$1,060	$1,083	$1,096
Inventory	$1,624	$1,645	$1,728	$1,816	$1,911	$1,975	$2,026	$2,061
Prepaid Expenses	$105	$72	$72	$72	$72	$71	$69	$67
Trade and Other Payables	($1,961)	($1,978)	($2,070)	($2,166)	($2,270)	($2,336)	($2,387)	($2,417)
Net Working Capital	**$647**	**$633**	**$666**	**$702**	**$741**	**$770**	**$792**	**$807**
FREE CASH FLOW SCHEDULE								
Unlevered Net Income		$311	$269	$269	$287	$393	$489	$554
Add: Depreciation and Amortization		$361	$452	$504	$537	$558	$573	$613
Less: Capital Expenditures		($750)	($775)	($600)	($605)	($609)	($613)	($613)
Less: Change in Net Working Capital		$14	($33)	($36)	($40)	($28)	($22)	($15)
Unlevered Free Cash Flow		**($63)**	**($87)**	**$137**	**$180**	**$314**	**$427**	**$539**

DCF Summary – Bull Case	
Implied Enterprise Value	
CTR	$4,871
Mark's	$1,113
FGL	$2,819
Petroleum	$707
Implied Retail Enterprise Value	**$9,509**
LTM 2015 Q3 Retail EBITDA	**$889**
Implied Retail EV / LTM 2015 Q3 EBITDA Multiple	*10.7x*
Implied Retail Enterprise Value	**$9,509**
Less: Total Retail Debt	($1,495)
Less: Pension Obligations	($138)
Implied Retail Equity Value	**$7,876**

Excludes Cash and Cash Equivalents, accounted for at the corporate level

	2015F	2016F	2017F	2018F	2019F	2020F	Terminal
COMMON SIZE INCOME STATEMENT							
Revenue from Stores Opened 2014 and Prior	99.9%	99.5%	98.8%	98.2%	97.7%	97.2%	97.2%
Revenue from New Stores ('15E - '20E)	0.1%	0.5%	1.2%	1.8%	2.3%	2.8%	2.8%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(70.5%)	(70.5%)	(70.3%)	(70.2%)	(70.0%)	(70.0%)	(70.0%)
Gross Margin	**29.5%**	**29.5%**	**29.7%**	**29.8%**	**30.0%**	**30.0%**	**30.0%**
Selling, General, and Administrative (excl. D&A)	(22.7%)	(22.8%)	(22.9%)	(23.0%)	(22.3%)	(21.5%)	(20.8%)
Depreciation and Amortization	(3.1%)	(3.7%)	(3.9%)	(3.9%)	(3.9%)	(3.9%)	(4.1%)
EBIT	**3.7%**	**3.0%**	**2.8%**	**2.9%**	**3.8%**	**4.6%**	**5.1%**
Taxes	(1.0%)	(0.8%)	(0.8%)	(0.8%)	(1.0%)	(1.2%)	(1.3%)
Unlevered Net Income	**2.7%**	**2.2%**	**2.1%**	**2.1%**	**2.8%**	**3.4%**	**3.7%**
EBITDA	**6.8%**	**6.7%**	**6.8%**	**6.8%**	**7.7%**	**8.5%**	**9.2%**

Market and financial data in C$, unless otherwise noted.

Bear Case Retail Division DCF

		2015F	2016F	2017F	2018F	2019F	2020F	Terminal
Financial Model – Bear Case								
Consolidated (Retail Division)								
INCOME STATEMENT								
Revenue from Stores Opened 2014 and Prior		$11,151	$11,265	$11,327	$11,368	$11,412	$11,484	$11,714
Revenue from New Stores ('15E - '20E)		$10	$45	$97	$152	$206	$250	$255
Total Revenue		**$11,161**	**$11,309**	**$11,424**	**$11,520**	**$11,618**	**$11,735**	**$11,969**
Cost of Goods Sold		($7,867)	($7,996)	($8,092)	($8,171)	($8,251)	($8,338)	($8,505)
Gross Margin		**$3,294**	**$3,313**	**$3,332**	**$3,349**	**$3,367**	**$3,397**	**$3,464**
Selling, General, and Administrative (excl. D&A)		($2,567)	($2,601)	($2,627)	($2,650)	($2,602)	($2,560)	($2,543)
Depreciation and Amortization		($352)	($433)	($471)	($487)	($496)	($503)	($634)
EBIT		**$375**	**$279**	**$234**	**$212**	**$268**	**$333**	**$287**
Taxes		($103)	($77)	($62)	($56)	($71)	($88)	($76)
Unlevered Net Income		**$272**	**$202**	**$172**	**$156**	**$197**	**$245**	**$211**
EBITDA		**$727**	**$712**	**$704**	**$699**	**$765**	**$836**	**$921**
NET WORKING CAPITAL SCHEDULE								
Trade and Other Receivables	$880	$888	$920	$950	$979	$942	$907	$882
Inventory	$1,624	$1,605	$1,647	$1,683	$1,716	$1,699	$1,684	$1,684
Prepaid Expenses	$105	$70	$69	$67	$65	$61	$58	$55
Trade and Other Payables	($1,961)	($1,936)	($1,983)	($2,023)	($2,006)	($1,988)	($1,973)	($1,976)
Net Working Capital	**$647**	**$628**	**$653**	**$677**	**$755**	**$714**	**$676**	**$646**
FREE CASH FLOW SCHEDULE								
Unlevered Net Income		$272	$202	$172	$156	$197	$245	$211
Add: Depreciation and Amortization		$352	$433	$471	$487	$496	$503	$634
Less: Capital Expenditures		($800)	($825)	($625)	($629)	($632)	($634)	($634)
Less: Change in Net Working Capital		$19	($25)	($24)	($78)	$41	$38	$30
Unlevered Free Cash Flow		**($157)**	**($215)**	**($7)**	**($63)**	**$103**	**$152**	**$241**

DCF Summary – Bear Case	
Implied Enterprise Value	
CTR	$2,659
Mark's	$365
FGL	$685
Petroleum	$726
Implied Retail Enterprise Value	**$4,435**
LTM 2015 Q3 Retail EBITDA	**$889**
Implied Retail EV / LTM 2015 Q3 EBITDA Multiple	*5.0x*
Implied Retail Enterprise Value	**$4,435**
Less: Total Retail Debt	($1,495)
Less: Pension Obligations	($138)
Implied Retail Equity Value	**$2,802**

Excludes Cash and Cash Equivalents, accounted for at the corporate level

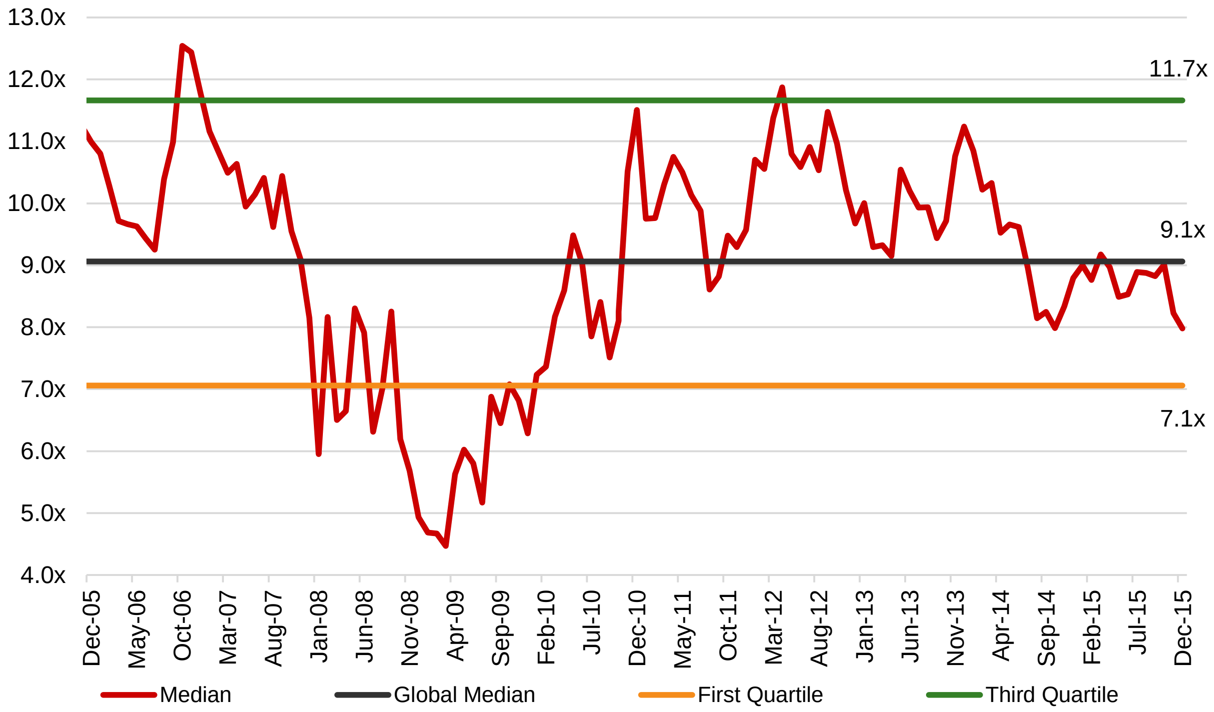
	2015F	2016F	2017F	2018F	2019F	2020F	Terminal
COMMON SIZE INCOME STATEMENT							
Revenue from Stores Opened 2014 and Prior	99.9%	99.6%	99.2%	98.7%	98.2%	97.9%	97.9%
Revenue from New Stores ('15E - '20E)	0.1%	0.4%	0.8%	1.3%	1.8%	2.1%	2.1%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of Goods Sold	(70.5%)	(70.7%)	(70.8%)	(70.9%)	(71.0%)	(71.1%)	(71.1%)
Gross Margin	**29.5%**	**29.3%**	**29.2%**	**29.1%**	**29.0%**	**28.9%**	**28.9%**
Selling, General, and Administrative (excl. D&A)	(23.0%)	(23.0%)	(23.0%)	(23.0%)	(22.4%)	(21.8%)	(21.3%)
Depreciation and Amortization	(3.2%)	(3.8%)	(4.1%)	(4.2%)	(4.3%)	(4.3%)	(5.3%)
EBIT	**3.4%**	**2.5%**	**2.0%**	**1.8%**	**2.3%**	**2.8%**	**2.4%**
Taxes	(0.9%)	(0.7%)	(0.5%)	(0.5%)	(0.6%)	(0.8%)	(0.6%)
Unlevered Net Income	**2.4%**	**1.8%**	**1.5%**	**1.4%**	**1.7%**	**2.1%**	**1.8%**
EBITDA	**6.5%**	**6.3%**	**6.2%**	**6.1%**	**6.6%**	**7.1%**	**7.7%**

Market and financial data in C$, unless otherwise noted.

Appendix A3: FGL Terminal Multiple Assumptions

The terminal multiple for FGL was determined through a 10-year trading multiples analysis of comparable companies in the sporting goods retailing subsector. The global median (second quartile) of the 10-year trading multiples analysis was used as the terminal multiple. The chosen competitor set included: Foot Locker, Inc., Cabela's Incorporated, Dick's Sporting Goods Inc., Sportman's Warehouse Holdings, Inc., and Hibbett Sports, Inc.

Historical EV / EBITDA Trend: Sporting Goods and Apparel Retailers



The first quartile and third quartile multiples were used as the bear and bull case terminal multiples, respectively.

Source: Company filings, S&P Capital IQ

Market and financial data in C$, unless otherwise noted.

Appendix A4: Bear and Bull Scenarios for CTFS and CT REIT Valuation Methodologies

The bear and bull scenarios for the acquisition multiple method and comparable companies analysis were determined through ten-year trading multiples analyses of publicly traded competitors of CT FS and CT REIT, respectively.

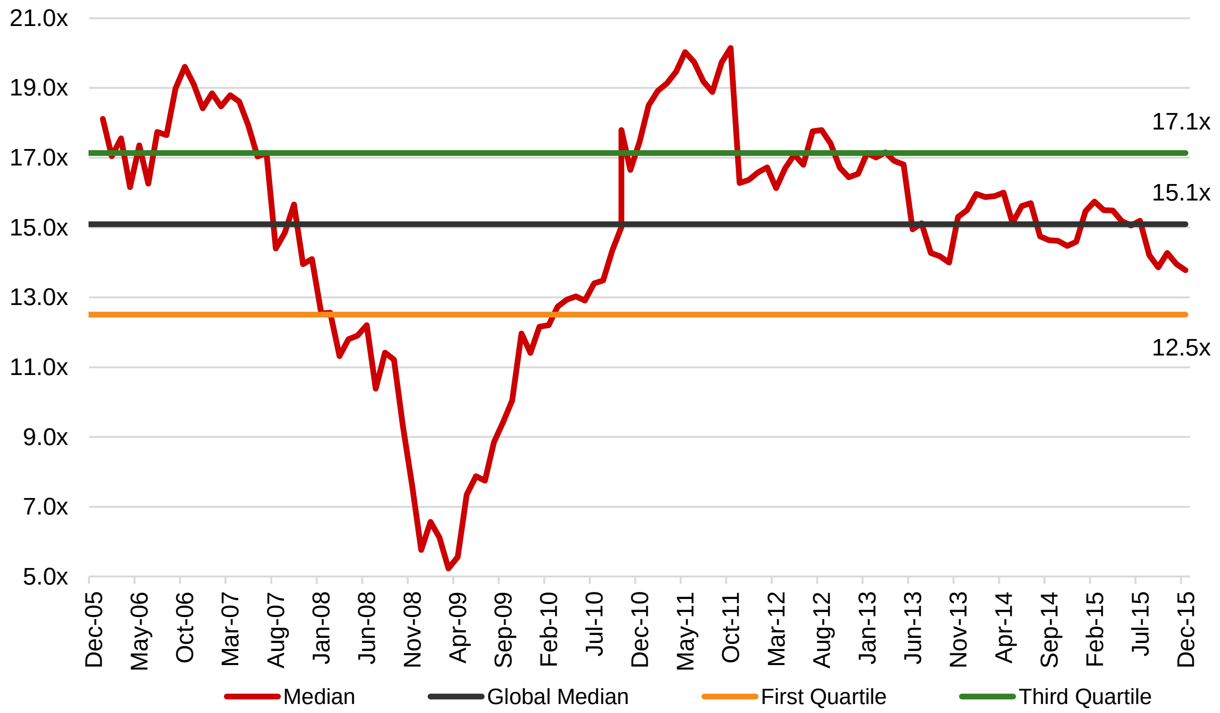
The competitors included in the analyses were:

- Canadian Retail REITs: SmartREIT, Choice Properties REIT, Crombie REIT, and Riocan REIT
- Financial Institutions: Royal Bank of Canada, Bank of Montreal, Bank of Nova Scotia, The Toronto-Dominion Bank, Canadian Imperial Bank of Commerce, National Bank of Canada, Laurentian Bank of Canada

The bear scenario for CT REIT and CTFS was based on the multiple spread between the first quartile and the global median (second quartile). The bull scenario for CT REIT and CTFS was based on the multiple spread between the third quartile and the global median.

- For CT REIT: the bear scenario spread was (2.5x) and the bull scenario spread was capped at 2.0x
- For CTFS: the bear scenario spread was rounded down to (1.5x) from (1.3x) and the bull scenario spread was 1.5x

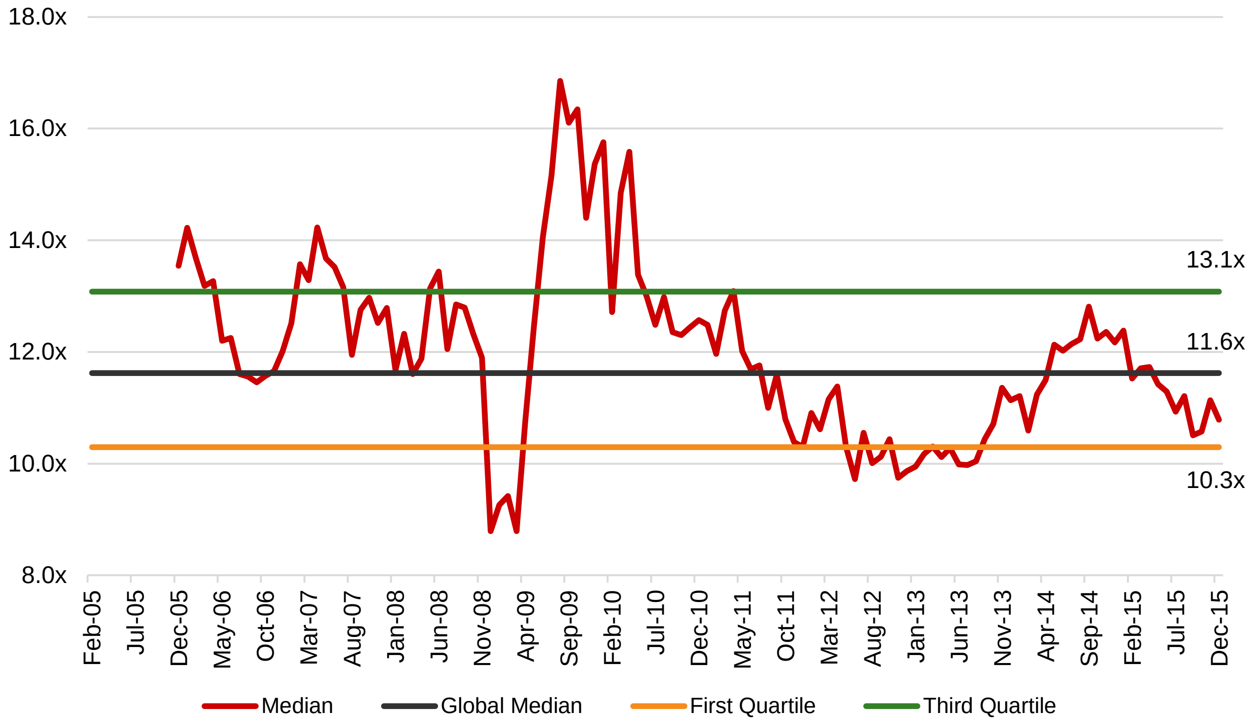
P / FFO Over Time: Canadian Retail REITS



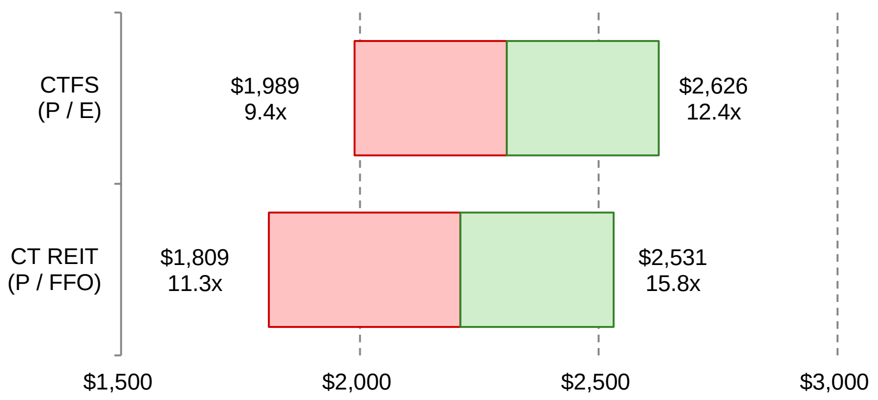
Source: Company filings, S&P Capital IQ

Market and financial data in C$, unless otherwise noted.

P / E Over Time: Canadian Financial Institutions



Bull and Bear Scenarios for CTFS and CT REIT (Attributable Equity Value, $ in millions)



Source: Company filings, Bloomberg, S&P Capital IQ

Market and financial data in C$, unless otherwise noted.

Appendix A5: Capital Structure

The capital structure schedule below is used to determine the equity-capitalization and debt-capitalization ratios for the WACC calculation for each retail banner. The capital structure assumes:

- The current market value of CT REIT based on its public market data, and not the implied value per the valuation methodology of trading multiples used by the team
- The equity value of CTFS based on (1) the P/E acquisition multiple paid by Scotiabank to acquire a 20% stake, and (2) the LTM net income as of Q3'15
    - This is consistent with the team's approach in valuing CTFS and considered the best approximation for its equity value as at Q3'15

Capital Structure ($ in millions), as at Q3'15 *Market data as at 04-Dec-2015*	
CT REIT	
Market Capitalization of CT REIT	**$2,514**
Ownership %	83.9%
Value of Ownership Interest of CT REIT	**$2,109**
CTFS	
Net Income (LTM, Q3'15)	$265
Acquisition Multiple	10.9x
Implied Equity Value	**$2,884**
Ownership %	80.0%
Value of Ownership Interest of CTFS	**$2,307**
CTC	
Market Capitalization of CTC	**$9,912**
Less: Value of Ownership Interest of CT REIT	($2,109)
Less: Value of Ownership Interest of CTFS	($2,307)
Estimated Retail Equity Value	**$5,496**
Bank Indebtedness	$38
Short-term Borrowings	$123
Loans Payable	$634
Deposits	$871
Long-term Deposits	$1,351
Long-term Debt, Current Portion	$289
Long-term Debt, Noncurrent Portion	$2,971
Total Debt, as at Q3'15	**$6,277**
Less: CTFS Debt	($4,371)
Less: CT REIT Debt	($411)
Total Retail Debt	**$1,495**
Retail Equity / Capitalization	**78.6%**
Retail Debt / Capitalization	**21.4%**

CTC Enterprise Value Schedule (financials as at Q3'15)	
Market Capitalization	$9,912
Add: Total Debt	$6,277
Add: Minority Interest	$797
Add: Pension Obligations	$138
Less: Cash and Cash Equivalents	($846)
Enterprise Value	**$16,278**

CT REIT Ownership Schedule (as at Q3'15)	
CT REIT Shares Outstanding Schedule	
Total Units Outstanding	90,299,296
Total Class B LP Units Outstanding	99,263,329
Total Units & Class B LP Units	**189,562,625**
CTC Units Owned	59,711,094
CTC Class B LP Units Owned	99,263,329
CTC Ownership	**83.9%**

Market and financial data in C$, unless otherwise noted.

Diluted Shares Outstanding Schedule

Common Shares Outstanding	3,423,366
Premium to Class A Non-voting Shares (3Y Avg.)	*48.4%*
Class A Non-voting Share Equivalents (Common Shares)	5,080,119
Class A Non-voting Share Equivalents (Common Shares)	5,080,119
Class A Non-voting Shares Outstanding	71,530,600
Dilutive Impact from Stock Options	830,978
Total Diluted Class A Non-voting Shares & Equivalents	**77,441,698**

Stock Options Schedule (Base Case)

Period	W. Avg. Exer. Price	ITM?	Stock Options	Proceeds ($ in millions)
As at Dec. 31, 2014	$72.21	Yes	1,526,343	$110.2
Issued during 2015	$129.14	Yes	387,234	$50.0
	$83.73		1,913,577	$160.2

Proceeds from Issuance (mm)	$160.2
Shares Repurchased (at 12 Month Target Price)	1,082,599
Dilutive Impact	830,978

Market and financial data in C$, unless otherwise noted.

Appendix A6: Capital Structure Forecast (from Q3'15 to Q4'15)
Given the valuation date of December 31, 2015, the cash and cash equivalents amount was adjusted for two known cash outlays over Q4'15. This adjustment was made because these obligations directly lower the amount of cash and cash equivalents, hence impacting the value to shareholders as at December 31, 2015. The two cash outlays included:

- **Debt maturing in Q4'15 –** maturing GCCT debt of $262mm (at face value) in November 2015
- **Declared and payable dividends -** As of October 3, 2015, CTC had dividends declared and payable to holders of Class A Non-Voting Shares and Common Shares of $39.3mm

Cash and Cash Equivalents Q4'15 Schedule ($ in millions)	
Cash and Cash Equivalents, as at Q3'15	$846
Less: Cash required to repay Debt Maturing in Q4'15	($262)
Less: Cash req. for Declared and Payable Dividends	($39)
Cash and Cash Equivalents, forecasted as at Q4'15	**$545**

Total Debt Q4'15 Schedule ($ in millions)	
Total Debt, as at Q3'15	$6,277
Less: Debt Maturing in Q4'15	
Senior Notes, Series 2012-1	($262)
Total Debt, forecasted as at Q4'15	**$6,015**

Management guidance for capital expenditures were also considered. However, we assumed the net impact of CFO and capital expenditures in Q4'15 to be zero. This is a highly conservative assumption from a valuation perspective since Q4 has been historically a positive cash flow generative period for CTC due to the seasonality of non-cash net working capital, as well as positive consolidated Q4 EBITDA. A historical analysis from 2012 – 2014 shows that in Q3 of each year, inventory increases, followed by a fall in Q4 resulting in a favourable impact on cash flow from operations in Q4.

Q4'15 Capital Expenditures Schedule ($ in millions)	Full Year '15 Capex Guidance (Q3'15)	2015 YTD Spend	Cash Needed
Operating	$613	$369	$244
Bolton DC	$175	$103	$72
Total	**$788**	**$471**	**$316**

Historical Q4 Results ($ in millions)	Q4 2012	Q4 2013	Q4 2014
Cash Generated from Operating Activities (reported)	$431	$318	$484
Components of Cash Generated from Operating Activities			
Consolidated EBITDA (reported)	$338	$381	$438
Favourable (Unfavourable) change in Non-cash NWC (calculated below)	$296	$108	$221

Non-cash Net Working Capital Schedule ($ in millions)	2012		2013		2014		2015
	Q3	Q4	Q3	Q4	Q3	Q4	Q3
Merchandise Inventories	$1,840	$1,503	$1,736	$1,481	$1,973	$1,624	$2,137
Trade and Other Receivables	$779	$751	$721	$759	$845	$880	$1,065
Prepaid Expenses	$77	$39	$81	$68	$91	$105	$145
Trade and Other Payables	($1,739)	($1,631)	($1,940)	($1,817)	($2,040)	($1,961)	($2,178)
Non-cash Net Working Capital Schedule	$957	$662	$598	$490	$869	$647	$1,169
Change in Non-cash Net Working Capital		($296)		($108)		($221)	

Recall: Negative change in non-cash net working capital is favourable from cash flow perspective.
Note: The increase in trade and other receivables in Q3'15 is "primarily due to an increase in derivative assets of $132 million arising from a more favourable valuation of the foreign exchange and higher revenue", as per CTC's FQ3 financial statements.

In conclusion, the historical analysis shows that CTC has generated positive cash flow from operations in Q4 (of 2012, 2013, and 2014), primarily due to seasonality of non-cash net working capital and positive EBITDA. Given CTC's financial results in YTD 2015 Q3, the build-up of 2015 Q3 non-cash networking capital, and our expectation of continued positive EBITDA for 2015, we view our assumption of the net impact of CFO and capital expenditures for Q4'15 to be zero as a conservative assumption from a valuation perspective.

Source: Company filings.

Appendix A6: CTC Debt Schedule

Below is a detailed schedule of CTC's debt by division. CTC discloses the detailed debt schedule at carrying amount on an annual basis – the senior notes, subordinated notes, medium term notes, mortgages and finance lease obligations are shown below at face value. In 2014, the difference between the carrying value and face value of the total debt was $7.5mm.

- The total debt as at Q3'15 is used to calculate the Retail division's equity / capitalization and debt / capitalization, as shown in Appendix AB
- The total debt as at Q4'15 is used to calculate the implied enterprise value of CTC as at the valuation date of December 31, 2015

Debt Schedule ($ in millions)	Coupon Rate	Due	Face
CTFS (Glacier Credit Card Trust)			
Senior Notes (GCCT)			
Series 2012-1	3.2%	Nov-2015	250
Series 2012-1	2.8%	May-2017	200
Series 2012-2	2.4%	Oct-2017	400
Series 2013-1	2.8%	Nov-2018	250
Series 2014-1	2.6%	Sep-2019	473
Series 2015-1	2.2%	Sep-2020	465
Subordinated Notes (GCCT)			
Series 2012-1	3.8%	May-2017	12
Series 2012-2	3.2%	Oct-2017	23
Series 2013-1	3.3%	Nov-2018	15
Series 2014-1	3.1%	Sep-2019	28
Series 2015-1	3.2%	Sep-2020	35
Deposits			871
Long-term Deposits			1,351
Total CTFS Debt	**2.6%**		**4,371**
CT REIT			
Mortgages			61
Senior unsecured debentures			
Series A	2.9%	Jun-2022	150
Series B	3.5%	Jun-2025	200
Total CT REIT Debt	**3.2%**		**411**
Other / Retail			
Medium-term Notes			
	6.3%	Apr-2028	150
	6.3%	Feb-2034	200
	5.6%	Sep-2035	200
Loans Payable			634
Bank Indebtedness			38
Short-term Borrowings			123
Finance Lease Obligations			150
Total Other / Retail Debt	**6.0%**		**1,495**
Total Debt, as at Q3'15	**3.3%**		**6,277**
Less: Maturing Debt			
Senior Notes, Series 2012-1			(262)
Total Debt, forecasted as at Q4'15			**6,015**

Source: Company filings.

Appendix A7: WACC Calculations

The WACC was calculated in three ways:

1. **CAPM and comparable companies method** for the retail subsectors of CTR, FGL, Mark's, and Petroleum. Steps included un-levering of betas for individual companies, and re-levering the median unlevered comparable companies beta for the Retail division's capital structure for each of the following industries:
    - Diversified retail which includes: general retail, home improvement, home furnishing, and auto parts (applicable to CTR)
    - Apparel and workwear (applicable to Mark's)
    - Sporting goods (applicable to FGL)
    - Fuel and convenience (applicable to Petroleum)
2. **CAPM for CTC**, used to calculate the 12-month target price based on the implied share price
3. **Fama French model for CTC** as an alternative to the CAPM

Important assumptions:

- Risk-free rate is assumed to be the 10-year Government of Canada benchmark bond yield
- Beta is calculated on a weekly, five-year historical basis
- Market return is calculated as the 40-year CAGR of the S&P TSX Composite Index
- Size premium is calculated using a ten-decile analysis of the S&P 600 Index versus the S&P 500 Index
- Statutory tax rate of 26.5% for companies headquartered in Canada and 40.0% for companies headquartered in the United States

Please note: Market and financial data throughout this section is presented in US$ millions, for comparability purposes.

Comparable Companies Analysis (Subsector Unlevered Betas)

Company Name	Market Cap	Net Debt	Enterprise Value	Statutory Tax Rate	Beta	Debt / Equity	Unlevered Beta
Canadian Tire Corp. Ltd.	$7,434	$4,074	$12,209	26.5%	0.49	54.8%	0.35
General Retailers							
Wal-Mart Stores Inc.	$191,025	$53,124	$240,218	40.0%	0.52	27.8%	0.45
Costco Wholesale Corporation	$72,959	$6,443	$73,209	40.0%	0.68	8.8%	0.64
Target Corp.	$45,526	$12,788	$56,318	40.0%	0.58	28.1%	0.50
Tractor Supply Company	$11,827	$201	$11,977	40.0%	1.09	1.7%	1.08
Average							**0.67**
Median							**0.57**
Home Improvement							
The Home Depot, Inc.	$170,568	$20,862	$188,390	40.0%	0.93	12.2%	0.87
Lowe's Companies Inc.	$70,243	$12,599	$81,457	40.0%	0.83	17.9%	0.75
Rona Inc.	$1,082	$247	$1,419	26.5%	0.60	22.8%	0.51
Average							**0.71**
Median							**0.75**
Home Furnishing							
Bed Bath & Beyond Inc.	$9,077	$1,500	$9,881	40.0%	0.82	16.5%	0.75
Williams-Sonoma Inc.	$5,717	$200	$5,845	40.0%	1.02	3.5%	1.00
Restoration Hardware Holdings, Inc.	$3,714	$719	$3,978	40.0%	0.22	19.3%	0.19
Aaron's, Inc.	$1,784	$494	$2,212	40.0%	0.97	27.7%	0.83
Leon's Furniture Ltd.	$765	$314	$1,063	26.5%	0.27	41.0%	0.21
Pier 1 Imports, Inc.	$535	$266	$760	40.0%	1.36	49.7%	1.05
Average							**0.67**
Median							**0.79**
Automotive Parts							
AutoZone, Inc.	$23,199	$4,665	$27,680	40.0%	0.50	20.1%	0.45
O'Reilly Automotive Inc.	$25,509	$1,397	$26,629	40.0%	0.66	5.5%	0.64
Advance Auto Parts Inc.	$11,412	$1,294	$12,601	40.0%	0.77	11.3%	0.72
AutoNation, Inc.	$7,028	$5,409	$12,373	40.0%	1.02	77.0%	0.70
Average							**0.63**
Median							**0.67**
Diversified Retail Average							**0.67**
Diversified Retail Median							**0.70**

Market and financial data in C$, unless otherwise noted.

Apparel and Workwear Companies							
V.F. Corporation	$27,454	$2,710	$29,598	40.0%	0.91	9.9%	0.86
The Gap, Inc.	$10,585	$1,752	$11,295	40.0%	1.09	16.6%	0.99
Wolverine World Wide Inc.	$1,852	$826	$2,485	40.0%	1.03	44.6%	0.81
Boot Barn Holdings, Inc.	$309	$272	$573	40.0%	1.27	88.1%	0.83
Superior Uniform Group Inc.	$238	$24	$260	40.0%	0.39	10.2%	0.36
Average							**0.77**
Median							**0.83**

Sporting Goods and Apparel Retailers							
Foot Locker, Inc.	$9,182	$131	$8,435	40.0%	1.05	1.4%	1.04
Cabela's Incorporated	$3,378	$4,295	$7,634	40.0%	1.28	127.1%	0.73
Dick's Sporting Goods Inc.	$4,425	$348	$4,699	40.0%	0.86	7.9%	0.82
Sportsman's Warehouse Holdings, Inc.	$503	$228	$729	40.0%	0.35	45.2%	0.27
Hibbett Sports, Inc.	$753	$0	$708	40.0%	1.11	0.1%	1.11
Average							**0.79**
Median							**0.82**

Fuel & Convenience Retailers							
Alimentation Couche-Tard Inc.	$26,698	$2,448	$28,611	26.5%	0.44	9.2%	0.42
Casey's General Stores, Inc.	$4,670	$854	$5,477	40.0%	0.77	18.3%	0.69
CST Brands, Inc.	$2,798	$1,418	$4,457	40.0%	0.62	50.7%	0.48
Average							**0.53**
Median							**0.48**

CAPM and WACC for the Retail Subsectors, and CAPM for CTC

Cost of Equity - Capital Asset Pricing Model	General Merch.	Home Improv.	Home Furn.	Auto. Parts	Div. Retail	Apparel & Workw'r	Sporting Goods	Fuel & Conven.	CTC
Risk-free Rate	1.6%								
Market Return	6.8%								
Market Risk Premium	5.3%								
Size Premium	1.9%								1.0%
Beta (Unlevered, Median)	0.57	0.75	0.79	0.67	0.70	0.83	0.82	0.48	0.35
Debt / Equity (excl. CT REIT, CTFS)	27.2%								54.8%
Beta (Levered)	0.68	0.90	0.95	0.80	0.84	0.99	0.98	0.57	0.49
Cost of Equity	**7.1%**	**8.2%**	**8.5%**	**7.7%**	**7.9%**	**8.7%**	**8.6%**	**6.5%**	**5.1%**

Weighted Average Cost of Capital Calculation	General Merch.	Home Improv.	Home Furn.	Auto. Parts	Div. Retail	Apparel & Workw'r	Sporting Goods	Fuel & Conven.
Equity / Capitalization (excl. CT REIT, CTFS)	78.6%							
Cost of Equity	7.1%	8.2%	8.5%	7.7%	7.9%	8.7%	8.6%	6.5%
Debt / Capitalization (excl. CT REIT, CTFS)	21.4%							
Statutory Tax Rate	26.5%							
Cost of Debt (excl. CT REIT, CTFS)	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Weighted Average Cost of Capital	**6.5%**	**7.4%**	**7.6%**	**7.0%**	**7.1%**	**7.8%**	**7.7%**	**6.0%**

Fama French 3 Factor Model

We include the model results for illustrative purposes and draw attention to the low Adjusted R-squared. The regression was performed on five years of historical data, collected on a weekly basis, using the research portfolio data sets provided by Kenneth R. French. The market, size, and value risk premiums were calculated based on market data since 1926 on a weekly basis.

	Coefficient	Premium
Adjusted R-squared		0.137
Market Risk	0.51	5.9%
Size Risk	(0.17)	1.6%
Value Risk	(0.11)	4.0%
CTC Cost of Equity		**3.9%**

Source: Kenneth R. French, S&P Capital IQ, Company filings.

Market and financial data in C$, unless otherwise noted.

Appendix A8: Size Premium Calculation

Due to the differences in market capitalization of the companies in the subsector analyses for the unlevered beta calculations in Appendix AD, we felt that it was prudent and conservative (from a valuation perspective) to adjust the discount rate by adding a size premium. The size premium was determined by comparing the S&P 500 Index to the S&P 600 Index.

- The size premium (of 2.9%) is calculated based on the difference in CAGRs of the S&P 600 and S&P 500 over a 20-year period
- The size premium is allocated based on the company's market capitalization as it fits into the appropriate decile
- For the Retail division's cost of equity calculation, a 1.9% size premium is assumed based on its estimated equity value as at Q3'15 (Appendix AB)
- For CTC's cost of equity calculation, a 0.9% size premium is assumed based on its market capitalization as at 04-Dec-2015

S&P 500 (US$ in millions, except number of companies)			
Industry	Number of Companies	Market Cap.	Median Market Cap.
Consumer Discretionary	**88**	**$2,421,341**	**$11,124**
Consumer Staples	37	$1,786,418	$27,738
Energy	40	$1,335,229	$15,369
Financials	88	$3,015,467	$19,325
Healthcare	55	$2,722,664	$26,775
Industrials	66	$1,889,563	$15,448
Information Technology	70	$3,858,983	$18,524
Materials	28	$543,333	$12,939
Telecommunication Services	5	$433,967	$18,539
Utilities	29	$538,708	$16,163
Total	506	$18,545,674	
S&P 500 Median Market Cap Consumer Discretionary			**$11,124**

S&P 600 (US$ in millions, except number of companies)			
Industry	Number of Companies	Market Cap.	Median Market Cap.
Consumer Discretionary	**93**	**$92,198**	**$898**
Consumer Staples	17	$18,693	$1,247
Energy	34	$19,028	$362
Financials	121	$158,273	$1,216
Healthcare	73	$81,962	$1,108
Industrials	99	$113,181	$1,128
Information Technology	106	$110,346	$998
Materials	38	$31,270	$821
Telecommunication Services	8	$5,733	$813
Utilities	12	$28,669	$2,485
Total	601	$659,352	
S&P 600 Median Market Cap Consumer Discretionary			**$898**

Size Premium Calculation (US$ in millions)						
Decile	Size Premium	Lower Bound	Upper Bound			
1	0.0%	$11,124 +		*Median Market Cap of S&P 500 Consumer Discretionary*		
2	0.3%	$9,846	$11,123			
3	0.6%	$8,568	$9,845			
4	**1.0%**	**$7,289**	**$8,567**	**Market Capitalization of CTC**	**$7,434**	***(US$ in millions)***
5	1.3%	$6,011	$7,288			
6	1.6%	$4,733	$6,010			
7	**1.9%**	**$3,455**	**$4,732**	**Estimated Retail Equity Value**	**$4,122**	***(US$ in millions)***
8	2.2%	$2,176	$3,454			
9	2.5%	$899	$2,175			
10	2.9%	$0	$898	*Median Market Cap of S&P 600 Consumer Discretionary*		

Source: S&P Capital IQ

Market and financial data in C$, unless otherwise noted.

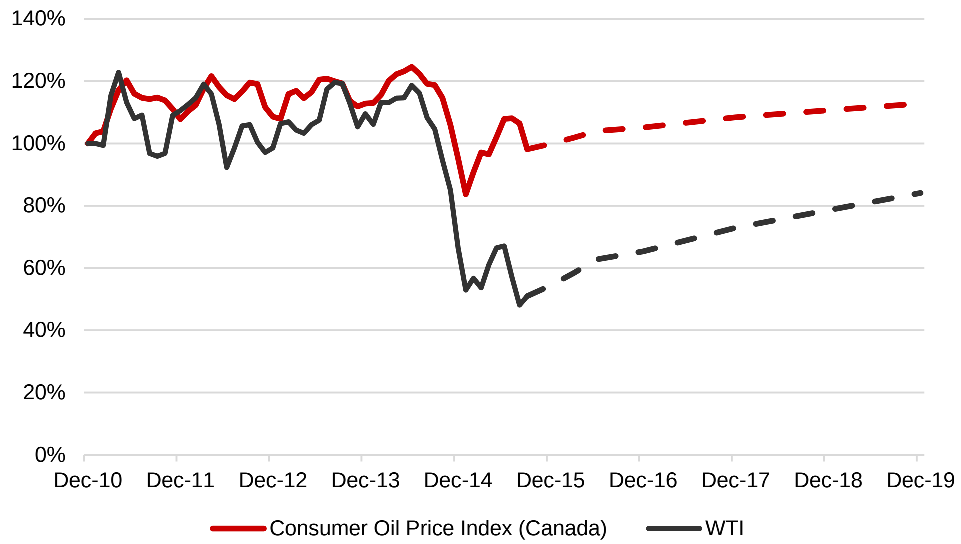
Appendix A9: Cash Conversion Cycle

	2012A	2013A	2014A	2015F	2016F	2017F	2018F	2019F	2020F
Financial Analysis | Retail Division (Base Case)									
Gross Margin	27.3%	28.2%	28.9%	29.5%	29.5%	29.5%	29.6%	29.7%	29.7%
EBITDA Margin	7.7%	7.9%	7.3%	6.8%	6.7%	6.6%	6.6%	7.4%	8.1%
Trade and Other Receivables (% of Sales)	7.2%	7.1%	7.8%	7.4%	7.4%	7.4%	7.4%	7.4%	7.4%
Trade Receivables Turnover	13.1	14.2	13.8	13.3	13.9	13.9	13.9	13.8	13.8
Trade Receivables Days	28	26	26	27	26	26	26	26	27
Inventory (% of COGS)	19.9%	19.3%	20.2%	19.8%	19.8%	19.8%	19.8%	19.8%	19.8%
Inventory Turnover	5.1	5.1	5.2	5.0	5.2	5.2	5.2	5.1	5.1
Inventory Days	71	71	71	73	71	71	71	71	71
Trade and Other Payables (% of COGS)	21.6%	23.7%	24.4%	23.2%	23.2%	23.2%	23.2%	23.2%	23.2%
Trade Payables Turnover	4.6	4.5	4.3	4.2	4.4	4.4	4.4	4.4	4.4
Trade Payables Days	79	82	86	87	83	83	83	83	84
Cash Conversion Cycle	20	15	11	14	14	14	14	14	14

Source: Company filings, Team calculations.

Appendix A10: Petroleum Revenue Forecasts

We investigated the historical relationship between the Consumer Oil Price Index and the WTI. We used this historical relationship to forecast the Consumer Oil Price Index (i.e. based on the median economic forecasts for the WTI), which we then used as a proxy for Petroleum's revenue growth.



Source: Federal Reserve Bank of St. Louis, Bloomberg (Contributor Composite)

Section B: Company Analysis
Appendix B1: Shareholder Summary

Top 10 Holders	Class A Non-voting Shares	% of Total
Manulife Asset Management	1,607,229	2.1%
Beutel Goodman & Company Ltd.	1,478,873	2.0%
Albikin Management Inc	1,441,559	1.9%
Ctc Dealer Holdings Ltd	1,407,568	1.9%
Tire N Me Pty. Ltd	1,400,767	1.9%
Canadian Tire Corporation, Ltd. Profit-Sharing Plan	1,198,168	1.6%
BlackRock, Inc. (NYSE:BLK)	1,026,754	1.4%
The Vanguard Group, Inc.	915,364	1.2%
Dimensional Fund Advisors LP	739,500	1.0%
Mackenzie Financial Corporation	707,434	0.9%
Manulife Asset Management	1,607,229	2.1%

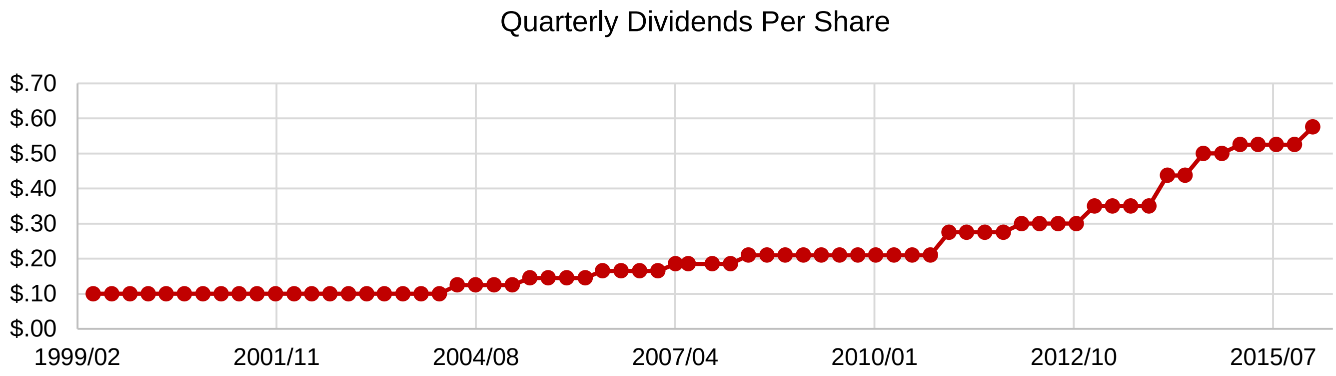
Source: S&P Capital IQ, CTC 2015 Management Information Circular

	# of Class-A Non-Voting Shares	% of Class-A Non-Voting Shares	# of Common Shares	% of Total Shares Outstanding	Total Shares Outstanding
Martha G. Billes	5,706	NM	1,400,767	40.9%	1,406,473
Owen G. Billes	754,765	1.06%	700,383	20.5%	1,455,148
CTC Dealer Holdings Ltd.	-	-	703,784	20.6%	703,784
CTC'S Deferred Profit Sharing Plan	-	-	419,280	12.2%	419,280
Executive Officers	111,379	.16%	-	-	111,379
Public Float	70,658,750	98.78%	199,152	5.8%	70,857,902
Total Shares	71,530,600	100%	3,423,366	100%	74,954,966

Sources: FQ3 2015 Report, 2015 Management Information Circular, S&P Capital IQ

Market and financial data in C$, unless otherwise noted.

Appendix B2: Dividend Distribution History



In Q3 2013, the Company announced an increase in the dividend payout ratio target to 25 to 30 per cent of the prior year's normalized earnings. In 2014, the Company increased its annual dividend to $2.10 per share, and dividends paid per share represented 26.4% of prior year normalized EPS. The Company had declared dividends payable to holders of Class A Non-Voting Shares and Common Shares at a rate of $0.525 per share payable on June 1, 2015 to shareholders of record as of April 30, 2015.

The holders of Class A Non-Voting Shares are entitled to receive a fixed cumulative preferential dividend at the rate of $0.01 per share per annum. After payment of fixed cumulative preferential dividends at the rate of $0.01 per share per annum on each of the Class A Non-Voting Shares with respect to the current year and each preceding year and payment of a non-cumulative dividend on each of the Common Shares with respect to the current year at the same rate, the holders of the Class A Non-Voting Shares and the Common Shares are entitled to further dividends declared and paid in equal amounts per share without preference or distinction or priority of one share over another.

The June 4, 1993 Trust Indenture pursuant to which CTC issued medium term notes due in 2028 and 2034, as well as CTC's committed bank lines of credit, contain restrictions on the ability of CTC to declare and pay dividends**. The financial position of CTC is such that these restrictions do not practically limit the payment of dividends by CTC at this time.**

Dividend Reinvestment Plan
The Plan enables registered and non-registered holders of Eligible Shares who are residents of Canada to elect to have their cash dividends on such shares invested in newly issued Class A Non-Voting Shares. All registered and non-registered holders of Eligible Shares who are residents of Canada are eligible to participate in the Plan.

Sources: Company filings, CTC Website

Appendix B3. Share Buyback Program

CTC continues to employ a share buy-back program for Class A non-voting shares (in excess of the amount necessary for anti-dilution) to return value to shareholders. As of October 3, 2015, approximately 6.5mm shares have been re-purchased since 2010. Per the Company's 2014 Annual Report, 2015 objectives for share repurchases in excess of anti-dilution requirements would total $400mm. As of October 3, 2015, $316mm of this $400mm goal has been reached. Notably, the company's policy for share repurchase reporting charge share capital at the weighted average cost per share outstanding, with any excess being allocated to contributed surplus.

On November 11, 2015, the Board of Directors approved the 2016 goal of a $550mm repurchase of Class A non-voting shares. This is subject to the acceptance by the Toronto Stock Exchange ("TSX") of the Company's notice of intention to make an NCIB for any amount exceeding that of pre-existing NCIBs. Currently, the company has approximately 1.5mm in existing room from its February 26, 2015 NCIB; all previous NCIBs were used in full. The remainder of the $400mm goal would use up 0.7mm (approximately 46%) of the remaining room and leave 0.8mm re-purchasable shares to meet 2016 goals to be used prior to March 1, 2016.

Sources: Company filings

Appendix B4: Canadian Tire Corporation Key Executives

Name	Title	History with CTC	Background
Michael B. Medline	Chief Executive Officer, President, Unit President, Member of the Board of Directors	President since November 2013 CEO since December 2014 President, FGL Sports since 2011 President, Marks since 2011 Executive VP, CTC 2011-2014 Joined CTC in January 2001	Mr. Medline has held a number of positions over the course of his 14-year career with CTC, including President of FGL Sports Ltd. and Mark's Work Wearhouse Ltd. (Mark's), President of Canadian Tire Automotive and Dealer Relations, and Chief Corporate Officer. He was involved in the acquisition of Mark's in 2002, the acquisition and subsequent Canada integration of The Forzani Group Ltd. in 2011, and the Company's partnership with The Bank of Nova Scotia in 2014. Michael holds an MBA from the College of William and Mary in Virginia, an LL.B. from the University of Toronto, and a BA from the University of Western Ontario.
Dean C. McCann	Chief Financial Officer, Unit President, Executive Vice President	CFO, CTC, and EVP since March 2012 President, CEO, CT Bank since 2009 President, COO CTFS 2009-2012 CFO, Glacier CC Trust since 2003 Joined CTC in 1996	Dean McCann was appointed Executive Vice-President and Chief Financial Officer of Canadian Tire Corporation in March 2012.Prior to his current position, Dean was a member of management at Canadian Tire Financial Services (CTFS) and Canadian Tire Bank for twelve years, serving as President of CTFS and CEO of Canadian Tire Bank for three years. Dean joined Canadian Tire Corporation in 1996 and has held a number of roles, including Corporate Controller, Canadian Tire Corporation. Dean has had a 19 year career with CTC. Dean is a Chartered Accountant and a graduate of the McMaster Chartered Director program.
Eugene O. Roman	Chief Technology Officer, SVP Information Technology	CTO since 2012 SVP, IT since 2012 Joined CTC in 2012	Eugene Roman was appointed Chief Technology Officer of Canadian Tire Corporation and its Family of Companies back in 2012. Eugene started his career in telecommunications and has worked for Nortel Networks Corporation, Bell Canada Enterprises Inc., and Open Text Corporation. Eugene holds a Masters in Administration, a Bachelor in Economics, and is a Certified Management Accountant.
Douglas B. Nathanson	Chief Human Resources Officer, General Counsel and Secretary	CHRO since March 2012 General Counsel since March 2015 SVP and Chief Corporate Strategy 2013-2015 VP, Associate General Counsel 2009-2012	Doug Nathanson is General Counsel, Chief Human Resources Officer and Secretary for Canadian Tire Corporation, Limited. He provides legal advice, legislative compliance services and corporate secretarial services to the Canadian Tire Family of Companies. He is also responsible for leading all legal aspects relating to the identification, negotiation and execution of new business opportunities such as partnerships, joint ventures and acquisitions. Doug also oversees all aspects of Human Resources, including talent acquisition, learning and development, leadership and succession planning, employee engagement, compensation, benefits and organizational development. He is also responsible for the Gas+ business and the network of petroleum stations across the country.
Lisa Greatrix	Senior Vice President, Company Performance and Investor Relations	SVP, Performance Effectiveness & I.R. since October 2014 VP, Financial Planning & Analysis – Corporate & I.R. 2007-2014 Joined CTC in 2007	As Senior Vice-President of Company Performance Effectiveness and Investor Relations at Canadian Tire Corporation (CTC), Lisa and her team directly support CTC's Board of Directors, CFO and CEO. Lisa oversees investor relations strategies and programs and also manages relationships with the investor and analyst communities. Lisa joined Canadian Tire in 2007 as Vice-President, Corporate Financial Planning and Analysis. During this time, she acted as an advisor to senior management, and supported the creation of CT REIT. Prior to joining Canadian Tire, Lisa held senior positions at MDS, Research in Motion and Xerox Canada. Lisa is a Chartered Accountant and Chartered Professional Accountant and holds a Bachelor of Business Administration from York University.
Duncan S.A. Fulton	Senior Vice President, Communications at CTC and Chief Marketing Officer, Mark's and FGL Sports	SVP, Communications since 2009 CMO, FGL and Mark's since 2011 Joined CTC in 2009	Duncan is a member of the Canadian Tire, FGL Sports and Mark's executive teams and works across all the Company's business areas, including Canadian Tire Retail, Automotive, Part Source, Petroleum, and Financial Services. Before joining Canadian Tire, Duncan was the General Manager and Senior Partner of the Toronto office of international public relations company, Fleishman-Hillard Communications. Prior to Fleishman-Hillard, Duncan was a communication advisor and press secretary for Canadian Prime Minister Jean Chrétien. Duncan was also Communications Director for the Minister responsible for the Canadian International Development Agency.
Allan MacDonald	Chief Operating Officer, President CT Retail	President, COO CT Retail since 2013 Chief Marketing Officer, CTC 2009-2013 SVP, Automotive 2009-2013 VP, Corporate Strategy 2009 Joined CTC in April 2009	Allan MacDonald was appointed Chief Operating Officer of Canadian Tire in May 2013. Allan oversees the Company's operations including merchandising, marketing, supply chain, information technology, automotive, digital and social integration, store operations and Dealer relations. Allan joined Canadian Tire Corporation in 2008. As the former Chief Marketing Officer, Allan led Canadian Tire's digital engagement and marketing efforts and was behind the Company's new digital catalogue, "The Canadian Way". Prior to joining Canadian Tire Corporation, Allan held senior roles at Bell Canada, Aliant Inc. and British Telecom in the United Kingdom. Allan holds a Bachelor's degree in Business Administration from Acadia University and an MBA from Henley Management College in England.

Source: CTC Website, CTC 2015 Management Information Circular. Capital IQ, LinkedIn Executive Profiles

Market and financial data in C$, unless otherwise noted.

Appendix B5: Canadian Tire Corporation Board Members

Name	Title	Background	Tenure	Independent
Maureen Joanne Sabia	Non-Executive Chairman and Chairman of Governance Committee	President of Maureen Sabia International, Inc. since 1986. Ms. Sabia has been the Principal of her own consulting practice with specialized business, organizational and strategic related projects in the private sector since 1986.	30 Years	Yes
Michael B. Medline	Chief Executive Officer, President and Director	See Appendix B4.	N/A	No
Stephen G. Wetmore	Non-Executive Deputy Chairman and Member of Brand & Community Committee	Served as the Chief Executive Officer at Canadian Tire Corp., Ltd. from January 1, 2009 to December 1, 2014. Mr. Wetmore served as the President at Canadian Tire Corp. from January 1, 2009 to November 7, 2013.	12 Years	No
James L. Goodfellow	Corporate Director, Chairman of Management Resources & Compensation Committee, Chairman of Audit Committee and Member of Governance Committee	Served as a Vice-Chairman of Deloitte & Touche LLP until May 2008. Mr. Goodfellow has over 40 years' experience in public accounting and providing assurance and advisory services, primarily to large public companies.	5 Years	Yes
Timothy Robert Price	Independent Director, Chairman of Brand & Community Committee and Member of Governance Committee	Serves as President for Mad River Golf Club. Mr. Price has more than 30 years of management experience with the Brascan Group of companies.	8 Years	Yes
Owen G. Billes	Director, Member of Brand & Community Committee and Member of Management Resources & Compensation Committee	Served as Manager of New Business Development at Canadian Tire Corp. Ltd. Mr. Billes joined Canadian Tire in 1992 as Changeover Consultant, Dealer Changeover.	11 Years	No
Pierre Boivin	Independent Director, Member of Audit Committee and Member of Management Resources & Compensation Committee	Serves as the President and Chief Executive Officer of Claridge, Inc. Mr. Boivin has been the President of the Molson Centre since September 2, 1999 and L'Aréna Des Canadiens Inc., since 1999.	2 Years	Yes
Diana L. Chant	Director	National Leader, Financial Services of PricewaterhouseCoopers LLP, Canada. Ms. Chant is one of 12 partners elected to serve on the Partnership Board of PwC Canada.	-	Yes
David C. Court	Corporate Director	David C. Court has been Corporate Director of Canadian Tire Corp. Ltd. since August 25, 2015.	<1 Year	Indeterminate (assumed not independent by default)
H. Garfield Emerson	Corporate Director and Member of Audit Committee	Senior Partner of Fasken Martineau DuMoulin LLP since August 2001.	8 Years	Yes
John A. Furlong	Corporate Director, Member of Brand & Community Committee and Member of Management Resources & Compensation Committee	Chief Executive Officer of VANOC and led the team that organized and delivered the Olympic Winter Games.	4 Years	Yes
Ronald L. Goldsberry	Corporate Director, Member of Audit Committee and Member of Brand & Community Committee	Serves as an Independent Contractor of Deloitte Consulting. Dr. Goldsberry has been Vice President of Global Service Business Strategy at Ford Motor Company, a post he has held since January 1999.	1 Year	Yes
Jonathan Lampe	Independent Director, Member of Governance Committee and Member of Management Resources & Compensation Committee	Independent Director of Canadian Tire Corp., Ltd., since August 9, 2012.	3 Years	Yes
Claude L'Heureux	Director and Member of Brand & Community Committee	President of Gestion Claude L'Heureux Inc. Mr. L'Heureux has been Canadian Tire Dealer since 1983 and has operated a number of Canadian Tire stores in Ontario and Quebec.	4 Years	No
George A. Vallance	Independent Director and Member of Brand & Community Committee	President of G.A. Vallance Holdings Limited. Mr. Vallance became Canadian Tire Dealer in 1989.	4 Years	No
Anatol von Hahn	Director	Group Head of Canadian Banking of The Bank Of Nova Scotia.	N.A	Indeterminate (assumed not independent by default)
Martha G. Billes	Director, Member of Brand & Community Committee and Member of Governance Committee	President and a Director of Albikin Management Inc., an investment holding company.	11 Years	No

Source: CTC Management Information Circular, S&P Capital IQ, Company Website, LinkedIn

Market and financial data in C$, unless otherwise noted.

Appendix B6: Board Committee Positions

Management Resources & Compensation Committee	Title
James L. Goodfellow	Chairman
Owen G. Billes	Member
John A. Furlong	Member
Jonathan Lampe	Member
Pierre Boivin	Member
Audit Committee	**Title**
James L. Goodfellow	Chairman
H. Garfield Emerson	Member
Ronald L. Goldsberry	Member
Pierre Boivin	Member
Dana L. Chant	Member
David C. Court	Member
Timothy Robert Price	Member
Brand and Community Committee	**Title**
Timothy Robert Price	Chairman
Ronald L. Goldsberry	Deputy Chairman, Member
Owen G. Billes	Member
John A. Furlong	Member
Stephen G. Wetmore	Member
George A. Vallance	Member
Claude L'Heureux	Member
Martha G. Billes	Member
Governance Committee	**Title**
Maureen Joanne Sabia	Chairman
Timothy Robert Price	Member
Jonathan Lampe	Member
James L. Goodfellow	Member
Martha G. Billes	Member
Dana L. Chant	Member

Source: S&P Capital IQ, Company Website

Appendix B7. CTC's National Branding Campaign

Relative to its closest peer group (Lowe's RONA, Walmart, and Home Depot), CTR's national brand differentiation primarily focuses on a Canadian-focused advertising campaign, niche & diverse product offering, and convenient geographic presence that caters to consumers.

Peer group advertising via television and online videos does not directly focus on the Canadian target market:

- **Walmart Canada** is diversified in its advertising, primarily focusing on family (i.e. food, outdoors, etc.)
- **RONA** uses more traditional advertising using marketing slogans and short ads for its service offerings
- **Lowe's** offers instructional videos, catering to Do-it-yourself ("DIY") households; their ads have minimal product advertising intention
- **Home Depot** focuses also on the DIY similar to Lowe's, but leverages local homeowners to provide a friendlier and local vibe

Conversely, CTR has leveraged campaigns such as #WannaPlay, "Tested For Life" and "How Many Canadians Does It Take", inviting trademark Canadians such as Wayne Gretzky to promote national culture and develop a consumer association with the brand for sports & home improvement. The online PR impact this has made can be demonstrated through YouTube, where the Canadian segment of each retailer can be contrasted as follows:

Fig 1. Total Subscribers

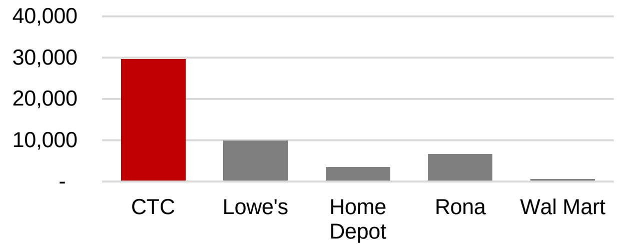
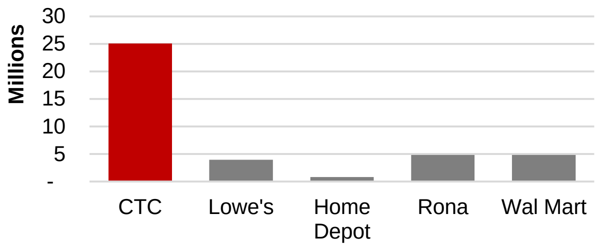


Fig 2. Total Video Views



CTC is more than 6x the peer average in total subscribers, and has over 5x the average video views. From the perspective of social media, CTC has successfully associating itself with key players in Canadian culture such as Canada Sports Hall of Fame and many Canadian hockey teams. Daily, CTC continues to excel in their subscriber and viewer growth, despite being the earliest to join the platform by nearly 5 full years relative to peers (2007, versus peer average of 2012):

Fig 3. Daily Average Subscribers

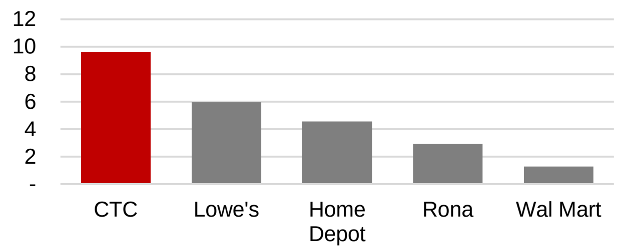
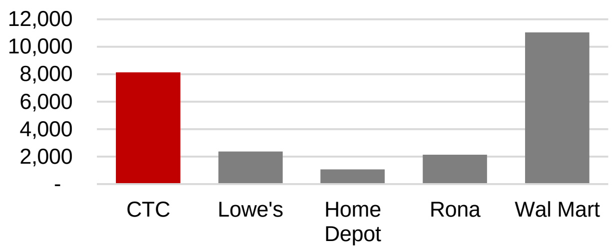


Fig 4. Daily Average Views



On Twitter – a more interactive, less advertising-focused platform than YouTube – CTC also outperforms its peers:

Fig 5. Twitter General Statistics

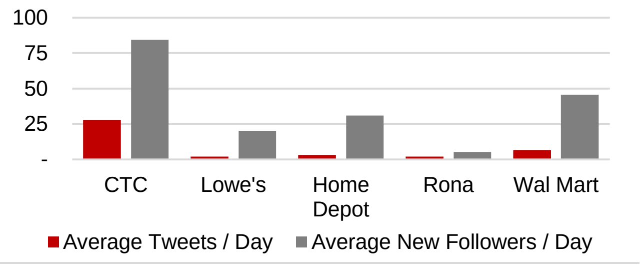
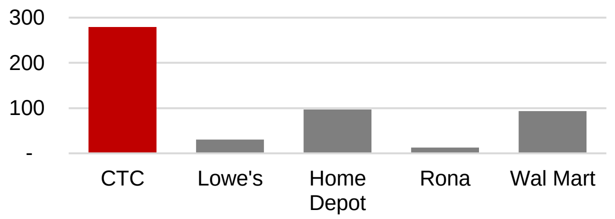


Fig 6. Twitter Follower Quality (Following/Follower)



Follower quality is a common metric for evaluating whether or not users follow another user solely for purposes of follow-back. It demonstrates user engagement by seeing how many individuals are following and being impacted by the posts, trends, and announcements associated with the retailer. In terms of activity and subscriber base, CTC has an outperforming brand relative to its competitors.

Appendix B8. Supply Chain

CTC's retail operations require an intricate supply chain process consisting of both Canadian and International suppliers, a "Preferred Supplier" identification program, 16 nation-wide distribution centres (DC) & transportation facilities, carrier truck/ship/rail partnerships, and third party logistics managers. Broken down:

Mark's

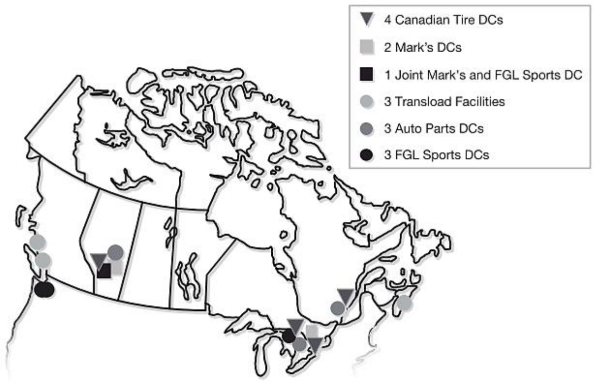
- Mark's engages a third party logistics company to transport its product shipments from its two DCs to stores and to transport most of its product shipments from domestic suppliers directly to its stores. Third party logistics companies operate both Mark's DCs in Calgary, Alberta and Brampton, Ontario pursuant to an outsourcing arrangement. Both DC facilities are leased to Mark's by third party lessors.
- Offshore suppliers managed by CT's third party consolidator, Century Distribution Services ("Century"). Approximately 50% of Mark's suppliers are sources outside of North America, primarily in Asia-Pacific.

FGL Sports

- 4 DCs (including one joint with Mark's), with the primary DC in Mississauga, Ontario. All DCs are operated by a third-party logistics provider.
- In late 2014, the Company completed the construction of a new Calgary DC (455,000 square feet) that will service both Mark's and FGL Sports' supply chain starting in 2015. This DC will replace Mark's current third party operated DC in Calgary and will provide FGL Sports with new distribution capacity in western Canada.
- Approximately 7% of FGL's suppliers are sources outside of North America, primarily in Asia-Pacific.

CT Retail and PartSource

- 4 retail-exclusive DCs. Two DCs in Brampton, Ontario ("A.J. Billes" and "Brampton") are operated by CTR. DCs in Calgary, Alberta and Montreal, Quebec are operated by GENCO, a third-party logistics company. In 2013, land in Bolton, Ontario was acquired to replace the Brampton DC due to aging of the old facility; construction for the new DC began in 2014. The Bolton DC is expected to open in 2016. 3 PartSource DCs, located in Alberta, Ontario, and Quebec.
- CTR's supply chain uses internal resources and third party logistics providers to manage supply chain technology and the movement of foreign-sourced goods from suppliers to its DCs and to Canadian Tire and PartSource stores.
- Offshore suppliers managed by CTR's third party consolidator, Century Distribution Services. Approximately 43% of CTR's inventory purchases are form sources outside of North America, primarily in Asia-Pacific.



In order to sustain its product distribution, CTC owns or leases over 2,000 trailers, 4,500 chassis, and 6,000 containers – Canada's largest private fleet. Shipments are transported using various modes of transportation. CTC is the 2nd largest freight customer of CP Rail.

The *Canadian Tire Supplier Code of Business Conduct* provides CTC with protection over potential losses as a result of supply chain issues. Select protective provisions include, but are not limited to:

- Supplier payment for shipping up until contact with CT's DC
- Protection provisions against time delays, over/under shipment, spoilage & defective product above predetermined standard
- Quality inspection fees paid by suppliers (initial inspection performed and paid for by CTC) – all engineering facilities must be ISO9001 compliant
- Damages and returns policy negotiated with supplier such that defective products may be sold "as-is" or returned for full refund

Sources: Town of Caledon, Company filings

Market and financial data in C$, unless otherwise noted.

Appendix B9. FGL Store Overview

	Corporate Owned Retail Banners			
Province or Territory*	**Sport Check**	**Atmosphere**	**Pro Hockey Life**	**National Sports**
British Columbia	32	9	-	-
Alberta	32	9	4	-
Saskatchewan	10	1	-	-
Manitoba	8	1	1	-
Ontario	86	5	8	18
New Brunswick	4	-	-	-
Nova Scotia	10	-	1	-
Prince Edward Island	2	-	-	-
Newfoundland and Labrador	5	-	-	-
Total	**189**	**25**	**14**	**18**

* There are no FGL Sports stores in the territories

	Franchise Retail Banners					
Province or Territory*	**Sports Experts**	**Intersport**	**Atmosphere**	**Hockey Experts**	**S3**	**Sports Rousseau**
British Columbia	1	1	-	-	-	-
Alberta	2	5	-	-	1	-
Ontario	5	1	1	-	-	-
Quebec	63	33	40	15	7	9
New Brunswick	1	3	-	-	-	-
Newfoundland and Labrador	-	1	-	-	-	-
Yukon	1	-	-	-	-	-
Total	**73**	**44**	**41**	**15**	**8**	**9**

*There are no franchise locations in Saskatchewan, Manitoba, Nova Scotia, PEI, NWT and Nunavut

Note: Store count data as at latest provincial breakdown – December 31, 2014.

Appendix B10. Exposure to Provinces

Store Count and Population by Province						
	CT Retail	FGL	Mark's	Gas+	AutoParts	Population (000's)
British Columbia	52	43	58	5	0	4,683.10
Alberta	55	53	63	19	15	4,196.50
Saskatchewan	14	11	16	6	6	1,133.60
Manitoba	14	10	13	6	6	1,293.40
Ontario	202	124	146	167	61	13,792.10
Quebec	99	167	45	59	0	8,263.60
New Brunswick	19	8	13	15	0	753.90
PEI	2	2	2	0	0	146.40
Nova Scotia	21	11	17	8	3	943.00
Nfld & Lab	13	6	8	12	0	527.80
Yukon	1	0	1	0	0	37.40
NWT	1	1	1	0	0	44.10
SUM	493	436	383	297	91	35,814.90

Store Distribution by Provincce						
	CT Retail	FGL	Mark's	Gas+	AutoParts	Population
British Columbia	10.5%	9.9%	15.1%	1.7%	0.0%	13.1%
Alberta	11.2%	12.2%	16.4%	6.4%	16.5%	11.7%
Saskatchewan	2.8%	2.5%	4.2%	2.0%	6.6%	3.2%
Manitoba	2.8%	2.3%	3.4%	2.0%	6.6%	3.6%
Ontario	41.0%	28.4%	38.1%	56.2%	67.0%	38.5%
Quebec	20.1%	38.3%	11.7%	19.9%	0.0%	23.1%
New Brunswick	3.9%	1.8%	3.4%	5.1%	0.0%	2.1%
PEI	0.4%	0.5%	0.5%	0.0%	0.0%	0.4%
Nova Scotia	4.3%	2.5%	4.4%	2.7%	3.3%	2.6%
Nfld & Lab	2.6%	1.4%	2.1%	4.0%	0.0%	1.5%
Yukon	0.2%	0.0%	0.3%	0.0%	0.0%	0.1%
NWT	0.2%	0.2%	0.3%	0.0%	0.0%	0.1%
Median	4.1%	2.5%	4.3%	3.4%	1.6%	

*Median excludes Territories

Population per Store (000's)					
	CT Retail	FGL	Mark's	Gas+	AutoParts
British Columbia	90.1	108.9	80.7	936.6	
Alberta	76.3	79.2	66.6	220.9	279.8
Saskatchewan	81.0	103.1	70.9	188.9	188.9
Manitoba	92.4	129.3	99.5	215.6	215.6
Ontario	68.3	111.2	94.5	82.6	226.1
Quebec	83.5	49.5	183.6	140.1	
New Brunswick	39.7	94.2	58.0	50.3	
PEI	73.2	73.2	73.2		
Nova Scotia	44.9	85.7	55.5	117.9	314.3
Nfld & Lab	40.6	88.0	66.0	44.0	
Yukon	37.4		37.4		
NWT	44.1	44.1	44.1		
Average	69.0	92.2	84.8	221.9	244.9

*Average excludes territories

Note: Store count data as at latest provincial breakdown – December 31, 2014.

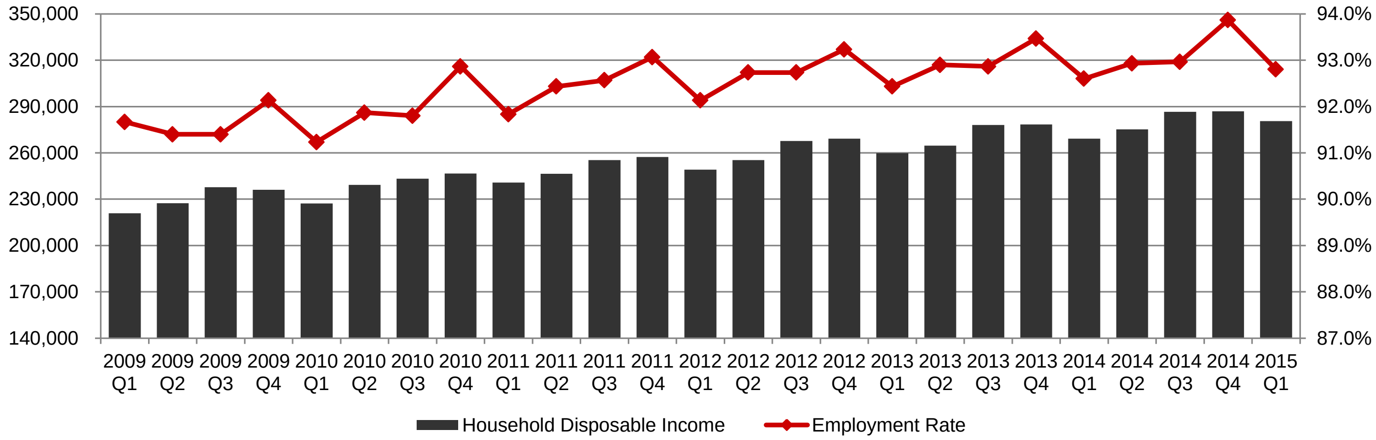
Section C: Industry Analysis

Appendix C1: Canadian Retail Industry Sales Breakdown (by NAICS)

Retail Subsector Sales (C$ millions)	2009	2010	2011	2012	2013	2014	5Y CAGR
Gasoline Stations	$42.1	$48.9	$57.8	$59.3	$61.4	$64.3	8.8%
Motor Vehicle Dealers	$82.4	$89.1	$93.1	$98.2	$104.3	$111.9	6.3%
Automotive Parts, Accessories and Tire Stores	$6.1	$6.4	$7.0	$7.0	$7.5	$7.8	5.3%
General Merchandise	$51.6	$53.9	$56.0	$58.0	$60.0	$63.7	4.3%
Clothing and Clothing Accessories	$23.2	$24.8	$25.8	$26.4	$27.2	$28.1	3.9%
Health and Personal Care	$30.6	$32.2	$33.0	$33.5	$35.0	$36.2	3.4%
Sporting Goods, Hobby, Book and Music Stores	$10.2	$10.4	$10.6	$10.7	$10.8	$11.5	2.3%
Furniture and Home Furnishings	$14.5	$15.0	$15.0	$15.2	$15.3	$15.9	1.9%
Food and Beverage	$101.7	$104.2	$104.9	$106.7	$107.7	$110.8	1.7%
Building Material, Garden Equipm't, & Supplies Dealers	$27.4	$27.6	$26.9	$27.0	$27.5	$28.3	0.7%
Miscellaneous	$11.3	$10.9	$10.9	$11.1	$11.6	$11.6	0.5%
Electronics and Appliance Stores	$14.7	$15.4	$15.9	$15.1	$14.7	$14.8	0.2%
Retail Sales	**$415.7**	**$439.0**	**$456.7**	**$468.1**	**$483.0**	**$505.0**	**4.0%**

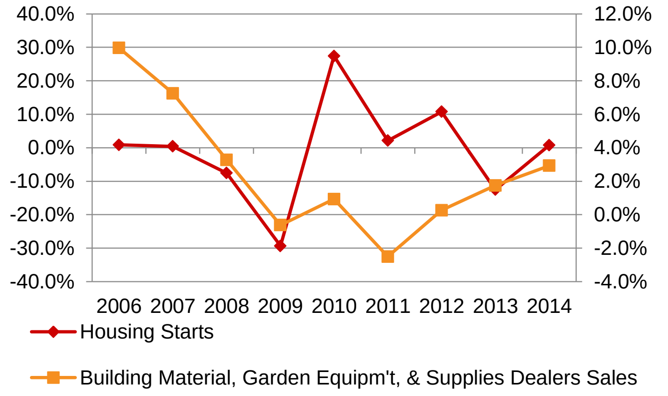
Source: Statistics Canada

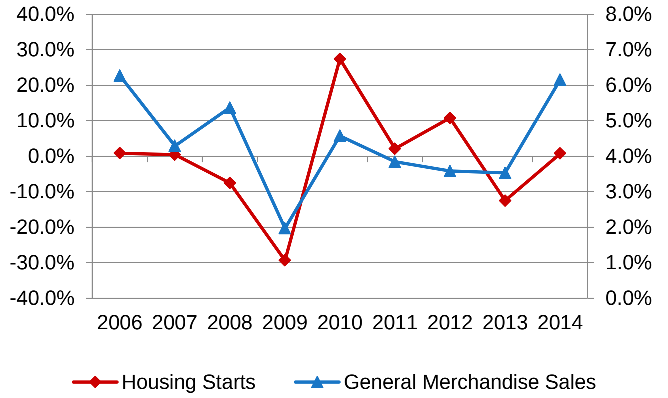
Appendix C2: Employment Rate, Household Disposable Income, and Retail Sales (Canada)

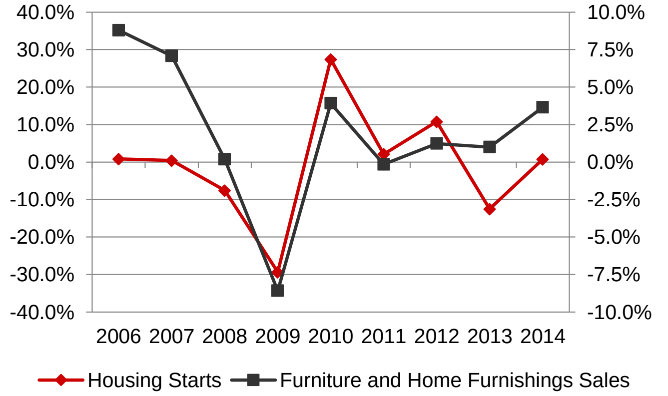


Source: Statistics Canada (CANSIMs 380-0072, 282-0087, 080-0020)

Appendix C3: Housing Starts and Retail Subsectors' Sales Relationships (Canada)







Source: Statistics Canada (CANSIMs 380-0072, 080-0020)

Appendix C4: Push versus Pull System

Push System	Pull System
The product is forced upon the retailer to sell in their respective stores. Corporation makes decision as to what mix of products will be sold.	Products are requested by dealers based on bottom-up approach and projections.
Idea is to centralize product mix and unify all store offerings, following broader market trends - Top-down product placement and product mix diversification	Idea is to leverage local dealer's expertise and insight into market dynamics and trends
Can be used to market new, trendy products to potential consumers	Marketing and advertising are generally used to generate attention towards the brand as a whole – Canadian Tire-centric advertising
Short-term strategy to target new customers and markets	Create customer loyalty via a more robust dynamic between supplier and consumer demands
Considered relatively antiquated in modern retail industry	Rise of e-retail means advertising must be company-wide, which is best performed at a corporate level

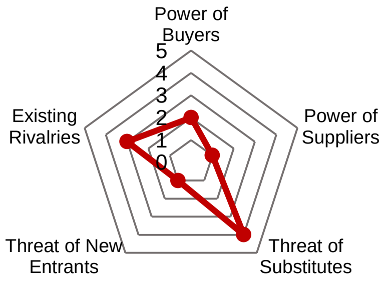
Comparison

With respect to our chosen peer group of companies for CTC, we have found that the large majority of companies choose to operate under corporate-owned stores. An exception we found was within the Canadian-based retailer segment, where companies uniquely operate under a franchisee system of ownership. Additionally, we found that US-based clothing retailers choose to operate their international locations under franchises, while domestically they are fully corporate-owned.

Classification	Stores	Count
Wholly Corporate-Owned	Walmart Inc. Lowe's Inc. Target Inc. Dollarama Dollar Tree Guess Jeans RONA Hardware Pier 1 Imports AutoZone TSC Co. The Home Depot Dollar General Bed, Bath & Beyond Advance Auto Parts Restortation Hardware PepBoys Munro Muffler/Brake Casey's General Stores	18
Franchise-Owned	Canadian Tire Sears Stores Leon's Furniture Mac's Convenience / ACT	4
Franchised Internationally	Gap Inc. American Eagle Outfitters	2

Appendix C5: Porter's Five Forces Analysis

Figure X. Porter's Five Forces
(1 = Low, 5 = High)



Future Outlook As A Whole: CTC has done well to align itself as a defensive retailer, positioned within a competitive "moat" in the Canadian retail industry. It possesses relative dominance over both its "buyers" (retail consumers), as well as suppliers of its products. There exists a low threat of new entrants within their multiple retail segments, given the high costs associated with operating in this retail space, as well as the brand loyalty CTC experiences. Existing rivalries are moderately strong, with significant competition existing for the CTR and Mark's brands in particular. The threat of substitute products is significant across the entirety of CTC's brands, with the company engaging in price matching, customer rewards loyalty programs, omni-channeling efforts, and inherent brand loyalty to mitigate competitor's offerings. Please see Figure X for an illustration of CTC's positioning in the industry.

Power of Buyers – LOW: Given their wide-ranging product base, it is difficult to identify a typical "buyer" of CTC products. As CTC's "buyers" are retail consumers, their relative bargaining power over CTC possesses two notable traits: (1) CTC buyers are price-takers, with no control over the retail price CTC charges for its goods, and (2) CTC buyers are free to switch retailers with low penalties. Our analysis has found that CTC is at the forefront of emerging omni-channel trends when compared to their peers (Appendix C10), indicating CTC is doing well to maintain its current defensive position amidst evolving customer buying habits. Given CTC's competitive position in its retail subsectors, peer-leading omni-channeling, and unique brand loyalty, buyers would have little motivation to actively switch retailers to suit their shopping needs.

A key switching cost that customers face is the value of unused loyalty points. Today, the average consumer in Canada has 8.2 loyalty cards (Globe and Mail, 2013). As such, the loyalty programs established by CTR and Sport Chek (partnership with SCENE) are viewed as "nice-to-haves" by consumers. In addition, the rise of credit cards with cash-back and travel rewards programs has lowered switching costs. Although buyers are price-takers, their ability to switch retailers at a negligible cost ultimately provides them with a low level of bargaining power.

Power of Suppliers – INSIGNIFICANT: The bargaining power of CTC's suppliers is **insignificant**, given both the scale of the company and the appeal of obtaining a supply contract. Approximately 43% of CTR's inventory purchases having been sourced from outside North America, primarily Asia-Pacific (~50% for Mark's and 7% for FGL, 2014 AIF). CTC maintains a robust and stringent Preferred Supplier program, with an extensive selection process required of any potential suppliers under their *Canadian Tire Supplier Code of Conduct* (2014 AIF, Company Website). CTC does not materially rely on the sale of any particular private label, as many of their flagship names, including Woods, Mastercraft, Motomaster (among others) are wholly owned by the Company. 27% of 2014 sales under CTC's retail banners were comprised of CTC private label brands. (2014 AIF).

Threat of Substitutes – SIGNIFICANT: Consumers are free to switch retailers in pursuit of better product quality, online shopping and delivery, more convenient retail locations, better relationships with other staff members, or any other motivation. Unlike most industries, CTC does not enter into contractual arrangements with its customers in order to mitigate product substitution risk. CTC overall can do little to combat substitute retailers and products, aside from offering omni-channel platforms, attractive loyalty rewards, and competitive price matching.

Threat of New Entrants – LOW: Required capital expenditure to obtain the operational scale of CTC is substantial Canadian Tire's operating capital expenditures amounted to $432.9mm and $476.0mm in 2013 and 2014, respectively. To match its retail footprint of 1,690 brick and mortar locations and 16 distribution facilities would be a massive undertaking – CTC owned $6.5bn of property and equipment, measured at historical cost on December 31, 2014. CTC has established itself as "Canada's Retailer", which creates a defensive barrier which outside competition might not necessarily recreate. As per the October 19th conference call with CTC management, *"the best thing to ever happen to Canadian Tire was Walmart (entering Canada) … the second best thing was Target Stores."* The high profile withdrawal of Target from Canada is a deterrent for U.S. retailers considering a near-term expansion into Canada. FGL Sports is expanding its presence across Canada, partially out of an effort to defend itself against other Canadian and international sporting good brands. Mark's maintains relative dominance over its respective market, however it may be considered the most vulnerable of CTC's brand to new entrants, from within Canada and abroad.

Existing Rivalry – MODERATE: CTC has no direct rival across the entirety of its business segments, however it faces significant rivalry with CTR and Mark's segments. No other retailer in Canada is as diversified as Canadian Tire Corporation, both in terms of brand offerings and proximity to Canadian consumers. FGL Sports is the largest sporting goods retailer in Canada, and possesses relative dominance over the Canadian sporting goods market, particularly in Western Canada and Quebec. Mark's, while the dominant apparel retailer in its particular segment, faces significant competition among apparel retailers specifically targeting workwear consumers.

Source: Team Analysis

Appendix C6: SWOT Analysis

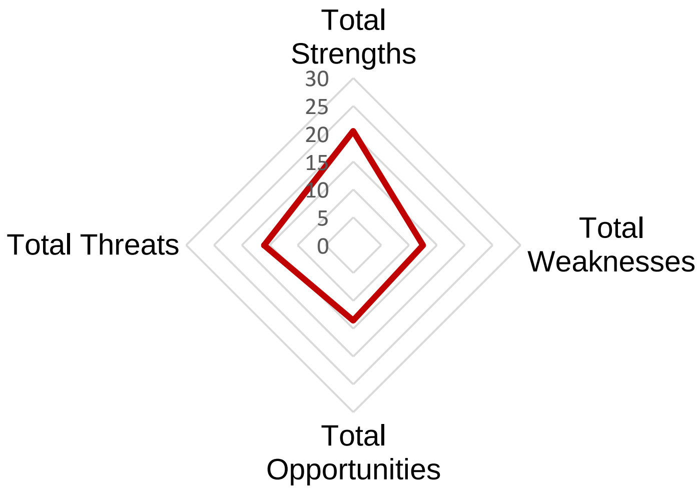
Primary Drivers of SWOT Analysis

Strengths
- Iconic Canadian brand
- CTR Associate Dealer Agreement
- Price Match Guarantees
- Accessibility to Canadian consumers
- Macroeconomic trends
- Stable financial performance
- Well diversified

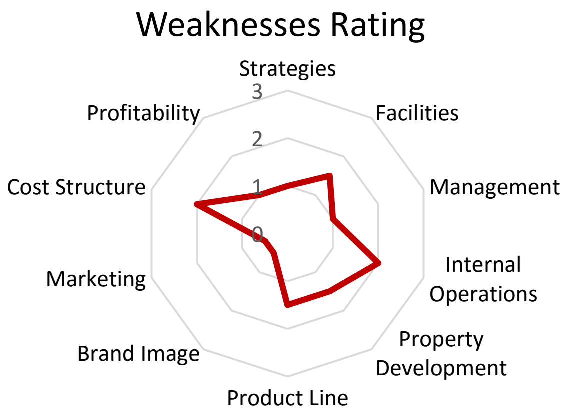
Weaknesses
- CTC retail stores at market saturation
- Shifting earnings growth focus from primary segment
- Interdependence across divisions
- Likely weak international expansion opportunities for CTR
- Inherent customer switching feasibility

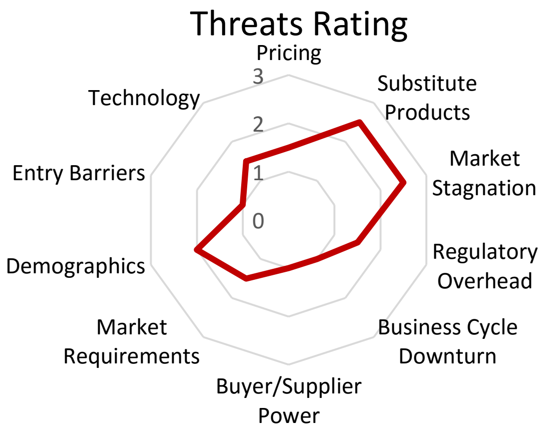
Opportunities
- Exposure to attractive Canadian retail subsectors
- Healthy supply chain, potential value from new distribution centre
- FGL's market leadership
- Industry-leading omni-channel strategies

Threats
- Weakening overall Canadian economy
- Mark's and FLG overexposure to slowing Alberta economy
- Mark's proposed strategic realignment
- Possible threats of new entry
- Substitute products



This SWOT analysis was created to establish a better understanding of CTC's competitive positon within the Canadian retail industry. It is structured around a series of categories within in each SWOT section, and are ranked according to their likely impact on CTC. The points system (out of 30 each) was used to analyze the overall position of Canadian Tire, as summarized by the above graph.





Appendix C7: CTR Pricing and Product Selection Analysis

To assess CTR's value proposition, we constructed a price basket analysis.

Price Basket Process

1. We browsed through the various departments (e.g. home, kitchen, tools & hardware, etc.) that were common across CTR and its competitors, and formed a representative basket of goods.
2. For each of the goods in the basket, we recorded the price of the good at its online price, excluding and sales and special offers. If the exact product was not available, a substantially similar product was chosen based on the specifications of the original product.
3. For each good in the basket, the quantity of products offered in its category was also recorded.
4. To derive a final value proposition, the goods were normalized by a factor of their mean, and the total relative price basket value was reported below as the sum of the normalized values of each good.

Prices of Offerings

Item	Canadian Tire	Walmart	Rona	Lowes	Home Depot	Amazon
Bar Stool	$ 34.99	$ 34.99	$ 30.99	$ 49.00	$ 59.00	$ 35.99
Stanley 16oz Hammer	$ 29.99	$ 27.48	$ 21.99	$ 27.99	$ 34.98	$ 22.79
CIL Eggshell Paint	$ 25.99	$ 28.97	$ 31.99	$ 26.99	$ 36.97	$ 27.82
21" Gas Powered Lawn Mower	$ 249.99	$ 196.00	$ 249.00	$ 369.00	$ 249.00	$ 248.63
LED Lightbulb	$ 14.99	$ 9.96	$ 12.95	$ 10.99	$ 7.65	$ 5.99
Duct Tape	$ 6.89	$ 8.17	$ 6.80	$ 6.99	$ 11.47	$ 9.99
Door Knob	$ 37.99	$ 29.98	$ 38.99	$ 23.99	$ 29.97	$ 18.10
Propane Barbecue	$ 139.99	$ 278.00	$ 319.00	$ 249.00	$ 269.00	$ 257.45
Total Price	$ 540.82	$ 613.55	$ 711.71	$ 763.95	$ 698.04	$ 626.76
Normalized Price	0.98	0.95	1.03	1.03	1.14	0.87

Quantity of Offerings

Item	Canadian Tire	Walmart	Rona	Lowes	Home Depot	Amazon
Bar Stool	22	178	12	363	172	3112
Hammer	36	5	33	96	43	5707
Paint	51	55	358	39	318	1572
Gas Powered Lawn Mower	11	3	6	12	62	46
LED Lightbulbs	68	83	90	67	216	144998
Duct Tape	18	37	20	27	47	842
Door Knobs and Locks	159	52	424	417	1034	8196
Propane Barbecue	27	14	20	67	62	89

Normalization Process

Since the sample consisted of a wide range of goods (and prices), we normalized the price basket by dividing the price of each good by the average price of the category. For example, to ensure that the entire price basket was not skewed by the price of the barbecue (which is a large ticket item), we divided each price by the average price of the barbecue from the retailers. This methodology was applied for every good, and the average normalized cost was used as the normalized price basket. We view this method as a more robust way to analyze the pricing competitiveness of each retailer. Specifically, we chose the mean as a normalization factor since it preserved the relative orderings of the retailers in each category, and we wanted the variance of the prices to be maintained.

Results

From the analysis, we were able to conclude that CTR was among the most value oriented brick and mortar retailers, ranking second lowest in the normalized price basket.

Appendix C8: FGL Price and Product Selection Analysis

Similarly to CTR, we constructed a price basket analysis on its largest banner, Sport Chek.

Price Basket Process

1. We chose a representative basket of goods, that had items from multiple departments
2. For each good in this basket, we recorded the price of the good at its online price, excluding and sales and special offers. If the exact product was not available, a substantially similar product was chosen based on the specifications of the original product. If no products were available, the good was not used in the analysis.
3. For each good in the basket, the quantity of products offered in its category was also recorded.
4. To derive a final value proposition, the goods were normalized by a factor of their mean, and the total relative price basket value, as the average normalized price, was reported below as the sum of the normalized values of each good.

Prices of Offerings

Item	Sport Chek	Nike	Under Armor	Walmart	Sporting Life	Amazon
Men's Running Shoes	$ 74.97	$ 85.00	$ 89.00	$ 29.94	$ 74.99	$ 64.96
Womens Hoodie	$ 64.99	$ 80.00	$ 64.99	$ 16.97	$ 112.50	$ 112.00
Mens Socks	$ 13.99	$ 18.00	$ 19.99	$ 7.00	$ 16.00	$ 11.99
Polarized Sport Sunglasses	$ 159.99		$ 174.99	$ 59.99	$ 124.99	$ 126.00
Regular Size Football	$ 15.99			$ 19.97		$ 23.99
Hockey Stick	$ 199.00			$ 31.98		$ 49.99
Mouth Guard	$ 19.99		$ 15.99	$ 16.97		$ 9.95
Yoga Mat	$ 18.99			$ 19.97	$ 34.99	$ 21.27
Price of Basket	$ 567.91	$ 183.00	$ 364.96	$ 202.79	$ 363.47	$ 420.15
Normalized Price Basket	1.14	1.17	1.18	0.61	1.22	0.94

Quantity of Offerings

Item	Sport Chek	Nike	Under Armor	Walmart	Sporting Life	Amazon
Men's Running Shoes	131	65	29	16	264	525
Womens Hoodie	50	18	46	12	151	218
Mens Socks	205	44	21	67	132	235
Polarized Sport Sunglasses	203	0	3	36	185	15565
Regular Size Football	21	0	0	11	0	7377
Hockey Stick	53	0	0	29	0	1443
Mouth Guard	77	0	3	19	0	279
Yoga Mat	30	0	0	74	25	897

Normalization Process

To create a representative sample of the product offering from Sport Chek, the price basket analysis required that a variety of products with different price ranges. Since that was the case, we normalized our price basket by dividing the price of each good by the average price of the category. This methodology was applied for every good, and the average normalized cost was used as the normalized price basket. We view this method as a more robust way to analyze the pricing competitiveness of each retailer. Specifically, we chose the mean as a normalization factor since it preserved the relative orderings of the retailers in each category, and we wanted the variance of the prices to be maintained.

Specifically, we chose the mean as a normalization factor since it preserved the relative orderings of the retailers in each category, and we wanted the variance of the prices to be maintained.

Results

From the analysis, we were able to conclude that Sport Chek ranked very competitively in terms of pricing and was the leader of brick and mortar retailers in terms of selection.

Appendix C9: E-commerce Platform Competitive Analysis

As part of our competitive analysis of CTR and its competitors, namely, Walmart, The Home Depot, and Lowe's, we conducted an assessment of each company's E-commerce platform.

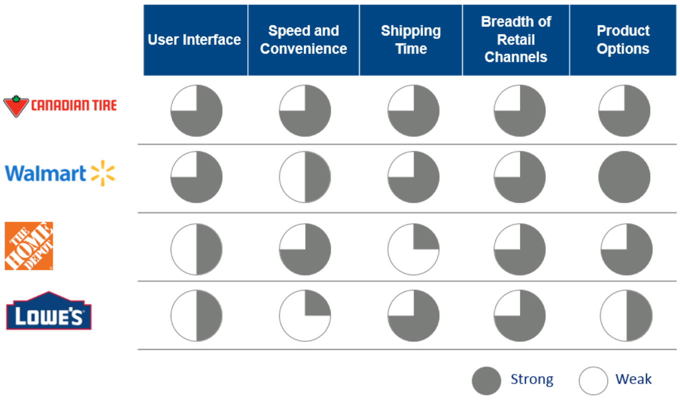
We started our analysis by visiting the website of each company. From there, we navigated through the various pages and browsed through the product selection. We selected a basket of similar goods and added them to our "shopping cart", where consumers can store items they have shortlisted or are interested in purchasing.

Our approach enabled us to assess the following constituents of each company's e-commerce platform.

1) **User Interface** – The ease at which consumers are able to interact with the website. Specific attributes of a user interface include the layout, font style, font size, placement of images, navigation functionality, search practicality, etc.
2) **Speed and Convenience** – We benchmarked speed and convenience by evaluating the checkout process. The two factors which affected the speed and convenience of our shopping experience were: (1) the ability to purchase goods without creating an account, and (2) steps required to complete an online basket order of goods.
3) **Shipping Time** – Each company had a different estimated shipping date range for standard shipping within Canada.
4) **Breadth of Retail Channels** – We explored the different avenues available for consumers to browse and purchase goods, such as mobile apps, magazines, integration with third party websites, and social media platforms.
5) **Product Options** – While browsing each website, we noticed that the breadth of available products varied from company to company. For example, Walmart showcased over 80 coffee makers on their website, while Lowe's featured only 15.

Our analysis has been summarized in the illustration below:

	Clean Interface	In-Store Pickup	Home Delivery	Stocking Information	Free Shipping	Computer, Tablet, Mobile Capability
CANADIAN TIRE	✓	✓	✗	✓	✓	✓
Walmart	✓	✓	✓	✗	$50+	✓
THE HOME DEPOT	✗	✓	✓	✗	$50+	✓
LOWE'S	✗	✓	✓	✗	$49+	✓



Subsequent to our analysis of the overall e-commerce platform for the aforementioned retailers, we drilled down into the specifics of the online purchasing process. At this stage, we examined the following factors,

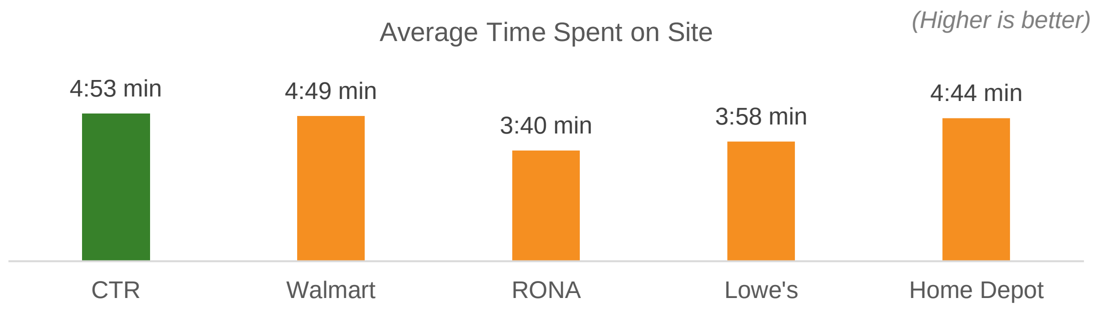
1) **Clean Interface** – Was the checkout process "easy on the eyes"?
2) **In-Store Pickup** – Do customers have the option pick-up online orders in-store?
3) **Home Delivery** – Do customers have the option to ship directly to their homes?
4) **Stocking Information** – Is there specific information available on the inventory count of each item?
5) **Free Shopping** – Does the retailer offer free shipping? If not, what is the minimum value for orders to qualify for free shipping?
6) **Computer, Tablet, Mobile Capability** – Can consumers access the E-commerce platform on a computer, tablet, and mobile?

	Returns Period	Return Instore (from online)	Return Online	Refundable Shipping	Free Shipping	Ship to Home
CANADIAN TIRE	90 Days	✓	✗	✗	✓	✗
Walmart	90 Days	✓	✓	✓	$50+	✓
THE HOME DEPOT	90 Days	✓	✗	✗	$45+	✓
LOWE'S	90 Days	✓	✗	✗	$49+	✓
amazon	30 Days	✓	✓	✓	✓	✓
RONA	90 Days	✓	✗	✗	✓	✗

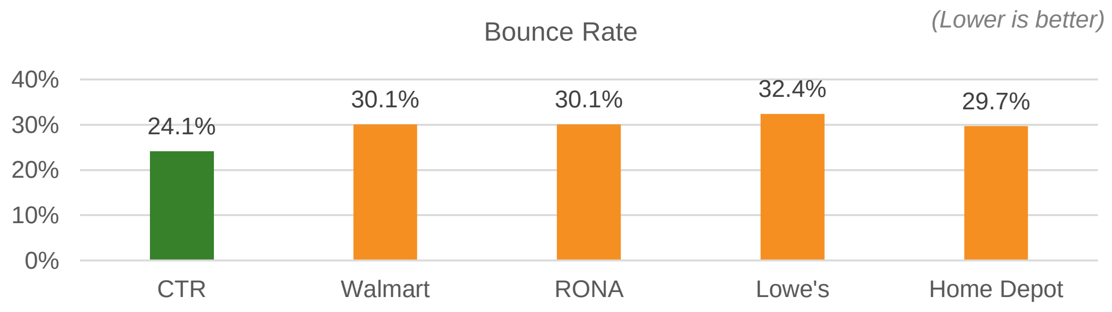
E-commerce sales in Canada have historically grown at over 5 times the rate of traditional retail (16.3% versus 2.9% in 2012 per Stats Canada). Although, Canadian Tire does not disclose online sales data, A 2014 McKinsey study showed that metrics for website traffic are indirect indicators of e-commerce performance. Comparing CTR against its closes peers using publicly-available data from Alexa (a website analytics company):

CTR	***Walmart***	***RONA***	***Lowe's***	***Home Depot***
57	40	329	335	103

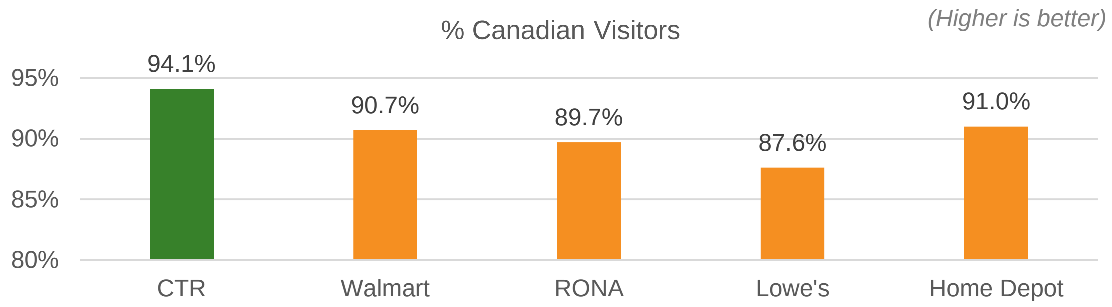
Per Alexa, the rank by country is calculated monthly using two metrics – average daily visitors and page views per visit according. Of the Canadian websites for each of the retailers, CTR ranks second amongst its closest peers. Additional key metrics include:



CTR customers spend 35 seconds longer compared to peer average of 4:17 min.



CTR customers are 6% less likely to leave the online site relative to peer average of 31%.



94% of all visitors are Canadian – a 4% difference relative to peers – which supports CTR as the most "Canadian" of all brands.

Appendix C10. Canadian Market Penetration Analysis (Brick and Mortar Canadian Retailers)

CTC claims that 90% of Canada's population fall within a 15 minute driving distance of a CTR store. To corroborate this claim, we performed a web scraping exercise and leveraged 2011 census data for population by postal code, store locations per CTC's website, and driving distance approximations using Google Maps.

Based on a sample of 50 random postal codes in Canada, we found that the postal code area defined by the:

- First 2 alphanumerical symbols covers a ~25-30 minute driving diameter.
- First 3 alphanumerical symbols covers a ~5-10 minute driving diameter.

This lead to the following assumptions and conclusions:

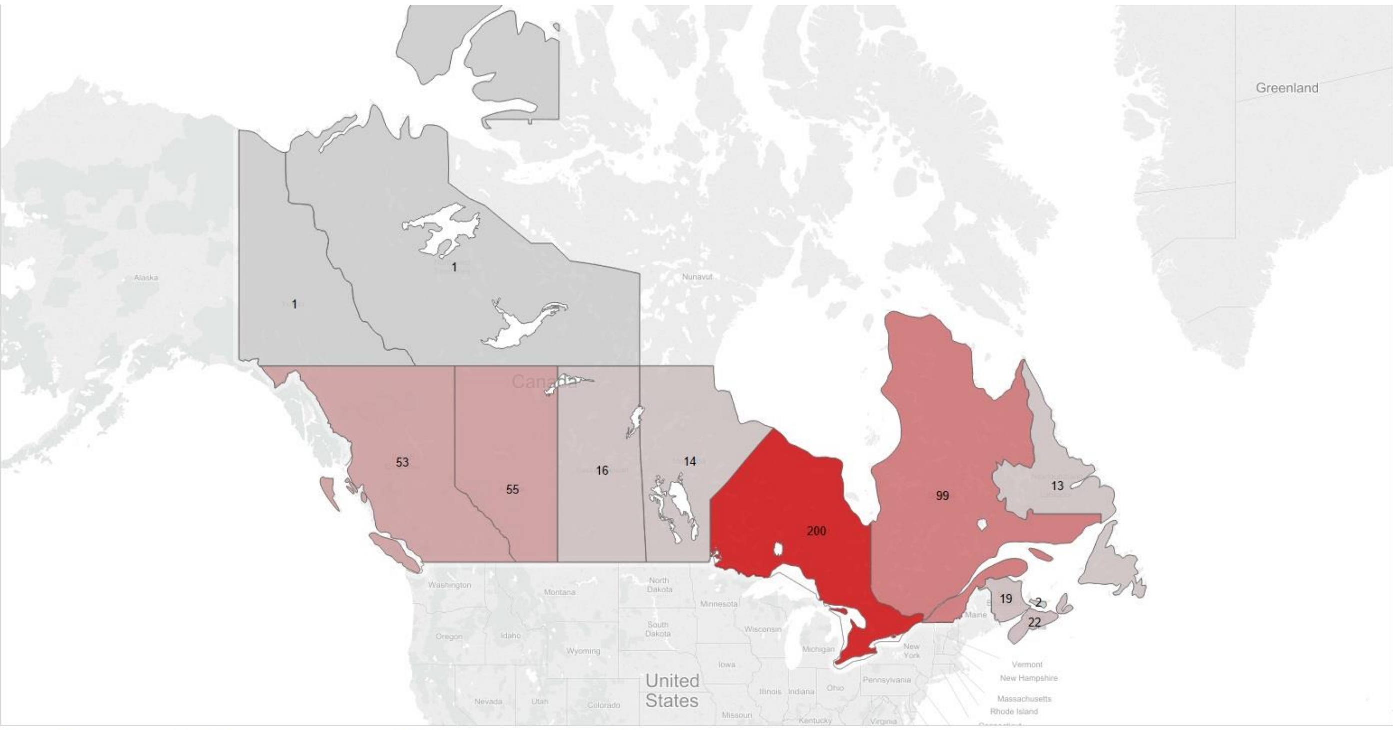
- For zero CTR stores within a 2-digit postal code, we assumed no population in this postal code area was within a 15 minute driving distance from a CTR location.
- For one CTR store within a 2-digit postal code, we assumed the population in the postal code area of the first 3 alphanumerical symbols was within a 15 minute driving distance from the CTR store.
- For more than one CTR store within the first 2 digits of the postal code, it was assumed that the stores would be distributed apart from each other within the postal code area and that all Canadians living in the postal code area would be within a <15 minute driving distance from at least one of the CTR stores.

Performing the same analysis on peers, we found that CTR is more accessible and has a higher penetration of the Canadian market than its major retail competitors.

	15-min %	# Stores*
CTR	**89%**	495
RONA	84%	484**
Walmart	75%	395
Home Depot	56%	180
Lowe's	15%	42

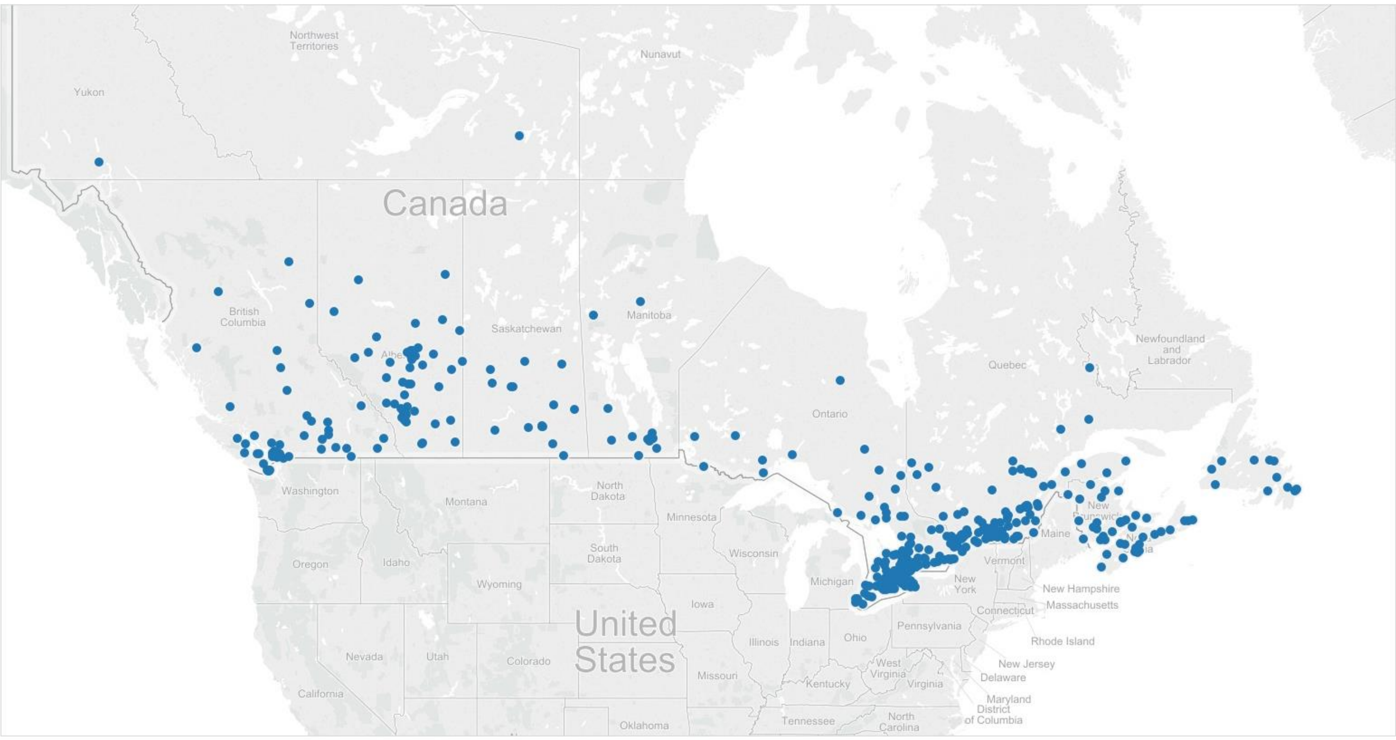
** - represents number of stores for which data was available per company websites.*
***- number of RONA stores is exclusive of 2 non-identifiable locations and 23 non-flagship RONA banners, including Dick's Lumber, Marcil's, Contractor First, and TruServ.*

Appendix C11: CTR Locations by Region



Map based on Longitude (generated) and Latitude (generated). Color shows sum of Count. Details are shown for Province.

Count
1 200

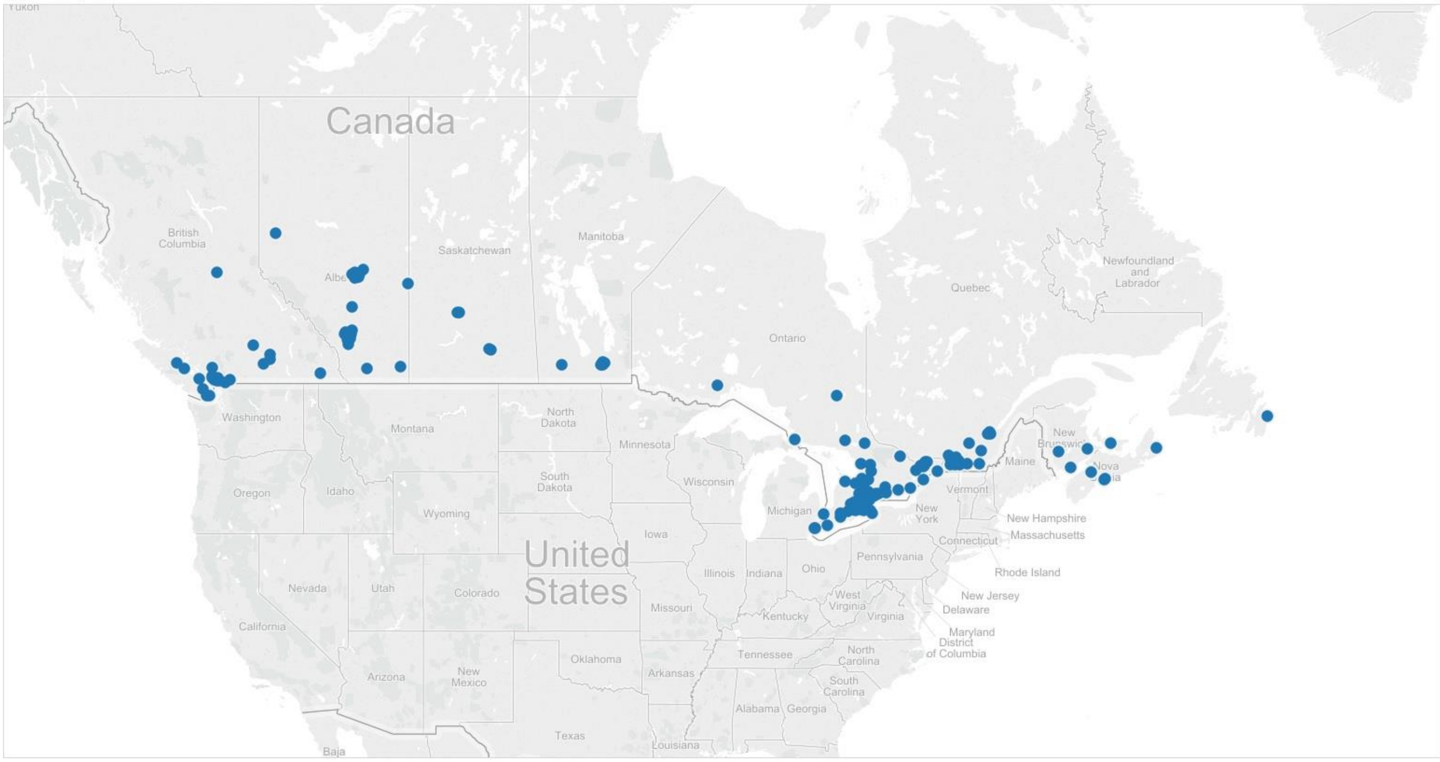


Map based on Longitude (generated) and Latitude (generated). Details are shown for Postal Code 2.

Source: Web scraping, Tableau

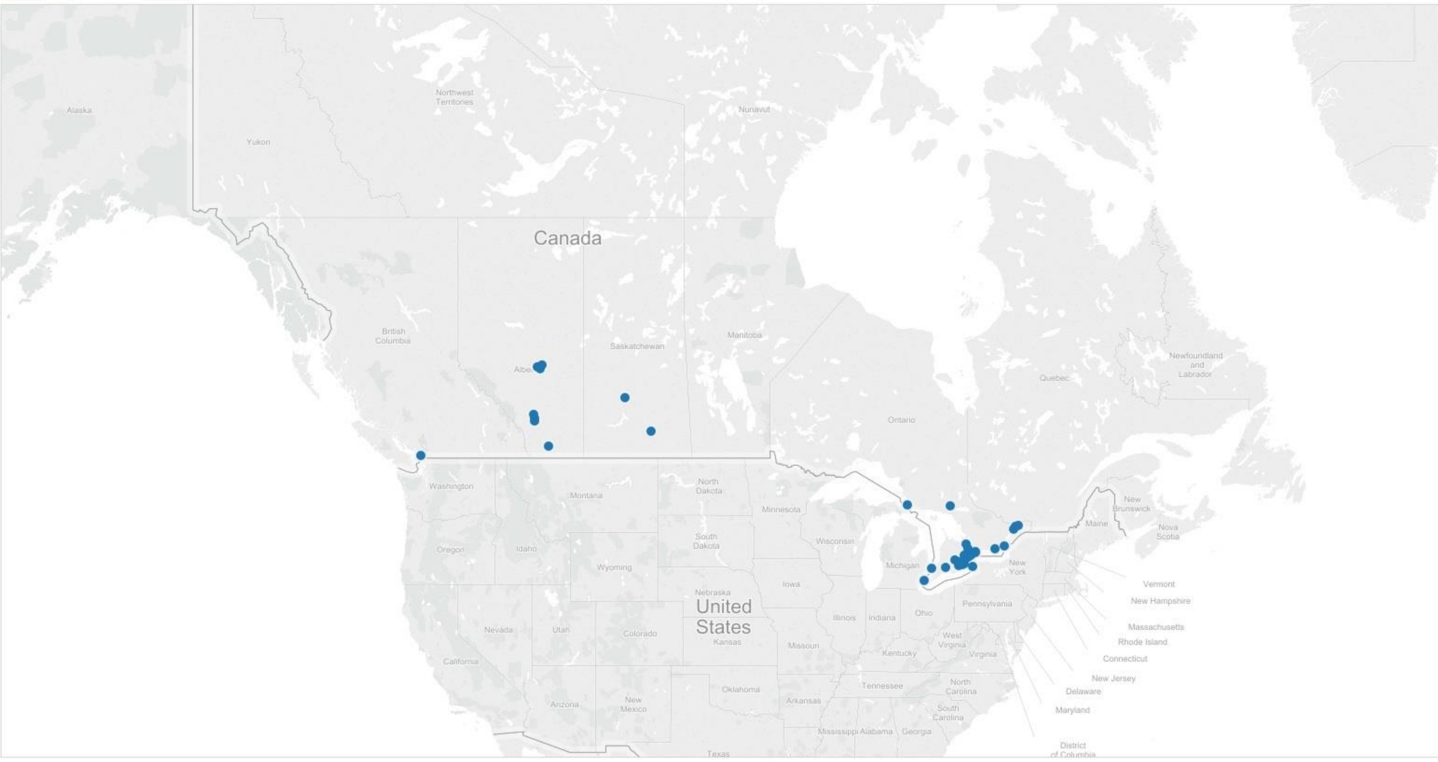
Appendix C12: Competitor Location by Region

Home Depot



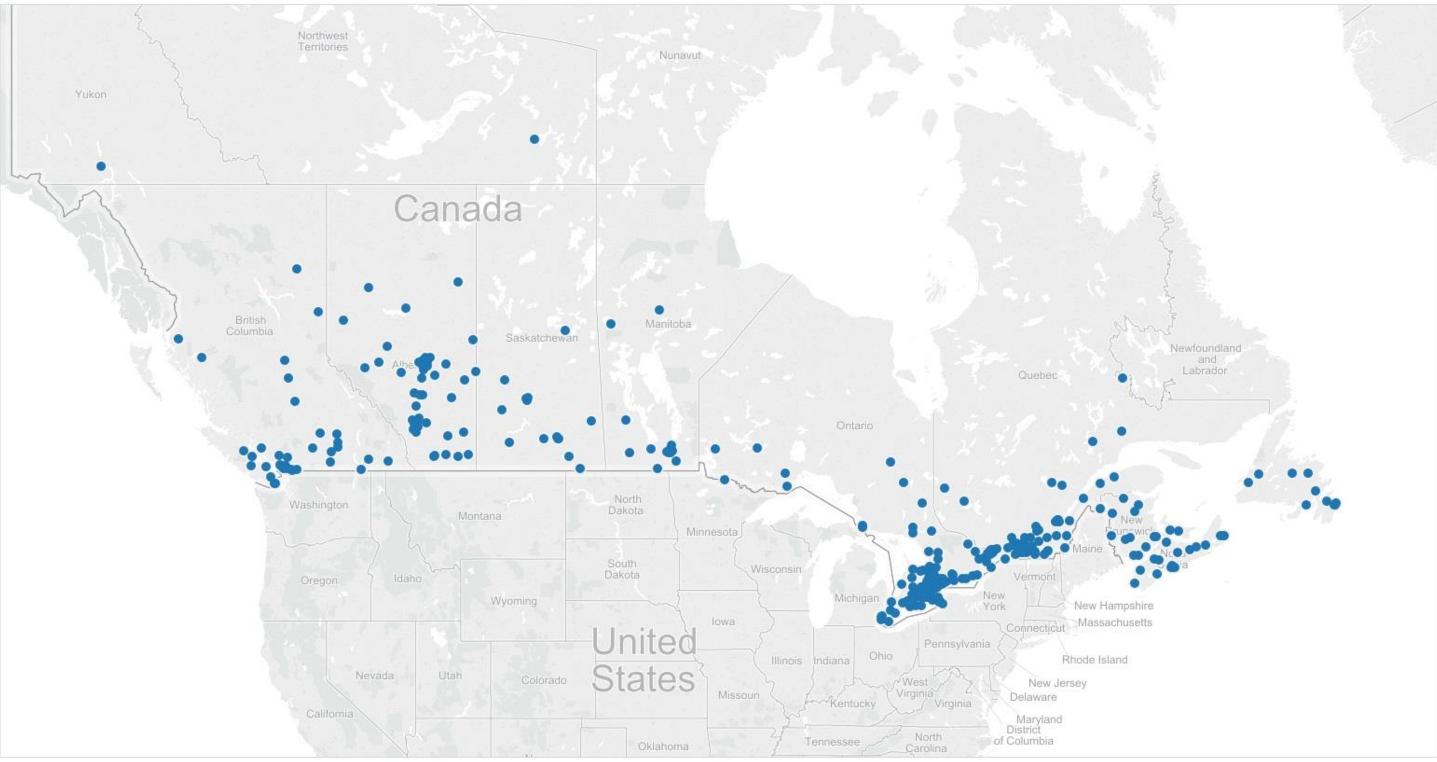
Map based on Longitude (generated) and Latitude (generated). Size shows sum of Number of Locations. Details are shown for Postal Code 1.

Lowe's



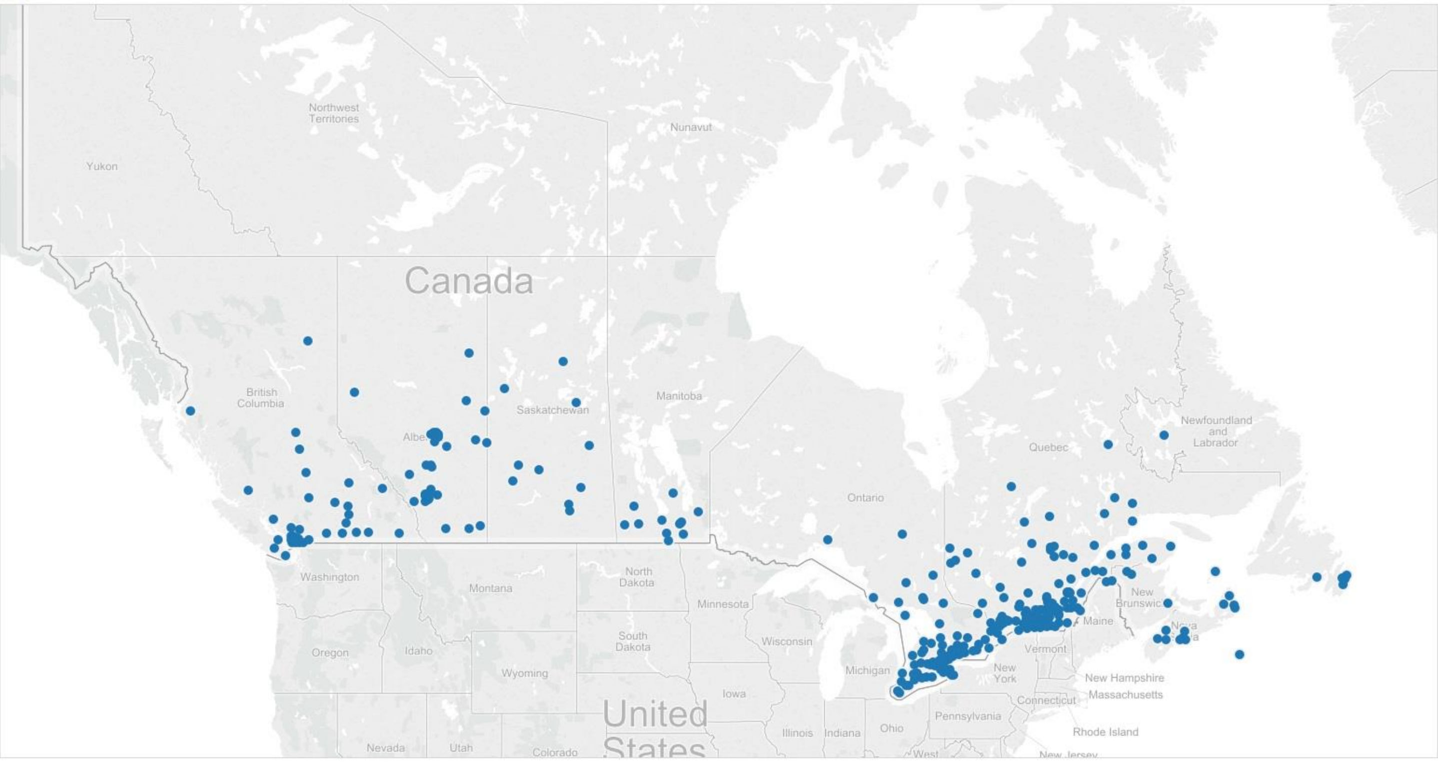
Map based on Longitude (generated) and Latitude (generated). Details are shown for Postal Code 1 (Lowe's).

Walmart



Map based on Longitude (generated) and Latitude (generated). Details are shown for Postal Code 1 (Wal Mart).

Rona



Map based on Longitude (generated) and Latitude (generated). Details are shown for Postal Code 1 (Rona).

Source: Web scraping, Tableau

Market and financial data in C$, unless otherwise noted.

Appendix C13: Comparable Companies Analysis – Canadian Retail Equities

Financial metrics are calculated as of LTM Q3'15.

	CTC Rank	CTC Rank (ex. Food Retailers)	Canadian Retailers: CTC	RONA	Leon's	Hudson's Bay	Dollarama	Loblaw	Empire
			Div. Retail	Home Improv.	Home Furn.	Departm. Stores	Value Retail	Food Retail	Food Retail
Valuation Metrics									
Enterprise Value ($ in millions)			$16,278	$1,894	$1,419	$6,400	$12,060	$38,514	$8,836
EV / EBITDA (LTM)	4 / 7	3 / 5	11.0x	8.9x	8.9x	12.4x	23.5x	11.1x	7.2x
P / E (LTM)	2 / 7	2 / 5	15.8x	32.4x	14.8x	35.0x	35.1x	37.4x	17.4x
Margin Analysis									
Gross Margin	4 / 7	4 / 5	33.2%	26.6%	43.2%	40.7%	47.3%	27.7%	25.3%
SG&A Margin	3 / 7	2 / 5	22.3%	21.1%	36.3%	34.2%	26.4%	23.6%	21.9%
EBITDA Margin	2 / 7	2 / 5	11.8%	5.1%	8.0%	6.0%	20.7%	7.6%	5.1%
Other Financial Metrics									
Inventory Turns	3 / 7	1 / 5	5.4	3.9	4.1	2.2	3.2	9.8	13.6
Return on Assets	3 / 7	3 / 5	4.4%	3.4%	4.8%	1.8%	16.2%	3.5%	4.2%
Return on Equity	3 / 7	3 / 5	11.5%	4.7%	14.4%	10.5%	36.8%	0.5%	6.5%
Dividend Yield	2 / 7	2 / 5	1.78	1.18	2.80	0.94	0.40	1.50	1.58

Source: S&P Capital IQ, Company filings.

Market and financial data in C$, unless otherwise noted.

Endnotes

[i] As at October 3, 2015. Source: FQ3 2015 Report. Canadian Tire Corporation, Limited
[ii] Chris Hadfield's ode to Canadian Tire. The Globe and Mail. May 2013.
[iii] 2014 Annual Information Form. Canadian Tire Corporation, Limited
[iv] 2014 Annual Report. Canadian Tire Corporation, Limited
[v] "2014 National Retail Site Census". The Kent Group Limited.
[vi] CTC owns 59,711,094 of the issued and outstanding units of CT REIT and all of the issued and outstanding Class B LP units of CT REIT Limited Partnership (economically equivalent to and exchangeable for Units). Source: FQ3 2015 Report. CT Real Estate Investment Trust
[vii] FQ3 2015 Report. CT Real Estate Investment Trust
[viii] CTC does not own any shares in GCCT; however, CTC has the ability to direct the activities and returns of GCCT and has control over GCCT. This requires that CTC consolidates GCCT for accounting purposes in CTC's financial statements. Source: 2014 Annual Report. Canadian Tire Corporation, Limited
[ix] Before eliminations and adjustments. Source: CTC 2014 Annual Report
[x] CTC's Deferred Profit Sharing Plan is a retirement and savings program for employees and officers. Source: 2015 Management Information Circular. Canadian Tire Corporation, Limited
[xi] FQ2 2013 Earnings Call. Medline, Michael (President and CEO). August 8, 2013
[xii] "Unlocking Shareholder Value". PricewaterhouseCoopers LLP. September 2015
[xiii] FQ2 2013 Earnings Call. McCann, Dean (CFO). August 8, 2013; "Canadian Tire Corporation Announces Innovative Strategic Business Partnership with Scotiabank and Reports Solid Q1 2014 Results". Press Release. Canadian Tire Corporation, Limited. May 8, 2014
[xiv] Median economic estimates using the default contributor composite as per Bloomberg.
[xv] Data unavailable for Russia in 2014 and 2015, Japan in 2015, and the United States in 2015.
[xvi] "Gym, Health & Fitness Clubs in Canada: Market Research Report – Report Snapshot". IBISWorld
[xvii] "Canadian Tire's dealer contract marks new era of cooperation". Shaw, Hollie. The Financial Post. April 22, 2013
[xviii] Excludes contractor specialists stores. Source: 2014 Investor Presentation. Rona, Inc.
[xix] Based on web scraping. Consistent with the Walmart Canada web site. Source: "Company Profile". Walmart Canada Corporation
[xx] "About Us". Company web site; The Home Depot Canada Inc.
[xxi] "Lowe's Canada to expand to 54 Stores". The Canadian Press. July 24, 2015
[xxii] CANSIM 282-0008. Statistics Canada
[xxiii] 2014 Annual Information Form. Canadian Tire Corporation, Limited
[xxiv] 2014 Annual Report. Canadian Tire Corporation, Limited
[xxv] "Proposed Acquisition of FGL Will Create Canada's Ultimate Authority in Sporting Goods" Investor Presentation. Canadian Tire Corporation, Limited. May 9, 2011
[xxvi] Sport Chek's product offering includes goods for the following sports / activities: hockey, fitness & aerobics, yoga & pilates, curling, rugby, volleyball, football, baseball, basketball, soccer, lacrosse, racquet sports, skiing, snowboarding, snow sports, golf, cycling, swimming, inline skating, and skateboarding. Source: Company website; FGL Sports Limited
[xxvii] "To fight e-commerce onslaught, Sport Chek is bringing gadgets in-store". Canadian Business. December 10, 2014.
[xxviii] "Sporting Goods Stores (NAICS 45111): Financial Performance Data". Statistics Canada – Small Business Profiles, 2013
[xxix] "Fast Facts". Company web site; Canadian Tire Corporation, Limited
[xxx] "FGL Sports Profile – History". Company web site; FGL Sports Limited
[xxxi] "Credit Cards". Company web site; Canadian Tire Corporation, Limited
[xxxii] "The Dealer Experience". Company web site; Canadian Tire Corporation, Limited
[xxxiii] "The Value of Control". Damodaran, Aswath. Stern School of Business
[xxxiv] Anatol von Hahn and David Court are currently members of the board of directors but were not nominated in 2015 Management Information Circular; their status as independent or non-independent has not been reported by CTC, and as such, we have deemed them to be non-independent by default. Source: "Board of Directors". Company web site; Canadian Tire Corporation, Limited
[xxxv] "Highlights of the Alberta Economy 2015". Alberta Economic Development and Trade
[xxxvi] CANSIM 282-0087. Statistics Canada
[xxxvii] NYMEX WTI $ / BBL. Forecast (Median) of Contributor Composite. Bloomberg

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