

Canadian Tire Corporation Limited

FNCE 3140-01

Group 9

Group Members:

1) T00035638
2) T00521060
3) T00042614

Chapter 3: Balance Sheet - Question 1

Identify the date in full shown at the top of your selected company's balance sheet.

Current Year: January 3, 2015 **Prior Year:** December 28, 2013

Does the company's fiscal year follow the calendar's year?

No

If not, why do you think it is different?

The significant accounting policies summary indicates that certain subsidiaries of Canadian Tire have different year ends and this would affect whether or not the company can follow the calendar year. The summary only indicates that CTFS Holdings Limited and its subsidiaries, Franchise Trust and CT Real Estate Investment Trust will have a December 31 year end.

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Chapter 3: Balance Sheet - Question 3

Review your company's balance sheet and compare accumulated amortization/depreciation to the historical cost of Plant and Equipment (PE) using the following ratio.

1 – (Accumulated amortization/depreciation ÷ PE) = Percentage of Asset Life Remaining

- Low percentage means older assets
- High percentage means newer assets

2014: 1 - (- 2,529.4 ÷ 6,272.5) = **140.33%**
2013: 1 - (- 2,326.5 ÷ 5,824.6) = **139.95%**

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Is the investment in fixed assets, on average older or newer?

A high percentage indicates that Canadian Tire has a great investment in newer fixed assets.

If older, can we assume that these assets will be replaced shortly?

The Management Discussion and Analysis section indicates that Canadian Tire invested in new assets and this can help us assume that some old assets were replaced. It is stated that “an increase in property and equipment of $227 million is primarily due to acquisitions by CT REIT including Canada Square and Dufferin Place. Other investments were made in new store projects at FGL Sports and refurbishments at Mark’s,” (CTC annual report 2014, p.37).

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Chapter 3: Balance Sheet - Question 5

Review the noncurrent asset section of your company’s balance sheet.

Are any intangible assets listed?

Yes.

If so, identify the types of intangible assets and the percent of total assets that the intangible assets represent.

Total Assets value: (C$ in millions) $14,553.2

2014

Intangible Assets	**Intangible Asset Amount (C$ in millions)**	**% of Total Assets**
Goodwill	436.6	3.00%
Banners and Trademarks	266.6	1.83%
Franchise agreements and other intangibles	156.8	1.08%
Software	382.8	2.63%
Other Intangibles	8.9	0.06%

Total Intangible Assets ÷ Total Assets
1,251.7 ÷ 14,553.2 = **8.60%**

If this company were to be acquired by another company, would the intangible assets influence the purchase price?

Intangible may or may not influence the purchase price of the company.

Explain

Canadian Tire's banners and trademarks have indefinite useful lives and the corporation believes that these particular intangible assets will "generate cash in perpetuity." The possibility of these intangible assets generating cash in the future may contribute to an increase in the purchase price of the company. However, other intangible assets with limited useful lives such as FGL Sports customer relationships may not have an impact on the purchase price.

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Chapter 3: Balance Sheet - Question 6

Now review your company's total assets for the most recent year.

What percentage of total assets is current and noncurrent?

Total Current Assets/Total Assets × 100

2015: 58.48%

Total Non-current Assets/Total Assets × 100

2015: 41.52%

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Should companies have a greater investment in current assets or noncurrent assets, or does it depend on the nature of their business?

Big retail companies such as Canadian Tire will most likely want to have an even distribution of its investments in current and noncurrent assets. Canadian Tire can benefit from short-term investments through potential profit returns. Investments in long-term assets such as property, plant and equipment would enable Canadian Tire to reach a much wider customer base with more of its retail stores being established in various communities. Whether companies should have a greater investment in current or noncurrent assets will depend on the nature of the business. For example, businesses operating in the manufacturing industry would invest more money in long-term assets such as property, plant and equipment than in current assets. Manufacturing firms would invest more in noncurrent assets in order to maximize the production of its units. Manufacturers would gain the benefit of achieving desirable sales and profits as a result of selling a vast amount of products. Smaller companies may invest more in current assets compared to long-term assets given the limited availability of capital.

Chapter 3: Balance Sheet - Question 7

Review your company's balance sheet.

Does it report a future tax asset? A future tax liability?

Yes: Accounts are reported as **deferred income taxes** assets and liabilities.

If so, are the future tax assets and/or liabilities reported as current or noncurrent?

Deferred Income Taxes are reported as **noncurrent assets and noncurrent liabilities**.

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Chapter 3: Balance Sheet - Question 8

Identify the information that relates to the shareholders' equity section of your company's balance sheet.

List each different class of shares separately. There may be more than one class of preferred shares

****Non-Voting Shares (Preferred Shares)****

Number of Common Shares authorized: 3,423,366

Number of Class A Non-Voting Shares authorized: 100,000,000

Number of Common Shares issued: 3,423,366

Number of Class A Non-Voting Shares issued: 74,023,208

Amount of any contributed surplus: (C$ millions) 2.9

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Chapter 3: Balance Sheet - Question 9

By what amount did retained earnings increase or decrease from the prior year?

Retained Earnings (C$ millions)
2014: 4,075.1

2013: 4,404.6

4,075.1 - 4,404.6 = **-329.5**

Retained Earnings decreased by $329.5 million between 2013 - 2014.

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Was the increase or decrease in retained earnings equal to the company's current year net earnings or net loss? Yes or No*?

No. Current year net earnings are reported as $639.3 million.

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If no, then were dividends paid (or declared) by your company during the current year?

Dividends were declared and paid as of January 3, 2015 to holders of Common Shares and Class A Non-Voting Shares.

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Chapter 3: Balance Sheet - Question 10

Identify the financial statement elements as shown in your company's balance sheet.

Assets	Liabilities	Shareholders' Equity
Cash and cash equivalents	Bank indebtedness	Share capital
Short-term investments	Deposits	Contributed Surplus
Trade & other receivables	Trade and other payables	Accumulated other comprehensive income
Loans receivable	Provisions	Retained earnings
Merchandise inventories	Short-term borrowings	Non-controlling interests
Income taxes recoverable	Loans payable	
Prepaid expenses and deposits	Income taxes payable	

Assets classified as held for sale	Current portion of long-term debt	
Long-term receivables and other assets	Long-term provisions	
Long-term investments	Long-term debt	
Goodwill and intangible assets	Long-term deposits	
Investment property	Deferred income taxes	
Property and equipment	Other long-term liabilities	
Deferred income taxes		

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Chapter 3: Balance Sheet - Question 11

Identify the carrying values of the financial statement elements from your company's balance sheet: (in millions).

(C$ millions)

Account	2014	2013	Increase or (Decrease) (in dollars)
Cash and cash equivalents	662.1	643.2	18.9
Short-term investments	289.1	416.6	(127.5)
Trade & other receivables	880.2	758.5	121.7
Loans receivable	4,905.5	4,569.7	335.8
Merchandise inventories	1,623.8	1,481.0	142.8
Income taxes recoverable	31.9	31.5	0.4
Prepaid expenses and deposits	104.5	68.2	36.3
Assets classified as held for sale	13.1	9.1	4

Long-term receivables and other assets	684.2	686.0	(1.8)
Long-term investments	176.0	134.7	41.3
Goodwill and intangible assets	1,251.7	1,185.5	66.2
Investment property	148.6	93.5	55.1
Property and equipment	3,743.1	3,516.1	227
Deferred income taxes	39.4	36.4	3
Bank indebtedness	14.3	69.0	(54.7)
Deposits	950.7	1,178.4	(227.7)
Trade and other payables	1,961.2	1,817.4	143.8
Provisions	206.0	196.1	9.9
Short-term borrowings	199.8	120.3	79.5
Loans payable	604.4	611.2	(6.8)
Income taxes payable	54.9	57.5	(2.6)
Current portion of long-term debt	587.5	272.2	315.3
Long-term provisions	44.1	38.2	5.9
Long-term debt	2,131.6	2,339.1	(207.5)
Long-term deposits	1,286.2	1,152.0	134.2
Deferred income taxes	93.9	100.4	(6.5)
Other long-term liabilities	787.8	228.3	559.5
Share capital	695.5	712.9	(17.4)
Contributed Surplus	2.9	2.4	0.5
Accumulated other comprehensive income	82.0	47.4	34.6
Retained earnings	4,075.1	4,404.6	(359.5)

Non-controlling interests	775.3	282.6	492.7

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Chapter 3: Balance Sheet - Question 12

Identify the three balance sheet accounts that changed the most from the prior year in dollars.

Account	2014	2013	Increase or (decrease) - in dollars
Other long-term liabilities	787.8	228.3	559.5
Non-controlling interests	775.3	282.6	492.7
Retained earnings	4,075.1	4,404.6	(359.5)

What events explain these changes?

Other long-term liabilities: An addition of $517 million of the redeemable financial instrument in relation to a Financial Services transaction contributed to the overall increase of this account between 2013 and 2014. Other liabilities that contributed to this vast increase are listed below:

- Long-term portion of incentive stock option liabilities
- Unearned insurance premiums
- Unearned roadside assistance revenue
- Deferred lease inducements
- Off-market leases

Canadian Tire Corporation Annual Report 2014. Pages 37 and 98

Non-controlling interests: Non-controlling interests are described in the Canadian Tire Corporation 2014 annual report as “the portion of net assets and income attributable to third parties.” The increase in non-controlling interests between 2013 and 2014 is primarily caused by the sale of ownership interests, net of transaction costs worth $476.8 million and the increase in comprehensive income attributable to noncontrolling interests for the year by $32.2 million.

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Retained earnings: Retained earnings experienced a rapid decrease of $359.5 million. This decrease was caused by the declaration and payment of dividends worth $141.4 million in 2014.

Canadian Tire Corporation Annual Report 2014. Page 66.

Understanding why these changes occurred contributes to a greater understanding about a company.

Account	Explanation
Other long-term liabilities	The vast increase in value for this account value between 2013 and 2014 provides a greater understanding of how the company generates cash by acquiring long-term debt to help finance various activities. The company presents its dependence on long-term debt after "providing covenants to certain of its lenders." The redeemable financial instrument that contributes to the liabilities increase represents the purchase of the Financial Services business portion that was sold to Scotiabank. This information helps us gain a better understanding of the company's purchase and sale agreements with other institutions. Other contributions to the increase in liabilities include "stock option liabilities, unearned insurance premiums, unearned roadside assistance revenue, deferred lease inducements and off-market leases," (p. 98). The company's unearned revenue liability helps us understand how the company can receive revenue without yet providing goods or services to consumers.
Non-controlling interests	The non-controlling interests are the third parties (entities not controlled by Canadian Tire Corporation) that contribute to the company's net assets and income. This account helps us to understand how the company increases or decreases its equity as a result of the interests from external groups or individuals.
Retained earnings	Dividends paid and net income will be items used to calculate retained earnings. The decrease in retained earnings for Canadian Tire helps us acknowledge the fact that the company paid dividends. Net earnings may have increased between 2013 and 2014, but it did not significantly prevent the reduction in retained earnings. Canadian Tire's ability to pay dividends indicates that the company is doing well in compensating investors and it also contributes to our understanding of the company's financial stability.

Canadian Tire Corporation 2014 Annual Report. Pages 63, 79 & 98

Chapter 3: Balance Sheet—Question 13

Prepare a common-sized balance sheet using the balance sheet elements identified above.

Account	Current Year	Prior Year	Increase or Decrease
Cash and cash equivalents	4.55%	4.72%	(0.17%)
Short-term investments	1.99%	3.06%	(1.07%)
Trade & other receivables	6.05%	5.56%	0.49%
Loans receivable	33.71%	33.53%	0.19%
Merchandise inventories	11.16%	10.87%	0.29%
Income taxes recoverable	0.22%	0.23%	(0.01%)
Prepaid expenses and deposits	0.72%	0.50%	0.22%
Assets classified as held for sale	0.09%	0.067%	0.023%
Total Current Assets	**58.48%**	**58.53%**	**(0.05%)**
Long-term receivables and other assets	4.70%	5.03%	(0.33%)
Long-term investments	1.21%	0.99%	0.22%
Goodwill and intangible assets	8.60%	8.70%	(0.10%)
Investment property	1.02%	.66%	0.36%
Property and equipment	25.72%	25.80%	(0.08%)
Deferred income taxes	0.27%	.27%	0%
Total Assets	**100%**	**100%**	**6.77%**
Bank indebtedness	0.16%	0.84%	(0.68%)
Deposits	10.65%	14.41%	(3.76%)

Trade and other payables	21.98%	22.22%	(0.24%)
Provisions	2.31%	2.40%	(0.09%)
Short-term borrowings	2.40%	1.47%	0.93%
Loans payable	6.77%	7.47%	(0.70%)
Income taxes payable	0.62%	1.33%	(0.71%)
Current portion of long-term debt	6.58%	3.33%%	3.25%
Total Current Liabilities	**51.32%**	**52.84%**	**(1.52%)**
Long-term provisions	0.49%	0.47%	0.02%
Long-term debt	23.89%	28.60%	(4.71%)
Long-term deposits	14.42%	14.08%	0.34%
Deferred income taxes	1.05%	1.23%	(0.18%)
Other long-term liabilities	8.83%	2.79%	6.04%
Total Liabilities	**100%**	**100%**	**9.07%**
Share capital	12.35%	13.08%	(0.73%)
Contributed Surplus	0.05%	0.04%	0.01%
Accumulated other comprehensive income	1.47%	0.87%	0.60%
Retained earnings	72.37%	80.82%	(8.45%)
Non-controlling interests	13.77%	5.19%	8.58%
Total Equity	**100%**	**100%**	**3.34%**

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Chapter 3: Balance Sheet—Question 14

Identify the three balance sheet accounts that changed the most in Question 13. What events might explain these changes? Are your responses similar to or different from Question 12? Why?

Account	**Explanation**
Other long term liabilities	Other long term liabilities increased by 6.04% these include: redeemable financial instrument, employee benefits, deferred gains, deferred revenue and other accounts that are not mentioned. A possible reason for this account to drastically increase is that deferred gains relate the the sale and leaseback of certain distribution centers. Several other contributing factors to other long term liabilities include: “stock option liabilities, unearned insurance premiums, unearned roadside assistance revenue, deferred lease inducements and off-market leases,” (p. 98).
Retained Earnings	Retained earnings decreased by 8.45%. This is largely due to the fact that Canadian Tire repurchased 2.6 million shares in 2014 which is a substantial increase from the 1.2 million repurchased previously in 2013. The excess of repurchase price over average cost nearly tripled from 2013 to 2014 at 94.5 to 266.3 respectively, as seen in note 28. The most influential change to retained earnings pertains to the 31.90% increase in dividends to $141.4 million, paid to common shareholders.
Non-controlling Interest	Non-controlling interest has increased by 8.58% from 2013-2014. Non-controlling interest for Canadian Tire Real Estate Investment Trust went from $3.2 million to $19.9 million, over six times greater than it was in the previous year. The increase in non-controlling interests between 2013 and 2014 is primarily caused by the sale of ownership interests, net of transaction costs worth $476.8 million and the increase in comprehensive income attributable to noncontrolling interests for the year by $32.2 million.

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The answers seen in chapter 3 question 12 and 13 are very similar, if not identical. The questions are simply asking different measures of comparing the balance sheet elements over the past number of years. Since the numbers are not changing, only the ways in which we are comparing is changing this leads us to believe we should have the same outcomes when looking at the largest changes between the balance sheet elements.

Canadian Tire Corporation Annual Report 2014. Page 25, 63, 66, 67,98,100

Chapter 3: Balance Sheet - Question 15

Did your company become more or less **liquid** when this year's and last year's current assets and current liabilities are compared?

C$ millions

Current Assets - Current Liabilities (2014)	**Current Assets - Current Liabilities (2013)**
8,510.2 - 4,578.8 = 3931.4	7,977.8 - 4,322.1 = 3,655.7

Explain

The company became **more liquid** in the current year compared to the prior year based on the difference between current assets and current liabilities (working capital). However, by calculating the current ratio, it is evident that the company did not experience a substantial increase in liquidity. The current ratio is calculated as current assets divided by current liabilities. The current ratios for both years are shown below.

2014: 8,510.2/4,578.8 = **1.86**

2013: 7,977.8/4,322.1 = **1.85**

Although the company did not experience a great increase for its current ratio between the current and prior year, it is still able to pay off its short-term debt. For every $1 worth of liabilities, the company has assets worth $1.86 to pay them off.

Canadian Tire Corporation Annual Report 2014, Page 63.

Chapter 3: Balance Sheet - Question 16

Did your company increase or decrease its **financial leverage** when comparing total debt to total shareholders' equity from this year to last?

Total Debt ÷ Total Shareholders' Equity (2014)	Total Debt ÷ Total Shareholders' Equity (2013)
8,922.4 ÷ 5,630.8 = 1.58	8,180.1 ÷ 5,449.9 = 1.50

Explain

The debt-to-equity ratio measures the percentage of company financing that comes from creditors and investors. A high debt-to-equity ratio indicates high financial leverage and vice-versa. Based on Canadian Tire's debt-to-equity ratio results, we can see that its financial leverage increased between 2013 and 2015. A greater financial leverage result increases the financial risk of the company. There would be less financial capital injected by investors into the corporation than the finance injected through debt.

Canadian Tire Corporation 2014 Annual Report. Page 63

Chapter 3: Statement of Earnings—Question 1

Review the heading of your company's income statement.
Does the company's statement of earnings provide two or three years of comparative information?

The company provides two years of comparative information.

Why do you think the company's balance sheet and statement of earnings provide two years of comparative financial information?

The significant accounting policies section of the company's 2014 annual report does not explain why the company uses two years of comparative financial information. However, we can assume that using two years of comparative information provides investors and creditors with information that is current. Using three or more years of comparative financial information would result in the use of outdated data. This would be undesirable for investors and creditors in making decisions concerning whether or not to invest in the company and to provide loans for the company.

Chapter 3: Income Statement —Question 2

Review the middle section of your company's statement of earnings.
Did earnings (loss) from operations increase or decrease from the prior year and by how much?

Income before income taxes

+Other Income (expense)
+Net finance costs
= Earnings from operations

2014: 878.2 + 11.0 + (108.9)
= 780.3

2013: 784.6 + (3.0) + (105.8)
= 675.8

Earnings from operations increased by $104.5 million in the current year.

Canadian Tire Corporation 2014 Annual Report. Page 64.

Chapter 3: Income Statement —Question 3

Does the middle section of your company's statement of earnings show a non-operating earnings (loss) increase or decrease from the prior year and by how much?

Instead of nonoperating income, net financing costs (the difference between finance income and finance costs) are recorded on the statement of earnings.

Net financing costs
2014:($108.9) **2013:**($105.8)

Net financing costs decreased by $3.1 million between the current and prior years.

Canadian Tire Corporation 2014 Annual Report. Page 64.

Chapter 3: Income Statement—Question 4

In reference to why you are studying this company, why is it important to know the different sources of earnings (operating or nonoperating)?

Knowing the different sources of earnings for this company is important as this would enable us to know how well the company is being run. It is also enables us to anticipate the impact on the company's operations if certain events occur and how well it would respond to them.

It would be important to know earnings from operations in order to realize the impact of operating expenses such as selling, general and administrative costs on its value. Canadian Tire experienced an increase in selling and administration expenses due to "increased personnel and occupancy costs from retail stores, higher share based compensation expenses, increased headcount to support strategic information technology initiatives and the increased credit card operation costs." These operation cost increases would lower operating income and this affects the current well-being of the company. Non-operating income is the revenue that will

not be derived from business operations. It would be important to know the value of this account in order to determine the impact of a gain or loss experienced after selling an asset.

Canadian Tire Corporation 2014 Annual Report. Page 26.

Chapter 3: Income Statement—Question 5

If any irregular events are shown on your company's statement of earnings, describe the nature and the amount.
Select the most current year affected by the event if multiple years are affected.

Irregular Event	Amount (C$millions) - 2014	Nature Of Change
Change in fair value of redeemable financial instrument	($17.0)	The redeemable financial instrument is recorded as a liability for the company in the Other long term liabilities section of the balance sheet. The company has to purchase the interest in its Financial Services subsidiary that was sold to Scotiabank on October 1, 2014. "The purchase price will be based on the fair value of the Financial Services subsidiary and Scotiabank's interest in the Financial Services business, at that time."

Canadian Tire Corporation 2014 Annual Report. Pages 64 & 106

Chapter 3: Income Statement—Question 6

Review the lower section of your selected company's income statement.
Did net earnings (loss) increase or decrease from the prior year and by how much

Net Earnings for current and prior years:

2014: $639.3 million 2013: $564.4 million

Net earnings **increased** between 2013 and 2014 by $74.9 million

Chapter 3: Income Statement—Question 7

Prepare a common-sized income statement for the **elements** listed in your company's income statement.

Account	2014	2013	Increase or Decrease
Revenue	**100%**	**100%**	**5.75%**
Cost of producing revenue	67.54%	68.42%	(0.88%)
Gross Profit	**32.46%**	**31.58%**	**0.88%**
Other income (expense)	0.09%	0.03%	0.06%
Selling, general and administrative expenses	24.50%	24.00%	0.50%
Net finance costs	0.87%	0.90%	0.03%
Change in fair value of redeemable financial instrument	0.14%	0.00%	0.14%
Income before taxes	**7.05%**	**6.66%**	**0.39%**
Income taxes	1.92%	1.87%	0.05%
Net Income	**5.13%**	**4.79%**	**0.34%**

Canadian Tire Corporation 2014 Annual Report. Page 64

Chapter 3: Income Statement—Question 8

Identify the three statement of earnings accounts that changed the most in Question 7.
NOTE: Income statement accounts do not include subtotals and totals.

Account	2014	2013	Increase of Decrease

Cost of producing revenue	67.54%	68.42%	(0.88%)
Selling, general and administrative expenses	24.50%	24.00%	0.50%
Change in fair value of redeemable financial instrument	0.14%	0.00%	0.14%

What events might explain these changes?

Account	**Explanation**
Cost of producing revenue	Costs of producing revenue did increase. However, the increase in value of this element resulted in a greater generation of revenue. The cost of producing revenue as a proportion of total revenue decreased by 0.88% as a result of a “strong revenue contribution from the Retail Segment (specifically Canadian Tire and FGL Sports), higher credit charges relating to gross accounts receivable growth at Financial Services and the inclusion of an incremental week of Retail segment operations in 2014.”
Selling, general and administrative expenses	Selling, general and administrative expenses increased in proportion to total revenue as a result of “increased credit card operation costs, increased personnel and occupancy costs related to incremental headcount, and increased share-based compensation expenses. Higher costs to that support strategic and operational initiatives and the incremental week of Retail segment operations in 2014,” also contributed to the increase of this account value.
Change in fair value of redeemable financial instrument	Canadian Tire is required to purchase all of the interest owned by Scotiabank of the Financial Services subsidiary. This interest is classified as the redeemable financial instruments. The purchase price is based on “the fair value of the Financial Services

	business and Scotiabank's proportionate interest in the Financial Services business" - at the time when the bank acquired a part of the subsidiary.

Canadian Tire Corporation 2014 Annual Report. Pages 27 - 29 & 106.

Chapter 3: Income Statement—Question 9

Fill-in your company's EPS amounts. Place a N/A in Diluted EPS if not reported.

	Basic EPS	Diluted EPS	Percentage Decrease
2014	7.65	7.59	0.78%
2013	6.96	6.91	0.72%
2012	6.13	6.10	0.49%

Canadian Tire Corporation 2014 Annual Report. Page 64.
Canadian Tire Corporation 2013 Annual Report. Page 63.

Chapter 3: Income Statement—Question 10

Identify the dilutive instruments that give rise to the reporting of diluted earnings per share.

Dilutive instruments for Diluted EPS are:

2014: Employee Stock Options.

2013: Employee Stock Options

2012: Employee Stock Options

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Canadian Tire Corporation 2013 Annual Report. Page 113
Canadian Tire Corporation 2012 Annual Report. Page 126

Chapter 3: Cash Flow Statement—Question 1

Is the Cash Flow Statement dated in the title for a period of time similar to the statement of earnings or for a point in time similar to the balance sheet?

Statement of Cash flow is dated for a period of time, (For the years ended January 3, 2015 and December 28, 2013).

Why?

The Cash Flow Statement is dated in the title for a period of time because it provides details concerning the cash inflows and outflows that occurred during the year from operating, financing and investing activities.

Canadian Tire Corporation 2014 Annual Report. Page 66.

Chapter 3: Cash Flow Statement—Question 2

Identify the following sections of the Cash Flow Statement and record the amounts.

(C$ millions)

Account Description	**2014**	**2013**	**2012**
Net cash flows from operations	$574.8	$893.0	$743.0
Net cash flows from investing	(589.5)	(786.4)	(261.5)
Net cash flows from financing	88.6	(461.7)	247.0
Net increase (decrease) in cash flows	73.9	(355.1)	728.5
Cash balance at beginning of year	574.2	929.5	201.0
Cash balance at end of year	647.8	574.2	929.5
Does the total match balance sheet cash?	**No**	**No**	**No**

Canadian Tire Corporation 2014 Annual Report. Page 66.
Canadian Tire Corporation 2013 Annual Report. Page 65.

Chapter 3: Cash Flow Statement—Question 3

Record net sales, net income, and net operating cash flows below.

Account	2014	2013	2012
Net sales (Revenue)	12,462.9	11,785.6	11,427.2
Net income	693.3	564.4	498.9
Net operating cash flows	574.8	893.0	743.0

Calculate percentage changes

****Trend Analysis used to realize changes****

Account	2014	2013	2012 - Base Year
Net sales (Revenue)	109.06	103.14	100
Net income	138.97	113.13	100
Net operating cash flows	77.36	120.19	100

Explain why net sales, net income and net operating cash flows are trending together or differently

Look at amortization/depreciation expense and substantial changes in inventory, accounts receivable, and accounts payable balances

The table above indicates a positive trend between Canadian Tire's net sales and net income. However, net operating cash flows have been unstable and this is shown by a sharp 20.19% increase between 2012 and 2013 and the 42.83% (120.19 - 77.36) drop between 2013 and 2014. The combined increase in net sales and net income was caused by an increase in retail sales and and merchandise inventories. Higher "average credit card charges and increased average active accounts from the Financial Services subsidiary" contributed to the rise in revenue. Merchandise inventories were increased to support new stores in various locations and achieve higher sales growth. Canadian Tire's Marks subsidiary increased inventories to accommodate rebranding efforts."

Between 2012 and 2013, net operating cash flows increased as a result of increased working capital. Contributions to the increase in working capital included an increase in trades and other payables - more cash was generated to finance operating activities. A greater quantity of Merchandise inventories also contributed to the increase in working capital. Between 2013 and 2014, the drop in net operating cash flow was caused by a decrease in trade and other receivables and a negative outflow of merchandise inventories. The negative outflow of

merchandise inventories suggests that operating cash was used to purchase inventory in order to maximize net sales and net income.

Canadian Tire Corporation 2014 Annual Report. Pages 37 & 105.
Canadian Tire Corporation 2013 Annual Report. Page 106.

Chapter 3: Cash Flow Statement- Question 4

Identify the primary cash outflows and inflows from investing activities

(In Millions)

Description of Activity	2014	2013	2012
Cash outflow: Additions to property and equipment and investment property	($538.6)	($404.3)	($222.3)
Acquisition of short-term investments	($431.6)	($339.2)	($264.0)
Cash inflow: Proceeds from the maturity and disposition of short term investment	$665.3	$193.8	$360.7

Canadian Tire Corporation 2014 Annual Report. Page 66
Canadian Tire Corporation 2013 Annual Report. Page 63

Consider three key issues. Is the company adding assets? This is a sign of growth. Is the company replacing assets? This is a sign of growth and stability. Is the company only selling assets? This is a sign of retrenchment.

In 2014, Canadian Tire Corporation had an outflow of $589.5 million for cash used for investing activities. This is showing that the company is not drastically selling assets for quick cash. There has been a significant decrease in cash used for investing activities of $196.9 million, this is mainly due to the sale of marketable investments. These marketable investments includes reserves that are held by Canadian Tire Financial Services because of its liquidity and regulatory requirements. CTC has made significant investment in working capital because they had decided to increase inventory across all the stores “ to mitigate supply chain disruption risk,

take advantage of early purchase opportunities prior to duty and tariff increases, support new stores and sales growth and accommodate rebranding initiatives" (pg. 37). The company has been working on, for the past number of years, on the Canadian Tire store renewal program. In 2014, CTC has completed a total of 122 Smart Store, Pro Shop and Sport Chek projects. By replacing these assets, CTC hopes these additions will maximize sales and return on capital investment.

Canadian Tire Corporation 2014 Annual Report. Page 16, 19, 37, 66, 105

Chapter 3: Cash Flow Statement- Question 4

Identify the primary cash inflow and outflow from financing activities.

(In CAD Millions)

Description of Activity	**2014**	**2013**	**2012**
Cash inflow:			
Insurance of long-term debt	$563.7	$265.8	$637.4
Proceeds on sale of ownership interests in the Financial Services business	$500	-	-
Cash outflow:			
Repayment of long-term debt and finance lease liabilities	($474)	($659.2)	($30.1)
Repurchase of share capital	($290.6)	($105.9)	($33.1)
Dividends Paid	($141.4)	($107.2)*	($97.7)

*Dividends Paid for 2013 is different in Annual Reports for 2013 = $113 million because cash flows have been reclassified to better suit Management's view of Canadian Tire operations. (Annual Report 2014 pg.110, note 39)

Canadian Tire Corporation 2014 Annual Report. Page 66
Canadian Tire Corporation 2013 Annual Report. Page 63

Consider two issues at this point. How is the company being financed, through debt or equity? Can you determine which is growing faster and why? A sound corporate strategy is to finance a

company with debt during stable times, because this demands regular payment of principal and interest, and to finance a company with equity during unstable times, because leadership can elect to pay or not pay dividends.

In 2014, Canadian Tire was financed with 61.31% debt and 38.69% equity. As with most companies, debt is a more favourable source of financing, which shows company stability. CTC has been operating largely through operating and investing activities. Debt is growing faster than equity because, they are primarily financed with debt and using that to fund acquisitions. Such acquisitions include, Mark's Work Wearhouse and Forzani group.

Canadian Tire Corporation 2014 Annual Report. Page 3, 66

Chapter 3: Notes to the Financial Statements—Question 1

How does your company define "cash and cash equivalents"?

Our company defines cash and cash equivalents as "cash plus highly liquid and rated certificates of deposit or commercial paper with an original term to maturity of three months or less"

Canadian Tire Corporation 2014 Annual Report. Page 73

Chapter 3: Notes to the Financial Statements—Question 2

Review the Summary of Significant Accounting Policies note.
a) How does your company determine the cost of its inventories?
b) How does this company define market for the purposes of applying the lower of cost or market valuation.?
c) Are domestic and international inventories valued the same?

A) The determination of merchandise inventories is "based on weighted average cost and includes costs incurred in bringing the merchandise inventories to their present location and condition. All inventories are finished goods."

Canadian Tire Corporation 2014 Annual Report. Page 74

B) our company defines "market valuation" as the "Net realizable value" and states "Net realizable value is the estimated selling price of inventory during the normal course of business less estimated selling expenses"

Canadian Tire Corporation 2014 Annual Report. Page 74

C) The cost of inventories includes all “costs incurred in bringing the merchandise inventories to their present location and condition” meaning all transportation costs are added to the cost of inventory.

Canadian Tire Corporation 2014 Annual Report. Page 74

Chapter 3: Notes to the Financial Statements—Question 4

Review the Summary of Significant Accounting Policies note and any notes related to property, plant, and equipment.
Identify the long-lived asset group(s), amortization/depreciation methods used, and the estimated useful lives of these assets.

Long-Lived Asset Group	Amortization Method	Estimated Lives
Buildings	declining method	4-20% depreciation rate
Fixtures and equipment	declining method	5-40% depreciation rate
Leasehold improvements	straight-line basis	shorter of term of lease or useful life
Assets under financial lease	straight-line basis	shorter of term of lease or useful life

Canadian Tire Corporation 2014 Annual Report. Page 75

Chapter 3: Notes to the Financial Statements—Question 5

Review the Balance Sheet and the Summary of Significant Accounting Policies note and any related notes, identify the amount of goodwill presently reported.

The Total Net carrying amount of goodwill at the end of the year was 436.6 million. The amounts contributed to the total goodwill were 356.9 million from FGL sports, 56.3 million from Mark’s and 23.4 million from Canadian Tire.

Canadian Tire Corporation 2014 Annual Report. Page 89

Identify the amount of write-down of goodwill that occurred during the current year.

The additions related to goodwill business contributions were 4 million and additional impairment of (0.3) million which gave a total amount of 3.7 million dollars of goodwill that occurred during the year.

Canadian Tire Corporation 2014 Annual Report. Page 89

How does management describe its accounting for goodwill as disclosed in the note(s) to the financial statements?

Management describes goodwill as the “excess of the cost of an acquisition over the fair value of the Company’s share of the identifiable assets acquired and liabilities assumed in a business combination. Goodwill is measured at cost less any accumulated impairment and is not amortized.”

Canadian Tire Corporation 2014 Annual Report. Page 74

Chapter 3: Notes to the Financial Statements—Question 6

Review your company’s lease note (and related balance sheet information), then identify the following:

Minimum lease payments under capital (finance) leases:

The present value of minimum lease payments is $153 million and the future minimum lease payments is 209 million. Finance leases relate to distribution centres, fixtures and equipment. Minimum lease payments under operating leases.

Canadian Tire Corporation 2014 Annual Report. Page 98

Ratio of operating lease payments to capital lease payments:

312.4/153

As a user of reported financial information, would you be concerned about a significant amount of operating leases that are not reported in the balance sheet?

Explain.

Chapter 3: Notes to the Financial Statements—Question 7

Review your company’s long-term debt note and identify the following:

How much interest expense was recognized in the current year?

For the current year 2014, the interest expense was $185.4 million.

Canadian Tire Corporation 2014 Annual Report. Page 83

How much cash was paid for interest in the current year?
Interest paid for 2014 was $122 million.

*The difference between interest expense and cash paid for interest is due to the accrual basis of accounting .

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Chapter 3: Notes to the Financial Statements—Question 9
Based on your review of the contingencies note, identify any contingent liabilities that were probable and estimable and have been accrued for in the balance sheet.

Legal and regulatory matters are declared in the contingencies note. The company states that they have been a part of a number of legal and regulatory proceedings; although, the company must contest them, it will not have a material impact on their consolidated net income, cash flows or financial position.

Canadian Tire Corporation 2014 Annual Report. Page 95

Identify any contingent liabilities that have been disclosed but not recorded in the financial statements.
There are no contingent liabilities that have been disclosed but not recorded in the financial statements.

Chapter 3: Notes to the Financial Statements—Question 10
Based on your review of the segment-reporting note to the financials, identify the reported operating segments and their related revenues, as well as the geographical segments and their related revenues. Identify the largest three if more than three are disclosed for the most recent period.

Operating Segments (or business)	**Net Sales/Revenues**	**Operating Income**
Retail:	$11,298.9	$531.5
Canadian Tire Real Estate Investment Trust:	$344.8	$318.3
Financial Services:	$1,075.7	$345

No Geographical Segments are given in the Annual Report.

Canadian Tire Corporation 2014 Annual Report. Page 83

Chapter 4: Liquidity Analysis—Question 1

NOTE: Express each measure or ratio in the correct format, e.g., ratio, times, days, %, $, etc.
NOTE: Calculate each measure or ratio to 2 decimal places.
NOTE: In your evaluation of each measure or ratio, refer to the MD&A for the company's explanation of the changes.
NOTE: Compare your company's results to industry averages. The TRU Library can help you with locating this information.

Measure or Ratio	**Ratio Calculation**	**Current Year**	**Prior Year**
1) Current ratio	Current assets ÷ Current liabilities	1.86 (8510.2/4578.8)	1.85 (7977.8/4322.1)
Evaluation: The current ratio had slightly increased from 2013-2014. From a financial analyst perspective, a current ratio above 1 is deemed to be good, and the higher the ratio gets the better it is for the company. The current ratio for Canadian Tire is quite good, assets can serve $1.86 of every $1 of debt which is a fair bit above industry average. **Industry Average: Reported at 1.7**			
2) Acid test (quick) ratio	(Cash + Short-term investments + Accounts receivable) ÷ Current liabilities	1.47 (662.1+289.1+ 880.2+4905.5)/4578.8	1.48 (643.2+ 416.6+758.5+4569.7)/ 4322.1
Evaluation: The quick ratio has seen a slight decrease from the previous year. Since the quick ratio excludes inventory, we can see that Canadian Tire holds very large inventories when comparing the quick ratio the current ratio. A quick ratio of 1.47 in the current year shows that the company will not run into any difficulties if the need to quickly liquidate their assets. Liabilities have increased from 2013 to 2014; however, it is offset by a large increase short term investment and trade and other receivables. **Industry Average: Reported at 0.5**			

3) Cash current debt coverage	Cash provided by operating activities ÷ average current liabilities	0.13 574.8 (4578.8+4322.1)/2	0.20 893 (4322.1+4671.6)/2
Evaluation: Cash provided by operating activities has significantly decreased between the current year and the previous year because of the significant increase in inventories and the large payments to accounts payable(pg.105). Because of this significant decrease, the cash current debt coverage ratio is significantly decreased. The company also carries large amount of debt which had recently increased by almost $750 million.			
4) Inventory turnover	Cost of goods sold ÷ Average inventory	5.42 8416.9 (1623.8+1481)/2	5.40 8063.3 (1481+1503.3)/2
5) Days in inventory	365 days ÷ Inventory turnover	67.34 365/5.42	67.59 365/5.40
Evaluation: Inventory turnover shown above represents how many times in a year Canadian Tire cycles through their inventory. For this company inventory turnover has slightly increased from 2013 to 2014. Canadian Tire goes through their inventory a little quicker than before with a days in inventory of 67.34 in 2014 and 67.59 in 2013. **Industry Average: Reported at 4.5 (Inventory Turnover)**			
6) Receivables turnover	Net credit sales ÷ Average accounts receivable	2.24 12462.9 (5785.7+5328.2)/2	2.28 11785.6 (5328.2+5016.3)/2
7) Average collection period	365 days ÷ Receivable turnover	162.95 365/2.24	160.09 365/2.28
Evaluation: Receivables turnover is barely comparable to industry average. This is because Canadian Tire Financial Services have credit cards with outstanding balances which is to be included in accounts receivables.			

Industry Average: Reported at 38.9
Liquidity Interpretation: Overall, the company seems to be doing well from a liquidity standpoint. Canadian Tire has high assets to cover its liabilities with a current ratio substantially over 1. With this being said, the company is in a good position to invest or finance for other future opportunities. Cash appears to be much lower this year as opposed to previous years; however, they still have more than enough cash to cover financing activities.
Conclusion: In conclusion, Canadian Tire is not exposed to high levels of risk when looking at these liquidity ratios. The company has sufficient assets to cover their short term debts. Although they hold inventory for a while, this is expected with wholesale retail stores and CTC has an above industry inventory turnover. Receivables turnover is below average because of the financial services held by Canadian Tire.

Canadian Tire Corporation 2014 Annual Report. Page 63, 64, 65, 66
Canadian Tire Corporation 2013 Annual Report. Page 60, 61, 62, 63

Chapter 4: Profitability Analysis—Question 1

NOTE: Express each measure or ratio in the correct format, e.g., ratio, times, days, %, $, etc.
NOTE: Calculate each measure or ratio to 2 decimal places.
NOTE: In your evaluation of each measure or ratio, refer to the MD&A for the company's explanation of the changes.
NOTE: Compare your company's results to industry averages. The TRU Library can help you with locating this information.

Measure or Ratio	Ratio Calculation	Current Year	Prior Year
1) Earnings per share		$7.65	$6.96
Evaluation: Earnings per share is an indicator of profitability and the portion of a company's profit that is allocated to each outstanding share of common stock. An increase in EPS shows that the company is attractive to potential investors. This increase is partially because of the shares that the company bought back and cancelled.			

2) Return on common shareholders' equity (ROE)	(Net earnings – Preferred dividends) ÷ Average common shareholders' equity	11.54% 639.3-0 (5630.8+5449.9)/2	11.05% 564.4-0 (5449.9+4764.3)/2
Evaluation: Return on equity is a profitability ratio which indicates how much profit the company can generate with the amount of money shareholders have invested into the company. With Canadian Tire their ROE is slightly below industry average. A higher ROE would be preferable. **Industry Average: Reported at 15.3%** **Retireved from http://biz.yahoo.com/ic/759.html**			
3) Return on assets (ROA)	Net earnings ÷ Average total assets	4.54 639.3 (14553.2+13630)/2	4.20 564.4 (13630+13228.6)/2
Evaluation: Return on assets is also a profitability ratio that measures how much is made relative to assets. ROA gives us a pretty good idea as to how efficiently management is using its assets to generate earnings. For Canadian Tire this means that management is using its assets relatively efficiently and significantly better than industry average.			
4) Asset turnover	Net sales ÷ Average total assets	.88 12462.9 (14553.2+13630)/2	.87 11785.6 (13630+13228.6)/2
Evaluation: Asset turnover indicates the amount of revenue generated per dollar of asset. CTC is significantly below average. This could be because a majority of the assets are in the form of building and land. **Industry Average: Reported at 2.8**			
5) Gross profit margin	Gross profit ÷ Net sales	32.46% 4046.0/12462.9	31.58% 3722.3/11785.6

Evaluation: Gross margin shows the left over revenues after the cost of goods sold get deducted. The .32 shows that Canadian Tire has 32% of its revenues left after paying off costs. The higher a company's gross profit margin means they have higher profitability. Stores that tend to sell a high volume of goods tend to have low gross profit margins but Canadian Tires 32% is very respectable considering its high volume in sales.

6)	Profit margin	Net earnings ÷ Net sales	5.13% 639.3/12462.9	4.79% 564.4/11785.6

Evaluation: Profit margin is a ratio that shows how much of every dollar of sales a company keeps in earnings. For Canadian Tire this shows that 5.13% of every dollar of sales is kept in the company's earnings. Which is significantly higher than the industry average.

Industry Average: Reported at 2.4%
Retrieved from http://biz.yahoo.com/ic/759.html

7)	Payout ratio	Cash dividends ÷ Net earnings	0.22 141.4/639.3	0.19 107.2/564.4

Evaluation: The proportion of earnings paid out as dividends to shareholders. The payout ratio for the company in the current year has been higher compared to last year as the company now aims to have annual dividend payouts from 25% to 30%

Profitability Interpretation: The company's Asset turnover is well below the industry average probably due to the fact that they have a significantly large number of assets. This causes the ratio to be low because sales are measured relative to the total number of assets. This shows Canadian Tire isn't very efficient in generating sales in relation to their assets compared to the industry average. Regardless of the company's asset turnover, they have a very good profit margin of 5.13 which is more than double that of the industries 2.4 average. This means the company has great financial health and is essential for the company to keep expanding.

Conclusion: overall, this company is very profitable. They have a lower ROE and asset turnover compared to the industry average but make up for it by providing a very high EPS, strong dividend payouts and maintain a profit margin of more then double that of the industry average which is probably the most important ratio when trying to interpret if a company is profitable or not. The company also just decided to increase dividend payments from 25% to 30% next year which makes this company a very appealing investment.

Canadian Tire Corporation 2014 Annual Report. Page 63, 64, 65, 66
Canadian Tire Corporation 2013 Annual Report. Page 60, 61, 62, 63

Chapter 4: Solvency Analysis—Question 1

Measure or Ratio	Ratio Calculation	Current Year	Prior Year
1) Debt to total assets	Total liabilities ÷ Total assets	0.61 61% 8922.4/14553.2	0.60 60% 8180.1/13630.0
Evaluation: The debt to total assets ratio measures the liabilities of a company in proportion to the total assets. The result of this ratio indicates that 61% of Canadian Tire's liabilities are used to finance assets. This is a high percentage and it represents a relatively large amount of financial risk for the company. A large contributor to the increase in liabilities was the $517 million purchase of the financial instrument issued in connection to the Financial Services transaction. **Industry Average: Reported as Debt/Worth - 2.1**			
2) Debt to equity	Total liabilities ÷ Shareholders' equity	1.58 8922.4/5630.8	1.50 81801.1/5449.9.
Evaluation: This ratio measures how much of a company's assets are financed by liabilities in proportion to shareholders equity. The increase from 1.50 to 1.58 indicates that Canadian Tire now has debt worth $1.58 for every dollar in equity. This enhances the company's financial risk given that there is a greater use of debt to help finance its assets. **Industry Average: Reported as 113.3** **Retrieved from http://biz.yahoo.com/ic/745.html**			
3) Cash total debt coverage	Cash provided by operating activities ÷ Average total liabilities	0.07 574.8 (8922.4+8180.1)/2	0.11 893.0 (8180.1+8464.3)/2
Evaluation: This ratio reflects on a company's ability to pay off its debt with cash from operating activities. The ratio decrease experienced by Canadian Tire in 2014 was caused by a reduction in cash from operations. The cash decrease occurred as a result of changes in			

<table>
<tr><td colspan="4">operating working capital involving the purchase of merchandise inventories to support the company's rebranding efforts for its retail subsidiaries. The decrease in trades and other receivables also contributed to the overall decrease in cash from operating activities.
Industry Average: Reported as 0.85 for 4Q 2014
Retrieved from http://csimarket.com/Industry/industry_Financial_Strength_Ratios.php?ind=1307</td></tr>
<tr><td>4) Free cash flows</td><td>Cash provided by operating activities – net capital expenditures – Dividends paid</td><td>$83.9
574.8-(721.8-279.2-93.1)-141.4
(Cash from operations - (Capital Expenditures - Depreciation on property - Amortization of intangible assets) - Dividends Paid</td><td>$587
893.0-(544.1-253.8-91.5)-107.2</td></tr>
<tr><td colspan="4"><u>Evaluation:</u> There was a vast decrease in free cash flows for Canadian Tire because of a variety of elements. Dividend payments increased which contributed to the reduction in free cash flows. A cash reduction was also caused by the completion of six property acquisitions and two development land acquisitions all fuelling the increase in capital expenditures between the current and prior year. Cash from operating activities decreased as a result of inventory purchases and a decrease in trade and other receivables.
Industry Average: Reported as $57.8
Retrieved from http://biz.yahoo.com/ic/745.html</td></tr>
<tr><td>5) Times interest earned (Interest coverage ratio)</td><td>Earnings before interest expense and income tax expense (EBIT) ÷ Interest Expense</td><td>2.14
(639.3-122-256.5)
122.0
EBIT - interest expense - income tax expense ÷ interest expense</td><td>1.95
(564.4-126.5-191.2)
126.5</td></tr>
<tr><td colspan="4"><u>Evaluation:</u> This ratio represents the number of times a company can cover its interest charges before income tax and interest expenses are paid. The increase from 1.95 to 2.14 shows that Canadian Tire can now pay off its income taxes and interest charges from earnings 2.14 times. This ratio is relatively low suggesting that the company is using more of</td></tr>
</table>

its earnings for reinvestment purposes compared to the coverage of its short-term debt obligations. **Industry Average: Reported as 4.9**
Solvency Interpretation: From the ratios calculated above, we can see that Canadian Tire has acquired debt that has increased its financial risk.The major source of finance for the company's assets came from debt. The reduction in free cash flows also contributed to the overall increase in financial risk for the company. However, the company's use of operating cash from activities to purchase merchandise inventory confirms the company's determination to increase its retail sales. In addition, the vast amount of acquisitions that the company completed during the year also indicates its incentive to increase long-term assets. Canadian Tire's increase of the time interest earned ratio between the current and prior year is desirable. However, this ratio has a relatively low value suggesting that the company has limited ability to use its EBIT (Earnings Before Interest and Tax) to pay off interest and tax expenses.
Conclusion: The company has shown its great dependence on debt to finance its assets. The company successfully used debt to make a vast amount of acquisitions during 2014 and this is beneficial for the company. However, acquiring a lot of debt does present solvency concerns and this may prove to be undesirable to investors and creditors. The company has produced strong sales revenue results at the expense of gaining more debt.The profitability of the company has also improved as a result of its reliance on debt. Canadian Tire Corporation may have accumulated more debt as a result of various investments; but it has taken great measures to enhance the quality of its products and services through these investments. The company has shown promise in achieving sustainable results in the long-run.

Canadian Tire Corporation 2014 Annual Report. Page 63, 64, 65, 66, 67, 116
Canadian Tire Corporation 2013 Annual Report. Page60, 61, 62, 63

Chapter 5 – Decision-Making Process

Chapter 5: Decision-Making Process—Question 1

Based upon your review, do the numbers support the company's explicit strategic focus, i.e., goals and objectives?

Canadian Tire designed a 5 year strategic plan created for the years 2010-2014 in which they set numerous goals in regards to achieving financial aspirations relating to retail sales annual growth, consolidated EPS annual growth, Retail return on invested capital, financial services return on receivables and total return to shareholders including dividends.

Retail sales growth
Canadian Tire's financial aspiration was to grow their retail sales somewhere between 3 and 5 percent from 2010-2014. The cumulative average growth rate for these 5 years was 2.4 percent which failed to meet the strategic plans aspirations. Canadian Tire believes that consumers were more cautious in spending than expected and that there was economic uncertainty over the plan period. The retail sales growth rate in 2014 was 4.4 percent which met the growth rate aspirations.

Consolidated EPS annual growth
Canadian Tire's aspirations over the 5 year period were to grow earnings per share somewhere between 8 and 10 percent. The 5 year consolidated rate was 13.3 percent which exceeded their original target. The company states that this growth was reflected by:

- ‰ net earnings growth due to strong revenue and margin growth contribution from both the Retail and Financial Services segments;
- ‰ successful integration of acquisitions that complement the Company's product and service offering, including FGL Sports and PHL;
- ‰ a reduction in the number of Class A Non-Voting shares outstanding due to 3,997,000 of repurchased shares in excess of the amount required for anti-dilutive purposes since 2010;

and partially offset by;

- ‰ the impact of non-controlling interests relating to CT REIT public unitholders, The Bank of Nova Scotia's ("Scotiabank") equity interest in the Company's
- Financial Services business and a gas-retailing joint venture within the Retail segment, which reduced 2014 full-year EPS by $0.45; and
- ‰ the change in the fair value of the redeemable financial instrument arising from the Financial Services strategic partnership transaction, which reduced 2014 full-year EPS by $0.22.

Retail return on invested capital
The company had aspirations of 10 percent or higher which they failed to achieve. The actual retail return on capital investment from 2010-2014 was only 8.1 percent. Retail ROIC is calculated as the "rolling 12 months retail earnings divided by average invested retail capital" The company believes this calculation is useful for "assessing the return on capital invested in its retail assets" failing to reach the 10 percent target was caused by a significant increase in capital spending and additional distribution capacity over the 5 year plan period.
Financial Services return on receivables (ROR)

The company's aspirations had a range from 4.5 to 5 percent. The actual return on receivables over the 5 year period was 7.4 percent. this was due to strong revenue, strong credit risk management and prudent expense management at financial services.

Total return to shareholders including dividends
The company's financial aspirations over the 5 year period for total return to shareholders including dividends was 10 to 12 percent. The actual percentage was 17.5 percent, this was due to strong earnings realized by the company which allowed them to increase its dividend policy to pay 25 to 30 percent of prior year normalized basic EPS.

Canadian Tire Corporation 2014 Annual Report. Pages 15,16,46

Chapter 5: Decision-Making Process—Question 2

Chapter 1: Question 1 reads: What is/are your motivation(s) or interest(s) in selecting this company? What question(s) are you seeking to answer?

Prepare a thorough, yet concise answer to your original question(s) and issue(s) relying upon the information gathered throughout your Annual Report study.

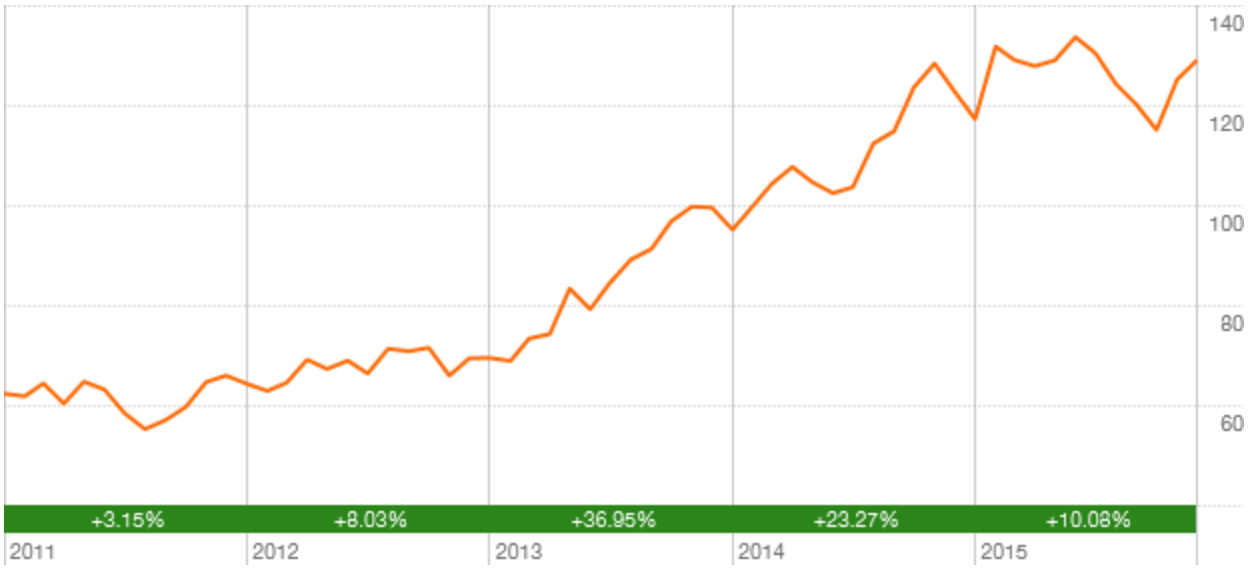
For example, upon completing your analysis, would you want to use this company as a supplier?
Would you want to work for this company?

Explain.
NOTE: Support your answer with information derived from the information gathered in your Annual Report study.

Our first answer states "Over the years, Canadian Tire Corporation has been successful in providing good customer service in its retail stores.The company has also taken the initiative to develop local communities in Canada and this has significantly created a good brand image for the firm. As a group, we are motivated to discover how the company continues to provide good customer service in its various retail stores. We are also motivated to find out how the company manages its relationships with its various stakeholder groups given the conflict of interest that can arise between these groups. In addition to this, we have interests in discovering whether or not the company has attained its strategic objectives from the information provided by the company during the previous year."

After reviewing the annual report, Canadian tire identifies several core capabilities that differentiate the company and its businesses from it competitors including strong brand equity, loyalty programs, innovative products, customer friendly and innovative store layouts, real

estate expertise, global supply chain networks, prudent credit risk management and world-class customer contact centres. For the current year, EPS increased by 10% which benefits all of the shareholders. Canadian tire distributes regular dividend payments including one for $.525 per share payable on June.1/2015. Regular dividend payments and achieving 4 out of their 5 main financial aspirations in 2014 proves to shareholders that they are a reliable, trustworthy company and have a good sense of direction and control. I would definitely want to use this company as a supplier based on its financial stability and ability to follow through on payments. As a group, all 4 of us agreed that it would be very intriguing to work for this company in a managing, finance, marketing or accounting position. The wealthiness and enormity of the corporation allows for high compensation and limitless opportunities for its employees. The positive effects Canadian tire has on communities and the environment makes it very appealing as well.



picture retrieved from
http://www.theglobeandmail.com/globe-investor/markets/stocks/summary/?q=ctc.a-T

This chart shows the stock price for Canadian Tire for the last 5 years. It is evident why so many people choose to invest with Canadian Tire as they manage to maintain a steady increase in stock price even with dividend payments distributed to its shareholders.

Canadian Tire Corporation 2014 Annual Report. Pages 10,11,12

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