# Canadian Tire Corporation Limited: Experimenting With the Future

# **Description**

Over the past 5 years, shares of Canadian Tire Corporation Limited (TSX:CTC.A) have crushed the market. But that doesn't mean that things have been smooth internally.

This month, the company announced a sudden management change, reinstating its former president and chief executive officer Stephen Wetmore. Michael Medline, who succeeded Wetmore in 2014, agreed to step down. The chair of Canadian Tire's board of directors said the decision was due to "unprecedented change in the retail industry" but declined to cite specifics. "While our short-term priorities are delivering results, the board's responsibility is the long-term success of Canadian Tire. Stephen transformed our company during his previous tenure and laid the foundation for our current performance," chairwoman Maureen Sabia said.

So far the market has applauded the move, sending shares to historic highs. With the stock's valuation also at historic highs, along with trouble at the executive level, should current investors take caution?

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Is the future at risk?

Despite an already impressive historical return, management started a three-year plan in 2015 that aimed to continue the company's strong underlying financial growth. For each year through 2017, management targeted 8-10% annual EPS growth with Returns on Invested Capital of nearly 10%.

A big part of that plan involved a move towards technology. "We set a path for ourselves to be a leader in e-commerce in Canada and that's where we're heading," former president and CEO Michael Medline told analysts just this year. E-commerce is a "mammoth opportunity" he added.

The company's biggest operation, Canadian Tire Stores, comprises roughly half of all sales. This franchise is one of Canada's most trusted and iconic brands, with over 490 locations and a weekly advertising flyer that reaches 12 million people (one-third of Canada's total population). Nearly 90% of Canadians are located within 15 minutes of a Canadian Tire store.

To leverage this reach, the company introduced a revolutionary print catalogue, its first in nearly a decade, that incorporated technological elements. To access the bonus digital content, customers need to download Canadian Tire's phone app, and then use their cell camera to hover over the catalogue pages for additional content like videos or to check if an item is in stock.

The 200-page paper catalogue was mailed to 12 million homes last month. According to the company, weekly e-commerce transactions doubled following its introduction. Medline described it as "the single biggest impact lever we have ever pulled to generate more online sales." Apparently, however, it wasn't enough to save his job.

For now it appears as if the new CEO, Stephen Wetmore, will continue the technology push. "The

board of directors has given me a clear mandate to take our iconic brand to the next level," he said. "Every day our customers are demanding more control over their shopping experience. We must continue to rapidly evolve the Tire to exceed both our customers' and our shareholders' expectations." Notably however, he didn't name any specific strategies he would implement.

## The future is likely fine

If past success is any indicator of future returns, Canadian Tire is in good hands. Under Wetmore's leadership, the company consistently grew sales, profits, and overall shareholder value. While the shuffle is sudden, long-term investors have little need to worry. With a multi-year plan still in place to continue the company's past successes, investors can do a lot worse than investing in this proven winner.

### **CATEGORY**

1. Investing

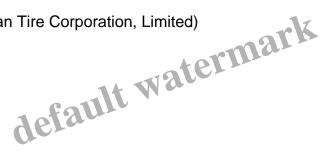
#### **TICKERS GLOBAL**

1. TSX:CTC.A (Canadian Tire Corporation, Limited)

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