

# Canadian Tire to pay \$771M for Sport Chek owner

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CALGARY - The store where legions of young Canadians bought their first pair of skates is buying the country's largest sporting goods chain in hopes of selling those kids running shoes, skateboards and golf clubs as they grow up.

Canadian Tire (TSX:CTC) is buying The Forzani Group Ltd. (TSX:FGL) in a \$771-million deal it says will turn those first-time buyers into customers for life across all of its new brands.

Forzani owns some 500 stores under various banners, including Sport Chek and Athletes World, as well as more niche brands like Nevada Bob's Golf and Hockey Experts.

"Parents buy kids their first bike at Canadian Tire... but as kids get older their tastes change," Canadian Tire president and CEO Stephen Wetmore said on a conference call.

"Not only do they want more expensive bikes -- they want all the apparel and gear that goes along with their cycling activities. That's where Forzani comes into play."

Canadian Tire already sells basic sporting equipment like skates and bikes, but the Forzani purchase will allow it to cater to 18-to-35-year-olds, who tend to shop in malls for more specific equipment and trendier brands. Canadian Tire's big-box format doesn't currently have a strong foothold in malls and the chain has already made a few changes in recent months to appeal to younger audiences.

It changed its slogan to the aggressive "Bring it On" and signed a deal making Chicago Blackhawks captain Jonathan Toews a spokesman for its newly formed hockey school. It has participated in other sponsorship agreements like the NASCAR Canadian Tire Series and the 2010 Vancouver Olympics.

Focusing on a new demographic is a smart business strategy, said retail and shopping mall consultant Anthony Stokan of Anthony Russell Inc. in Toronto.

"From a national perspective, if there's one thing Canadian Tire knows they can rely on is that parents will always continue to indulge their children, so from that perspective, their dads may wind up shopping at Canadian Tire but their teenage sons may want a slightly more global brand when it comes to athletic wear and merchandise," he said.

Canadian Tire will now own the No. 1 and No. 2 sporting goods retail chains in the country -- and shoppers will ultimately benefit because the company will be able to negotiate lower prices and a wider selection of products with more international brands.

"When you have a retailer that is this large and this powerful it gives them a lot of market advantages in terms of negotiating deals with vendors," said Stokan.

Brian Yarbrough, a retail analyst at investment firm Edward Jones, said consumers won't see a physical difference in stores, but if the stores' loyalty programs merge, customers could snag further discounts.

"You may be able to use that at Canadian Tire stores, you may be able to use that at Mark's Work Wearhouse, so it does give you the opportunity for lower prices in that aspect," he said.

Canadian Tire stores are already scattered across the country and a new merchandise selection will help it bring in more revenue without taking the wind out of established locations.

"There's not a lot of product overlap so you don't expect the stores are going to take away from each others' sales," he said.

Canadian Tire has been trying to grow by refocusing on its automotive and retail businesses instead of on financial services and Mark's, but it hasn't seen a big return on that investment yet, Yarbrough said.

The acquisition makes sense because the retail sector is "ripe" for mergers and acquisitions right now, said Antony Karabus, PwC's head of retail consulting.

"Retail's always been a very attractive sector because it's out in the open eye, very visible, people look at it every day," he said, explaining that private investment companies in Canada and the U.S. are on the lookout for retail chains.

The transaction is valued at \$26.50 per share, which is a 50 per cent premium on the closing price of Forzani's stock on Friday.

Forzani stock soared \$8.64 to \$26.25 Monday on the Toronto Stock Exchange -- close to the bidding price and a sign that investors are confident

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A shopper walks past a Sport Chek store at a Calgary Mall, Wednesday, June 9, 2010. (THE CANADIAN PRESS/Jeff McIntosh)

the deal will go through. Shares in Canadian Tire closed \$1.60 higher at \$60.19.

Together, the merged companies will have about 1,000 retail locations covering a wide array of products from gardening tools to golf tees to winter tires. Canadian Tire expects efficiencies in its supply chain, marketing and international suppliers will help save the company \$25 million in expenses annually by 2012, with savings increasing to \$35 million by 2014.

Canadian Tire employs more than 58,000 people with 485 stores across the country. Forzani currently has 14,000 employees.

A spokeswoman for Canadian Tire said the company has no plans to lay off staff or sell individual units of Forzani.

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