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# Introduction

## ***Canadian Tire Corporation:***

Canadian Tire Corporation is a growing network of interrelated businesses, engaged in retail, financial services and petroleum. These businesses offer a unique mix of products and services that leverage Canadian Tire's core capabilities and exemplify our vision to be a growing, innovative network of businesses, achieving extraordinary results through extraordinary people. We touch more people, in more ways, every day.

Canadian Tire is a proud Canadian family and our purpose is to serve and enrich the lives of our customers, our shareholders, our team and our communities. 45,000 Canadians work across the Canadian Tire organization from coast-to-coast in the corporation's retail, financial services, petroleum and apparel businesses. There are five core businesses within this corporation, which are: Canadian Tire Retail, PartSource, Canadian Tire Financial Services, Canadian Tire Petroleum, and Mark's Work Wearhouse.

## ***Hudson's Bay Company:***

Hudson's Bay Company (Hbc), established in 1670, is Canada's largest department store retailer and oldest corporation. The Company provides Canadians

with the widest selection of goods and services available through numerous retail channels including more than 500 stores led by the Bay and Zellers chains. Hudson's Bay Company is Canada's fifth largest employer with 70,000 associates and has operations in every province in Canada.

Hudson's Bay Company is a seamless retail organization built to best serve the shopping needs of the majority of Canadian consumers through several highly focused retail formats, linked by customer bridges, enabled by common and integrated support services. There are four core businesses within this corporation: the Bay, Zellers, Hbc Direct, and Home Outfitters.

## Measurement Descriptions

Please refer to Appendix 1 and Appendix 2 for Financial Data tables for both companies covering a five-year period from 1997 to 2001. Five years were used to be able to graph out trends which can be found in later appendixes.

### ***Liquidity/Solvency:***

For liquidity/solvency, the current, quick, cash interest coverage, and capital expenditure ratios, plus increases/decreases in cash and net cash provided by operating activities values were used. These numbers will identify a company's ability to convert assets into cash, which is important to pay debts that may accumulate.

***Credit:***

Two credit ratios were used in this report: the debt ratio and the equity ratio.

These numbers will identify a company's debt situation, which include the amount of assets financed by creditors and/or shareholders.

***Profitability:***

To measure profitability, earnings per share, return on equity, and net income as a percentage of sales values were used. These numbers will identify a company's performance in generating revenues, profits, and controlling operations/costs.

## Measurement Analysis

***Liquidity/Solvency:***

Please refer to Appendix 3 for Liquidity/Solvency and Debt Measurement Chars on both companies. Canadian Tire's Current and Quick ratios have had a similar tread for the last 5 years, ending with a slight increase by the end of 2001 at 1.80 and 1.39 respectively. The Cash Interest Coverage Ratio dipped for the first 4 years, and came back to its original level in the end. However, the company's Capital Expenditure Ratio decreased during 2001, maybe because Canadian Tire has

not undertaken any capital investments that year. Another important piece of data to mention is Canadian Tire's Increase/Decrease in Cash for the year 2000. During that year, Canadian Tire might have paid large amounts of money related to the purchase of Mark's Worth Warehouse. Also, Net Cash Provided by Operating Activities is at a 5-year low.

Similar to Canadian Tire, Hbc's Quick and Current ratios performed a similar pattern. Initially they dipped and then recovered. The company's Cash Interest Coverage and Capital Expenditure Ratios were initially increasing and decreasing respectively. In the year 2000 however, both ratios shot up to new 5-year highs to then return to initial levels in 2001. The company's Working Capital and Net Cash Produced behave inversely. Usually as one of the increased, the other would decrease and vice versa. Hbc's Cash amount has remained steady.

***Debt:***

Canadian Tire's Debt Ratio throughout the last 5-years increased 10% and then return to its beginning level by 2001, but the company's Equity Ratio has been declining.

The Hudson Bay's debt ratios experienced some trouble during 1998, but came down to lower levels by the end of the 5-year cycle. The high debt in 1998 may have happened because of poor performance by the company.

***Profitability:***

By referring to Appendix 4, you can see that Canadian Tire has performed well in terms of profitability. The company's Earnings Per Share have been steady or increasing ending at \$2.25. While Canadian Tire's Return on Equity and Net Income have been decreasing during the middle of the 5-year period, the last year has seen an increase.

Unfortunately, Hbc has not shared the same type of profitability performance as Canadian Tire. The company had a terrible year in 1998, with Earning Per Share, Return on Equity, and Net Income at 5-year lows. After these lows it seemed the Hbc was beginning to rebound, but in 2001 all measurements began to decline again.

***Vertical Analysis***

Please refer to Appendix 4 for Canadian Tire's Vertical Analysis. The analysis shows that 45.60% of the company's asset are current, with the remaining amount being long-term/fixed. Canadian Tire seems to carry more liabilities instead of shareholder's equity, with 56.45% liabilities (25.39% current) and 36.69% in shareholders' equity (the remaining 6.86% is in Minority interest). The reason for the higher percentage in liabilities could be from acquired debts with the company purchased Mark's Worth Warehouse.

Please refer to Appendix 5 for Hbc's Vertical Analysis. The analysis shows that the company's assets are 56.27% current with the remaining being long-term/fixed. Unlike Canadian Tire though, Hbc seems to hold more in Shareholders' Equity than Liabilities. Overall, Shareholders' Equity is 52.64% of the company total balance sheet. Their liabilities carry the majority of the remaining amount with 28.07% of it as current.

## Investment Decision

## **Appendix 1: Canadian Tire Financial Data**



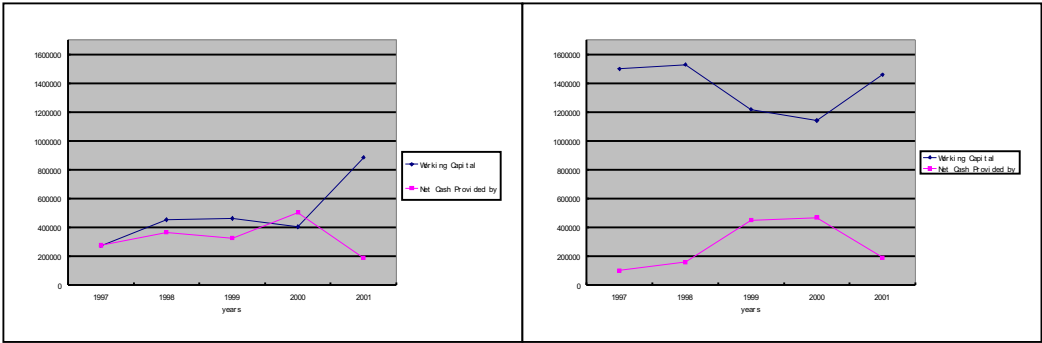
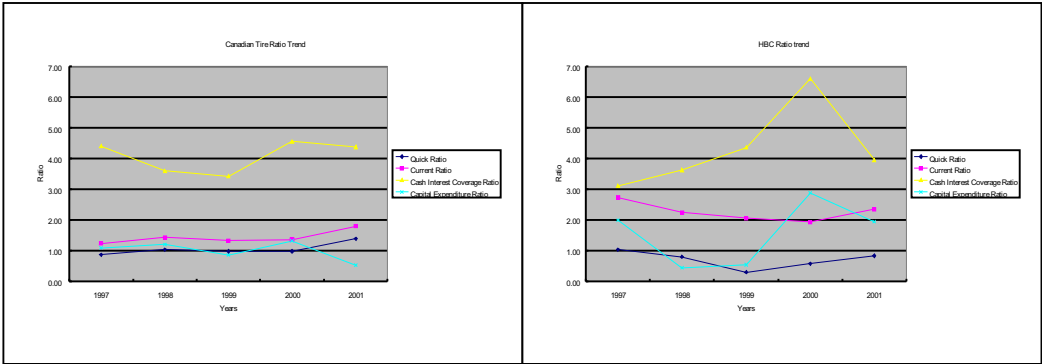
## **Appendix 2: Hbc Financial Data**

# Appendix 3: Measurement Charts

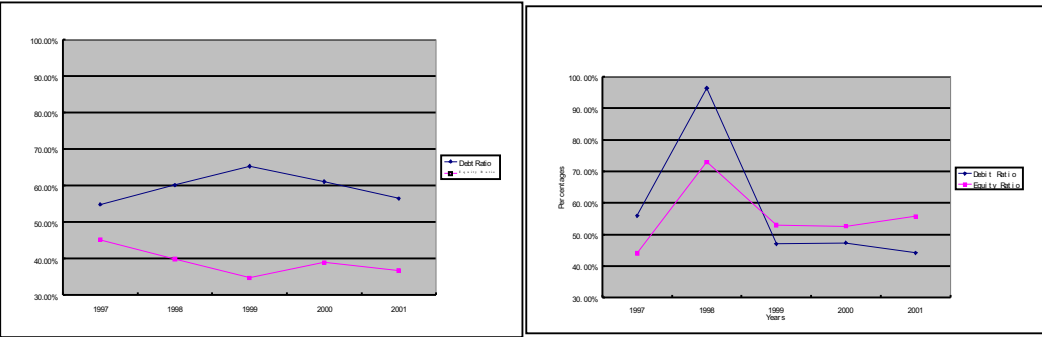
Canadian Tire

HBC

Liquidity



Credit Ratio



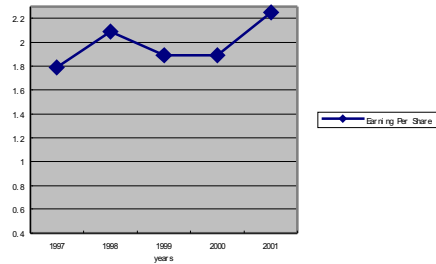
## Appendix 4: Measurement Ratios Continued

Canadian Tire

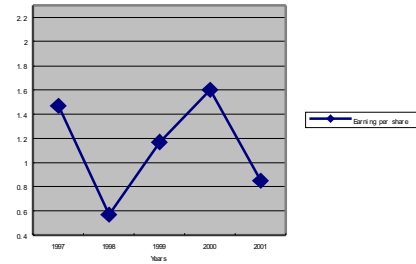
HBC

Profitability

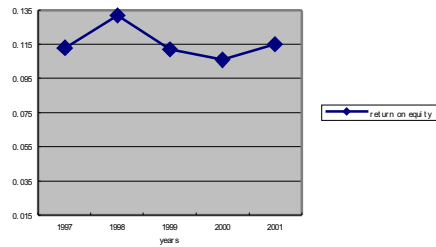
Earnings Per Share



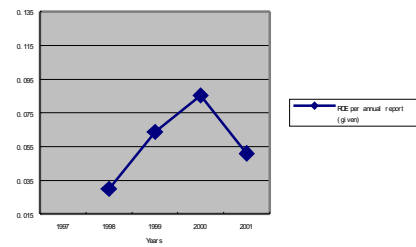
Earnings per share



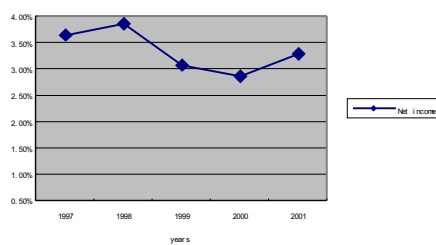
return on equity



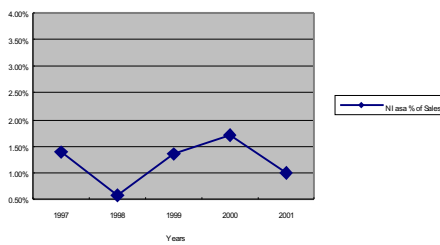
RCE per annual report (given)



Net income



NI as a % of Sales



## Appendix 5: Canadian Tire Vertical Analysis

### CANADIAN TIRE COMPANY

#### ASSET

##### Current assets

Cash and cash equivalents	\$	578,759	13.24%
Accounts receivable	\$	433,825	9.92%
Credit charge receivables	\$	525,317	12.02%
Merchandise inventories	\$	440,935	10.09%
Prepaid expenses and deposits	\$	14,297	0.33%
Total current assets	\$	1,993,133	45.60%
Long-term receivables and other assets	\$	134,414	3.08%
Property and equipment	\$	2,243,609	51.33%
Total assets	\$	4,371,156	100.00%

#### LIABILITIES

##### Current liabilities

Accounts payable and other	\$	1,009,598	23.10%
Income taxes payable	\$	70,425	1.61%
Current portion of long-term debt	\$	30,027	0.69%
Total current liabilities	\$	1,110,050	25.39%
Long-term debt	\$	1,310,000	29.97%
Long-term liability for post retirement benefits	\$	28,280	0.65%
Future tax liability	\$	19,132	0.44%
Total liabilities	\$	2,467,462	56.45%
Minority interest	\$	300,000	6.86%

#### SHAREHOLDERS' EQUITY

Share capital	\$	622,104	14.23%
Accumulated foreign currency translation adjustment	\$	8,540	0.20%
Retained earnings	\$	973,050	22.26%
Total shareholders' equity	\$	1,603,694	36.69%
Total liabilities and shareholders' equity	\$	4,371,156	100.00%

## Appendix 6: Hbc Vertical Analysis

### HUDSON'S BAY COMPANY

#### Current assets

Cash in stores	\$	7,649	0.18%
Short-term deposits	\$	86,142	2.04%
Credit card receivables	\$	499,690	11.85%
Other accounts receivable	\$	103,302	2.45%
Merchandise inventories	\$	1,575,306	37.37%
Prepaid expenses and other current assets	\$	100,150	2.38%
	\$	2,372,239	56.27%
Secured receivables	\$	18,415	0.44%
Fixed assets	\$	1,336,348	31.70%
Goodwill	\$	180,069	4.27%
Pensions	\$	290,535	6.89%
Other assets	\$	17,844	0.42%
	\$	4,215,450	100.00%

#### Current liabilities

Short-term borrowing	\$	22,000	0.50%
Trade accounts payable	\$	496,354	11.34%
Other accounts payable and accrued expenses	\$	584,114	13.35%
Long-term debt due within one year	\$	125,703	2.87%
	\$	1,228,171	28.07%
Long-term debt	\$	674,575	15.42%
Employee future benefits other than pensions	\$	58,621	1.34%
Future income taxes	\$	111,336	2.54%
Shareholders' equity			
Subordinated debentures	\$	201,466	4.60%
Capital stock	\$	1,430,376	32.69%
Contributed surplus	\$	37,793	0.86%
Retained earnings	\$	633,712	14.48%
	\$	2,303,347	52.64%
	\$	4,376,050	100.00%