



Does the Party City Acquisition Make Canadian Tire (TSX:CTC) a Buy?

Description

Last week we learned that **Canadian Tire Corporation Limited** (TSX:CTC) would be acquiring Party City for \$174.4 million.

The move gives the company a good way to diversify and add a different group of products that it can now sell to customers. With the industry becoming increasingly competitive and many retailers struggling, acquisitions are one way a company can help generate some growth.

Canadian Tire has already added chains like Sport Chek and Helly Hansen into the mix, and the move to add Party City could be another important way for the company to bolster its top and bottom lines.

Deal could help Canadian Tire's seasonal sales

The big play here for Canadian Tire is adding more seasonal items, with the company's head of retail, Allan MacDonald, noting that nearly \$2 billion is spent by Canadians on party supplies every year.

With 45,000 products, Canadian Tire has many options to help reach a broader customer base.

What has MacDonald excited are the relationships that the company can develop and take advantage of to further its growth: "We're going to get all kinds of exclusivity around licensing and direct to retail relationships with brands like Disney and Marvel and all the kind of things that make the business tick, especially around the Halloween time frame."

Party City generates \$140 million in sales annually, but Canadian Tire believes it can double that figure by 2021. With just 65 stores across the country, there's plenty of room to grow the Party City brand into new locations as well.

However, a simpler option may be to just offer products at existing Canadian Tire locations, which is what the company certainly plans to do.

Why this could be a great move for Canadian Tire

In its most recent quarterly results, Canadian Tire's sales were up a strong 5.9% year over year while profits increased by 13.5%. Those are strong numbers, especially in the retail industry, where many companies have struggled.

By adding Party City into the mix, those numbers will get even stronger in future periods. The real question is how much growth there is in same-store sales, as that will be the big test for the company.

By being more of a one-stop-shop for consumers to go to for all their purchases, Canadian Tire will likely see the average ticket size increase in its stores.

If the company believes that it can double Party City's sales, then this could be a great investment for the company. The one thing many retailers lack today is diversification, which has now become a strength for Canadian Tire.

Bottom line

Canadian Tire didn't need to make this move, but it's a good sign that the company is always on the lookout for deals that make sense and that can add value to its brand.

The Party City acquisition could help Canadian Tire add to its already strong growth figures and that should have investors excited as it makes the stock an even better [long-term buy](#). It could even help the company's [dividend](#) get stronger as well.

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