

May 8<sup>th</sup>, 2014

The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation's (CTC) Q1 2014 Business Sustainability Performance Report to provide CTC stakeholders with an independent review. The objective of this review is to determine if the appropriate due diligence is in place for accurate public disclosures. In addition, we conducted a comparative analysis of CTC and its peers (*Home Depot, Loblaw Companies, Mountain Equipment Co-operative, Target, and Wal-Mart*)<sup>1</sup> based on disclosure of reporting frequency (annual vs. quarterly), reporting domain, and sustainability metrics. CTC has also included a response to the previous quarter's (Q4 2013) recommendations (Appendix A).

Overall, we found the following:

- 1. Comprehensive Business Sustainability Accounting System:** CTC has the appropriate accounting system in place regarding their methodologies, assumptions, data management, and accountability in relation to their sustainability reporting metrics.
- 2. Enhanced Quarterly Reporting Format:** CTC is now focusing on actual data after a project has been implemented for one year as opposed to forecasted data based on the start date of the project within the relevant quarter. CTC is also now allowing for multi-year benefits of projects to be accounted for. We believe both measures will more accurately reflect the actual benefits CTC realizes from implementing sustainability related projects.
- 3. Innovative Sustainability Disclosures:** CTC's quarterly and integrated reporting format is innovative and distinguishes CTC from its competitors. CTC peers are beginning to have more robust reporting of quantifiable social and environmental metrics within their sustainability disclosures. This is an area in which CTC may want to consider increased disclosures (Table 1).

This *Letter of Review* briefly outlines CTC's data review findings, a comparative analysis of CTC's sustainability disclosures, and recommendations moving forward. For an overview of the methodology used to conduct our review please see Appendix B.

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<sup>1</sup> Where relevant, these companies were assessed on the basis of their global operations, not their Canadian subsidiary (e.g. Home Depot, Target and Wal-Mart).

## Data Review Findings:

This quarter we reviewed two metrics from projects included in CTC's Q1 2014 Business Sustainability Performance Report: *Product & Packaging Right-Sizing* and *Demand Control Ventilation Retrofits*. This quarter CTC introduced two new aspects to their reporting based on previous recommendations from the quarterly reviews. The first is focusing on actual data after a project has been implemented for one year as opposed to forecasted data based on the start date of the project within the relevant quarter. This helps to more accurately demonstrate the accrued benefits at the time of reporting and allows CTC to test more assumptions. This change would allow CTC to start reporting on multi-year benefits in future years.

The product and packaging right-sizing team reviews products that have the ability to be more efficiently packaged and/or concentrated and thus reducing the overall packaging weight and cube and the associated end-of-life waste avoidance. Where product and packaging right-sizing enhancements could not be validated by CTC's system, employees were asked to verify weights and volumes to ensure accuracy. We believe this is a best practice as it re-confirms real data. Specifically, we reviewed all the data, methodology, assumptions and calculations for energy and waste avoidance and found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices.

The Demand Control Ventilation (DCV) project involved installing new CO<sub>2</sub> sensors on all rooftop HVAC units which brings in fresh air when needed based on CO<sub>2</sub> levels—and not continuously—thus reducing the energy required to power the system. The DCV project has the ability to provide economic and environmental benefits for Canadian Tire Retail operations for up to ten years. This is now being accounted for within CTC's revised methodology for Business Sustainability Performance Reporting. Specifically, we reviewed all the data, methodology, assumptions and calculations for greenhouse gas (GHG) emission avoidance and found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices. We also found that CTC is still focusing energy estimates on a series of modelling assumptions, which at the moment, is still the best approach to understand energy avoidance; however, we suggest that CTC sample a few buildings pre and post DCV implementation to confirm that the energy avoidance benefits have been actually realized.

## Comparative Analysis of CTC's Sustainability Disclosure

### Introduction

Our report this quarter analyzes Canadian Tire's sustainability reporting practices, with a specific focus on the following reporting dimensions:

1. **Metrics:** Metrics used to express corporate sustainability performance, with a focus on environmental indicators;
2. **Reporting Frequency:** Frequency of corporate reporting on these metrics; and
3. **Reporting Domain:** Where the disclosures are made (e.g. annual reports vs sustainability reports).

These measures allow for a comprehensive assessment of corporate sustainability reporting and can be used to judge improvements in reporting practices over time. Canadian Tire was compared against five industry peers:

1. Home Depot
2. Loblaw Companies
3. Mountain Equipment Co-operative
4. Target
5. Wal-Mart

### Findings

Our analysis (Summaries provided in Table 1 & 2) shows that Canadian Tire has best-in-class sustainability reporting. Key features of the company's sustainability reporting strategy include the submission of quarterly performance reports that provide updates on the economic and environmental benefits of the company's pipeline of sustainability projects, and the disclosure of selected sustainability metrics in the Management Discussion and Analysis (MD&A) section of the company's Annual Report. Coupled with a uniquely granular breakdown of its annual greenhouse gas emissions and energy use, in the annual footprint report, these efforts demonstrate the firm's commitment to sustainability as a core business strategy. Current weaknesses in Canadian Tire's sustainability reporting include the limited number of metrics disclosed in the annual environmental footprint report. While Canadian Tire's focus on energy and GHG reporting is by no means uncommon for the peer set, as a global best practice Canadian Tire could begin developing systems to measure its annual water use (G4:EN8) and waste (G4: EN23).<sup>2</sup>

From a comparative standpoint, we find that Canadian Tire's peers have made great strides in quantifiable social and environmental reporting and in some cases peer companies are now including sustainability metrics in their Annual reports.

For a company-by-company breakdown of findings, please see Appendix C.

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<sup>2</sup> These codes refer to the corresponding metric in the Global Reporting Initiative's G4 Guidelines. For more information, please visit <https://www.globalreporting.org/reporting/g4/Pages/default.aspx>

**Table 1: Summary of Sustainability Metrics Used By Peer Set<sup>3</sup>**

Reporting Attributes	Canadian Tire	Home Depot	Loblaw Companies	MEC	Target	Wal-Mart
<i>Reporting frequency</i>						
Annually	X	X	X	X	X	X
Quarterly (MD&A)	X					
<i>Annually</i>						
Sustainability Report	X	X	X	X	X	X
Annual Report	X		X	X		
10-K/MD&A	X	X				
Corporate Website	X	X	X	X	X	X
Carbon Disclosure Project	X	X			X	X
<i>Environmental Metrics</i>						
GHGs	Total GHG emissions (Scope 1, 2 and 3), GHG avoidance	GHG reductions (%)		Total GHG emissions (Scope 1, 2 and 3)	Total GHG emissions (Scope 1 and 2), GHG reductions (%)	Total GHG emissions (Scope 1 and 2), GHG reductions (%)
Energy	Total Energy use, energy avoidance	Energy reductions (%)	Energy reductions (%)		Total energy use, energy efficiencies/reductions	
Water	Water avoidance				Reduction in waste water	
Waste	Waste Avoidance, waste diversion rate (%)		Waste diversion rate (%)	Waste diversion rate (%)	Waste diversion rate (%)	% reduction landfill waste, % reduction food waste
Renewable Energy	# solar installations, energy gen. solar installations		# of solar panels on stores			% renewable of total energy

<sup>3</sup> Where relevant, these companies were assessed on the basis of their global operations, not their Canadian subsidiary (e.g. Home Depot, Target and Wal-Mart).

## Recommendations Moving Forward:

- 1. Sample Real Data:** With projects such as the Demand Control Ventilation installations which primarily use modelling assumptions, CTC should sample a representative set of projects to ensure that the assumptions used are actually realized. This approach aligns better with CTC's new approach of using actual data as opposed to forecasted data.
- 2. Disclose Within Investor Section of Quarterly Report:** As other companies begin to integrate sustainability metrics into their Annual Report, we suggest that Canadian Tire make the full Quarterly Report (now located within the Corporate Citizenship Section of CTC's website) and the Quarterly Review available within the Investor Section of CTC's website.
- 3. Increased Disclosure of Additional Metrics:** We recommend that Canadian Tire evaluate the inclusion of additional environmental metrics into its annual environmental footprint report, such as total water use, or waste generated from operations.
- 4. Move from Environmental Footprint to Broader Sustainability Reporting:** A final recommendation, which could be undertaken in conjunction with recommendation 3, is that Canadian Tire rebrand its existing environmental footprint report into a broader "sustainability" variety, complete with selected social, governance and health metrics. These metrics could include audits of overseas manufacturing firms, employee volunteer hours, number of health and wellness products, targets for women & minority inclusion, etc. Expanding its reporting horizon would help Canadian Tire stay ahead of industry trends while building positive brand recognition.

Overall, Canadian Tire has a very strong due diligence process in place regarding their Business Sustainability Performance accounting methodologies, assumptions, data management, and accountability structure. We would also like to applaud CTC for continually improving their Business Sustainability Performance reporting format with the introduction of focusing on one year's worth of actual data rather than forecasting thus allowing them to report on multi-year benefits in future years. These changes will help to more accurately reflect realized benefits.



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## Appendix A: Canadian Tire Response to Q4 2013 Recommendations

#	Delphi/Corporate Knights Q4 2013 Recommendations	Canadian Tire Response
1	<b>Document Control:</b> Ensure that all assumptions conducted by third-parties are clearly identified, referenced, and, if possible, embedded into the project reports.	When third party estimates and assumptions are used, these are referenced in the project report. CTC will consider embedding the third party report with the project data report in the future.
2	<b>Project Replicability:</b> Ensure a system is in place for best practices to be shared across the company when significant business value and/or impact avoidance is demonstrated.	CTC has a process in place to assess implemented sustainability initiatives for replication based on fit and value.
3	<b>Environmental Footprint Reporting Recommendations:</b> <ol style="list-style-type: none"> <li>a. Shorten Environmental Footprint Reporting Cycle</li> <li>b. Use Real Product Information to Improve Value-Chain Footprint Data</li> <li>c. Integrate Multiple Data Sources to Improve Product and Supply Chain Sustainability Efforts</li> </ol>	CTC is currently evaluating options to reduce the environmental footprint reporting cycle and the use of actual vendor data in the product footprint.
4	<b>Target Setting:</b> <ol style="list-style-type: none"> <li>a. Improve energy productivity by setting more aggressive energy use reduction targets over the short and medium term.</li> <li>b. Establish a dialogue with franchise and agent stores to assist with setting periodic reduction targets for energy consumption and GHG emissions.</li> </ol>	CTC recognizes the value of target setting to drive performance; internal performance targets are set annually and a measurement of performance against targets is performed quarterly.

## Appendix B:

### Overview of Methodology:

1. **Document Review:** Review all internal and external documentation provided.
2. **Metric Selection:** Independently select a sample of two metrics within the data sets provided to the public in order to review the methodologies, data management/calculations, assumptions, and accountability system. Only a sample of the data was reviewed as a proxy for the entire data set<sup>4</sup>. For the purposes of this assessment the following metrics were reviewed:
  - **Q1 2014 Business Sustainability Performance Report:**
    - **Energy & Waste Avoidance:** 2071 (GJ) & 177 (t), CTR - Product & Packaging Right-Sizing, 11 Projects
    - **GHG Emissions Avoidance:** 5223 (tCO<sub>2</sub>e), CTR - Demand Control Ventilation (DCV) Retrofits, 129 Projects
3. **Interviews and Supporting Documentation:** Interviews were conducted with key CTC staff in charge of the data and supporting documentation was requested in order to verify the accuracy of statements.
4. **Findings:** A final statement on each area discussing due diligence in methodology, data management and calculations, assumptions, and accountability will be written based on the results of the review.
5. **Comparative Analysis of CTC's Sustainability Disclosure:**
  - **Peer Set Used:** Home Depot, Loblaw Companies, Mountain Equipment Co-operative, Target, and Wal-Mart
  - **Benchmarking Parameters:**
    - **Metrics:** Metrics used to express corporate sustainability performance;
    - **Reporting Frequency:** Review and compare use of annual vs. quarterly reporting; and,
    - **Reporting Domain:** Where the disclosures are made (e.g. annual reports vs sustainability reports).
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

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<sup>4</sup> If the random sample data set has no major issues then we are reasonably confident that the organization has the appropriate due diligence in place for the rest of its metrics. However, we must note that a complete audit of the data was beyond the scope of this review and we cannot comment on accuracy beyond the data in which we reviewed directly.

## Appendix C: Findings by Company

### Canadian Tire

Canadian Tire reports annually on its greenhouse gas (GHG) emissions and energy use, and it supplements this disclosure with quarterly performance reports that use a variety of indicators to express the economic and environmental benefits of the company’s pipeline of sustainability projects. GHG emissions and energy use are innovatively segmented, and include a breakdown by value chain, GHG Protocol Scope 1, 2 and 3 and, in the case of GHGs, by specific greenhouse gas. The company’s core sustainability metrics, shown in Figure 3, are disclosed in both sustainability documents (e.g. annual environmental footprint or quarterly performance reports) and in the MD&A section of its Annual Report.

**Table 2: Summary of Canadian Tire’s Sustainability Reporting**

Metric	Frequency	Reporting Domain
GHG emissions (t/CO <sub>2</sub> e)	Annually	Environmental footprint and the MD&A section of the company’s Annual Report
Energy use (GJ)	Annually	
GHG emissions avoidance (t/CO <sub>2</sub> e)	Quarterly	Sustainability performance report and the MD&A Section of the company’s Annual Report
Energy use avoidance (GJ)	Quarterly	
Waste avoidance (tonnes)	Quarterly	
Water avoidance (cubic metres)*	Annually	
Cost avoidance (\$)	Quarterly	

\* Water avoidance is only disclosed in the MD&A Section of the company’s Annual Report.

## Home Depot

Home Depot presents its sustainability report as a series of multiyear “impact goals” as well as specific achievements during the most recent fiscal year. Only a few metrics are provided, such as emission reductions along the supply chain. However, the Sustainability Report does include quantitative data on the work of the Home Depot Foundation and on environmentally-friendly products sold in store. Sustainability data is presented in the annual Sustainability Report, with selected data presented in the opening pages of the annual report.

**Table 3: Summary of Home Depot’s Sustainability Reporting**

Metric	Frequency	Reporting Domain
Reduction in GHG emissions (%)	Annually	Annual Report – ‘business operations’
Reduction in energy use (%)		Sustainability Report
Reduction in total carbon emissions – supply chain (distribution) (%)		‘Corporate Responsibility’ website section.
Home Depot Foundation – product donations & veteran initiatives (\$)		
Eco products – Energy Star & WaterSense certified (#)		

## Loblaw Companies

Loblaw Companies (Loblaws) present their sustainability data in an annual Corporate Social Responsibility Report. The Annual Report also contains a corporate social responsibility section that currently contains limited and exclusively qualitative information. Loblaws sustainability metrics and outcomes are presented in terms of meeting targets: “have not met”, “on track” or “achieved”. The presentation of environmental metrics is incomplete, with key metrics, such as GHG emissions, excluded. However, Loblaws does present numerous quantifiable health, wellness & ethical metrics.

**Table 4: Summary of Loblaw’s Sustainability Reporting**

Metric	Frequency	Reporting Domain
Waste diversion – corporate, distribution, support centres, organics, reduce packaging size & non-recyclable	Annually	Annual Report – ‘business operations’
Energy reduction & efficiency – retrofits, solar panels, transport by rail, truck efficiency		Sustainability Report
Food safety – controlled vendors, GFSI certifies producers & growers		“Corporate Responsibility” website section.
Product sourcing – Canadian grown, cruelty free, sustainably harvested, FSC certified		
Charitable initiatives – grants, donations		
Healthy living – nutrition guides, dietitians, health education, sodium reduced food		
Employees – increase diversity, increase awareness of CSR		

**Mountain Equipment Co-operative**

Mountain Equipment Co-operative (MEC) publishes an annual Accountability Report which looks at targets vs. actual, trends and future targets for each metric. MEC’s annual report makes brief reference to sustainability reporting, but mostly defers the reader to the Accountability Report for further information. The metrics included by MEC are categorized into areas such as environmental, community, employees, etc. The environmental metrics are not complete, but many of the other metrics are quantifiable and address topical issues such as ethical sourcing.

**Table 5: Summary of MEC’s Sustainability Reporting**

Metric	Frequency	Reporting Domain
Carbon footprint (tCO2e)	Annually	Annual Report – ‘business operations’
Waste diversion rate (%)		Sustainability Report
Manufacturing – factory audits with acceptable and unacceptable conditions (%), EMS facilities (%), eco preferred materials (#)		“Corporate Responsibility” website section.
Employee engagement (%)		
Membership – active (%), satisfaction (%), service level (%)		
Community Contribution – 1% for the planet, conservation		
Financial – sales (\$), turnover (#)		
Governance – voter participation (%), member trust (%)		

## Target

Target publishes an annual Corporate Responsibility report. Mention of sustainability in the Annual Report is limited to anecdotal and references the user to the Corporate Responsibility Report. Of all analyzed industry peers, Target had, overall, the largest number of sustainability metrics, broadly including environmental, ethical sourcing, employee wellness, governance & diversity, community initiatives, etc. Most metrics had targets and compared actual vs. target. While the report did include many quantifiable metrics, the presentation did not make it easy to find and analyze this information.

**Table 6: Summary of Target’s Sustainability Reporting**

Metric	Frequency	Reporting Domain
GHG emissions and reductions – direct & indirect, transportation efficiencies	Annually	Annual Report – ‘business operations’
Energy – consumption, efficiency & conservation		Corporate Responsibility Report
Waste reduction – construction, operations, water,		“Corporate Responsibility” website section
Audits – registered for social compliance (#), unannounced audits (#), minimum standards, factory evaluations, product testing		
Diversity – suppliers, executive committee, BoD, workforce,		
Employees – 401K plan members, health assessments & screenings		
Community initiatives – donations & grants, reading programs, employee volunteer hours, contribution disclosure		
Eco products – increase organic food, sustainable seafood, sustainable packaging		

**Wal-Mart**

Wal-Mart’s sustainability information is presented in an annual Global Responsibility Report. No reference is made to sustainability or environmental initiatives in the Annual Report. The metrics included by Wal-Mart are both environmentally and socially focused, however, they are quite sparse and do not present a complete picture of Wal-Mart’s sustainability operations. While there are some individual metrics, overall Wal-Mart lacks the disclosure quality of its industry peers analyzed in this report.

**Table 7: Summary of Wal Mart’s sustainability reporting**

Metric	Frequency	Reporting Domain
GHG Reductions (%) – fleet efficiency	Annually	Global Responsibility Report
Waste reduction (%) – landfills, shopping bags, food,		“Global Responsibility” website section.
Renewable energy (%)		
Product sourcing– Sustainability Index suppliers, US made, sustainable palm oil		
Audits (#) – factories with highest ratings (%)		
Diversity – hire veterans (#), women in emerging markets, international training for women		
Community initiatives – donations(\$), stores in food deserts (#)		
Healthy living – reduce sodium, sugar & trans (%)		