



This Canadian Mega-Acquisition Would Bring the Fight to Home Depot (NYSE:HD) and Lowe's (NYSE:LOW)

Description

One can't help but notice that [Canadian Tire](#) ([TSX:CTC.A](#)) has been busy of late, whether it's through exclusive partnerships (Petco) or acquisitions (Helly Hansen), the company looks to be proactively pursuing exclusive branding to secure itself from potential pressures brought forth by the rise of e-commerce competitors.

While Helly Hansen was an intriguing acquisition, albeit an expensive one, I think the company should have acquired another "H/H" firm: Home Hardware Stores, the privately held home improvement and construction materials retailer. Here's why.

Canadian Tire and Home Hardware: a potent Canadian combo

As a retailer, Canadian Tire looks like it has an identity crisis as a retailer. It's been a long time since it was merely a tire and auto repair shop, after all! The company is a cross between a **Lowe's** ([NYSE:LOW](#)) or a **Home Depot** ([NYSE:HD](#)) with regards to hardware and home products, but at the same time, its sports, leisure, and automotive businesses put Canadian Tire in a class of its own.

Indeed, Canadian Tire is a rare breed, but in spite of the similarities to Lowe's or Home Depot, the stock's valuation is nowhere near its mid-20 trailing P/E multiples. Home improvement and hardware companies are in a hot industry, and they possess many offerings and services that Canadian Tire lacks on the hardware end.

While Canadian Tire sells a wide range of tools, nuts, and bolts, it doesn't carry essential building materials, like lumber, nor does it provide sought-after home-improvement services.

Through the eyes of a consumer who's looking to do some home improvement projects, Canadian Tire is definitely not a one-stop shop. While it may sell a subset of the products you'll need to undergo your DIY project, you probably won't find DIY expertise, nor will you be able to find everything you're looking for. So, in that regard, Canadian Tire may be seen as a very diversified retailer with an incomplete hardware business.

More recently, Canadian Tire has beefed up its "tested for life in Canada" campaign to promote its various exclusive products, but the company's strategic direction seems to be gravitating towards that of a generic retailer, which is puzzling given that "generic retail" is a sub-industry that's more susceptible to disturbance from digital competitors.

Of Canadian Tire's recent activities, the Petco partnership looks like a win, but the pricey Helly Hansen acquisition was a major head-scratcher. Instead of paying top dollar to move deeper into the business of clothing, which will continue to face [fierce competition on the e-commerce front](#) (**Canada Goose**), I think the smarter move would have been to use the proceeds to double down on its hardware business to ward off pressure from e-commerce competitors.

Back to Home Hardware.

It's an all-Canadian one-stop shop hardware play with a solid lineup of exclusive brands that would complement Canadian Tire's brands very well. Moreover, the cross-selling opportunities and the use of Home Hardware's supply chain would be invaluable to Canadian Tire. Home Hardware has over 1,100 independently cooperatively owned member stores, so individual members will need to give the thumbs up for a deal to happen.

Given Lowe's prior acquisition of Rona and the continued expansion of Home Depot into Canada, I think a Canadian Tire scoop-up of Home Hardware makes a lot of sense in the grander scheme of things. Although Home Depot and Lowe's haven't caused Home Hardware a substantial amount of pain yet, I think things could start getting ugly, as both Home Depot and Lowe's have very deep pockets. While Home Hardware's co-operative structure may allow for favourable economies of scale, the company may have a difficult time adapting and responding promptly to the disruptive expansion of America's hardware giants.

As wonderful as the Home Hardware deal sounds, Canadian Tire doesn't have nearly enough dry powder on its balance sheet to make the deal happen, so a considerable amount of debt would have to be raised for a takeover. I think the deal may cost at least \$6 billion, which is hefty given that's over half of Canadian Tire's market cap.

If such a deal ends up happening though, both Lowe's and Home Depot could see their Canadian expansions hit a brick wall, especially with the "buy Canadian" sentiment that's been going around of late.

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