

Cardinal Update

The Great Adaptation of 2020

2020 has been an unprecedented year as the COVID-19 pandemic forced businesses to adapt to a rapidly changing environment. Consumer-facing companies that rely on foot traffic in their stores have had to completely revamp their go-to-market approach and investments have been made in e-commerce, curbside pickup, and delivery to ensure access to products for consumers. COVID-19 has radically accelerated the digital transformation of retail and strong operators such as Canadian Tire and Alimentation Couche-Tard have not only navigated the environment well, but are also stronger companies today than they were back in March.

In late-March and April, Canadian Tire (CTC) was forced to close all of its Mark's and SportChek stores as well as its Canadian Tire retail stores in Ontario. Prior to the onset of COVID-19, CTC's e-commerce offering had been slow to develop and there were concerns that it was only a matter of time before CTC began losing share to online retailers. Although there were hiccups early on in the pandemic, CTC was able to successfully rollout a curbside pickup offering across all of its stores very quickly and crucial investments were made in the website to support a surge in online orders. E-commerce sales in the second quarter were up nearly 400% and the Canadian Tire banner had growth of over 500%. Sales at Ontario Canadian Tire stores were able to grow 9%, which is a very strong result during normal times, despite stores being closed for over 1/3 of the quarter. The third quarter saw similarly strong results and on a year-to-date basis CTC has exceeded \$1 billion in e-commerce sales, which is a 211% increase versus 2019. While discretionary retail remains a very competitive industry, the COVID-19 pandemic forced CTC to adapt quickly and the company has emerged stronger with an increased relevance among Canadian consumers.

Alimentation Couche-Tard (ATD) sells typical convenience store items such as snacks and fuel and thus the work from home trend has put a dent in store traffic and fuel sales. Despite these challenges, ATD has continued to grow due to its ability to adapt to the changing environment. 1,200 sites in North America now offer third party home delivery and curbside pickup is available at more than 1,000 sites. ATD has also expanded its grocery and safety product offerings while introducing larger pack sizes which have helped to offset the decline in store traffic. The demand for frictionless payment options has never been higher and ATD is working to expand its capabilities with new initiatives such as license plate recognition. Despite the challenges and uncertainty created by the COVID-19 pandemic, ATD continues to execute on various advancements such as the rollout of its fresh food offering, which will position the company well for a return to normalcy. The ability to adapt has allowed ATD to generate strong results throughout 2020 and the dividend has been raised twice this year for a combined 40% increase versus 2019.

COMPANY FOCUS – SONY

Since we last wrote about Sony in April, we have witnessed the share climb by 40%. We continue to believe that the majority of Sony's growth and value is derived from three world-class businesses: Gaming, Music, and Imaging. In Gaming, their PlayStation is the leading global gaming console. This business is benefitting from secular growth in video game spending and growing margins from digital transactions and subscription services. The market is rightfully excited about the PlayStation 5 launch, given strong reviews and massive demand outpacing supply. In Music, Sony Music is the second largest record label in the world. Through their control of nearly all relevant recorded music and publishing rights, record labels have seen a resurgence in growth as they earn \$0.70 out of every \$1.00 spent on global music streaming subscriptions such as Spotify. In Imaging, Sony is the global leader in camera sensors for smartphones. They benefit from growing smartphone penetration and the camera arm's race which results in more cameras per phone and bigger, more powerful sensors. These businesses all continue to have strong outlooks, which should support growth in revenues, earnings, and returns to shareholders.

DIVIDEND INCREASES

Alimentation Couche-Tard Inc.	25.0%
Canadian Tire Corp. Ltd.	3.3%
TELUS Corp.	6.8%

(During the period November 1 to November 30, 2020)

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