



## Dollarama (TSE: DOL)

January 16, 2019

**Cameron McWatt**  
CEO

**Nathan Witteveen**  
CIO

**Jack Holmes**  
CSO

# Agenda

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**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

**4** Valuation

**5** Catalysts and Risks

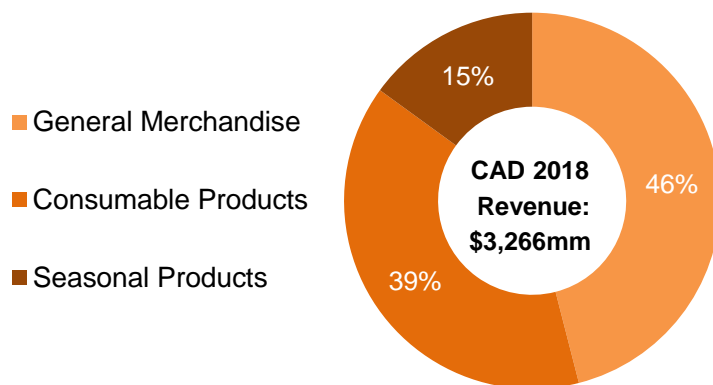
**6** Recommendation

# Dollarama (TSE: DOL)

## Business Description

- Dollarama (TSE:DOL) operates 1,192 dollar stores across Canada offering consumer products, general merchandise, and seasonal items
- All products are priced between \$1.00 and \$4.00, allowing the company to profitably source items from large close-out sales internationally
- Dollarama was initially founded in 1992 after a conversion of the Rossy family's S.Rossy network
- The firm holds over 100 years of experience in extreme-value retail operations

## 2018 Segmented Revenue



## Management Team



Name: Neil Rossy

Position: CEO

Years Exp.: 27

Background: Previously SVP Merchandising at Dollarama



Name: Laurence Rossy

Position: Chairman Emeritus

Years Exp.: 27

Background: Founder and previous CEO of Dollarama inc.



Name: Michael Ross

Position: CFO

Years Exp.: 8

Background: Previously CFO at Telebec LP



Name: Johanne Choinière

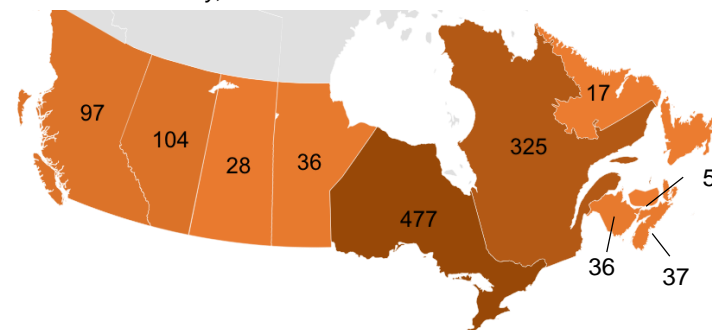
Position: COO

Years Exp.: 4

Background: Previously SVP of Ontario Division at Metro Inc.

## Store Locations

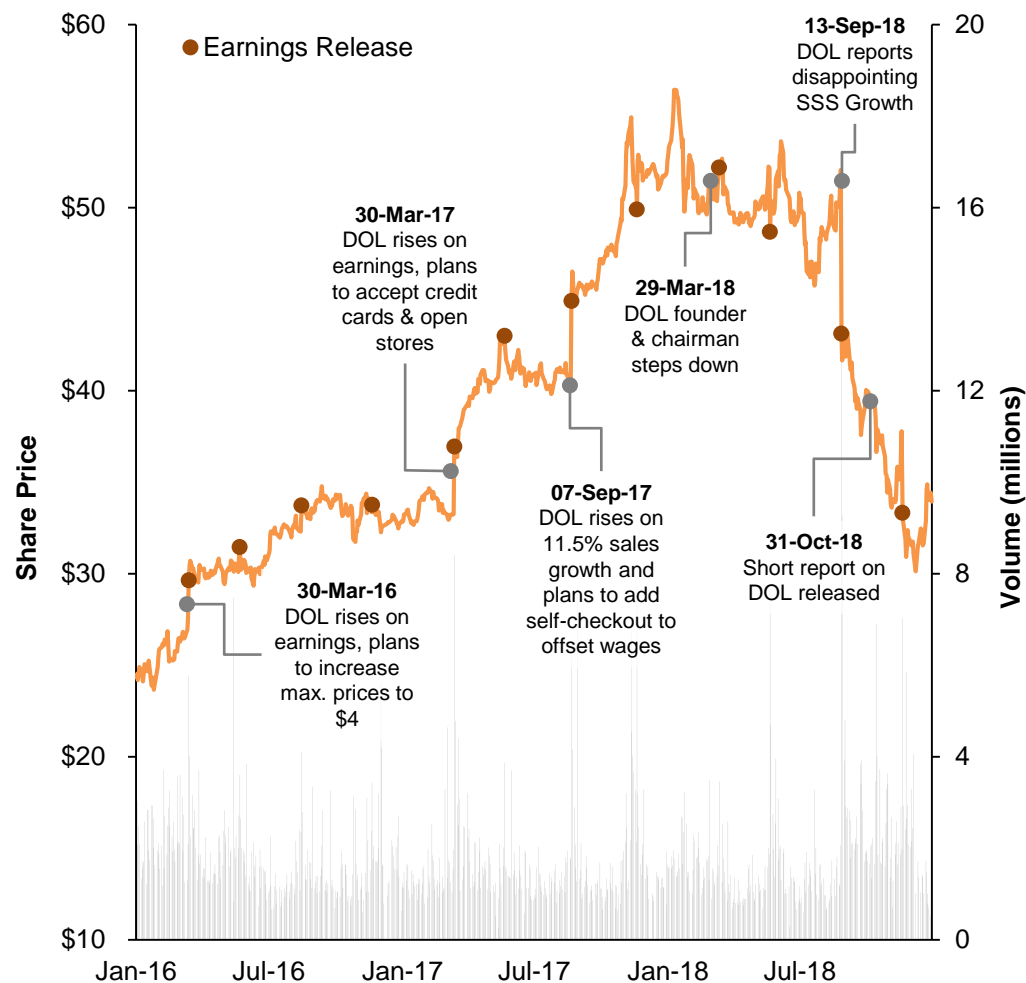
Store count as of January, 2018



Despite being heavily concentrated in ON and QC, DOL is the only Dollar Store with a presence in all Canadian provinces

# PV Chart and Capitalization Table

## Price-Volume Analysis



## Market Data

(in CAD\$ millions)

### Capitalization

Share Price (15-Jan-2019)	(C\$)	\$33.94
Basic Shares Outstanding	(mm)	319.9
Diluted Securities	(mm)	2.6
<b>Market Capitalization</b>	<b>(C\$ mm)</b>	<b>10,946</b>
Less: Cash & Equivalents	(C\$ mm)	(79)
Add: Short-Term Debt	(C\$ mm)	415
Add: Long-Term Debt	(C\$ mm)	1,488
Add: Minority Interest	(C\$ mm)	-
<b>Enterprise Value</b>	<b>(C\$ mm)</b>	<b>12,770</b>

### Trading Multiples

EV / 2017A EBITDA	-	15.7x
EV / 2018E EBITDA	-	14.4x
EV / 2019E EBITDA	-	13.5x
P / 2017A EPS	-	22.4x
P / 2018E EPS	-	20.0x
P / 2019E EPS	-	17.8x

### Market Data

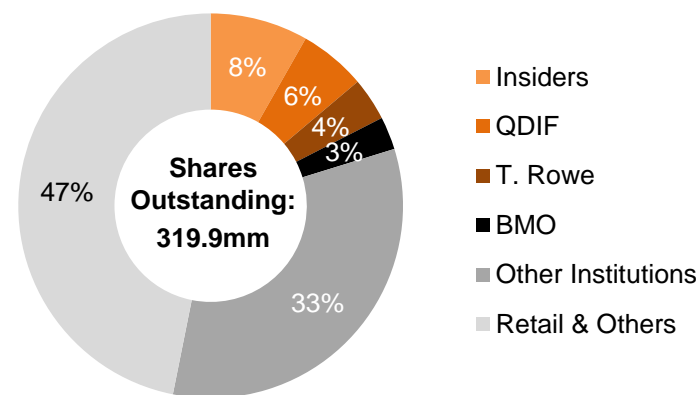
52-Week High	(C\$)	\$56.67
% of 52-Week High	(%)	59.9%
52-Week Low	(C\$)	\$30.70
Beta	-	0.99

# Shareholder Overview

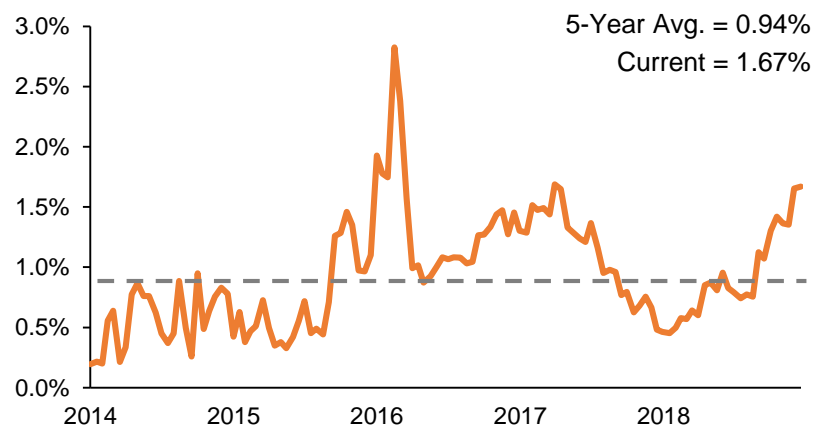
## Shareholder Summary

<i>(in millions)</i>	<b># of Shares Held</b>	<b>% of Shares Outstanding</b>
<b>Insiders</b>		
The Rossy Family Foundation	13.9	4.3%
Rossy, Laurence	7.5	2.3%
Rossy, Neil	3.2	1.0%
Robillard, Geoffrey	1.5	0.5%
Other Insiders	0.3	0.1%
<b>Total Insiders</b>	<b>26.3</b>	<b>8.2%</b>
<b>Institutions</b>		
Quebec Deposit and Investment Fund	18.0	5.6%
T. Rowe Price Group	11.6	3.6%
BMO Global Asset Management	8.9	2.8%
The Vanguard Group	8.8	2.8%
Mackenzie Financial Corporation	7.4	2.3%
TD Asset Management	7.1	2.2%
OppenheimerFunds	6.9	2.1%
RBC Global Asset Management	6.6	2.1%
Capital Research and Management Co.	6.0	1.9%
Fidelity	5.7	1.8%
BlackRock	4.9	1.5%
CI Investments	4.0	1.2%
Other Institutions	47.9	15.0%
<b>Total Institutions</b>	<b>143.7</b>	<b>44.9%</b>
Retail & Other Investors	149.9	46.9%
Public Float	293.6	91.8%
<b>Total Basic Shares Outstanding</b>	<b>319.9</b>	<b>100.0%</b>

## Ownership Structure



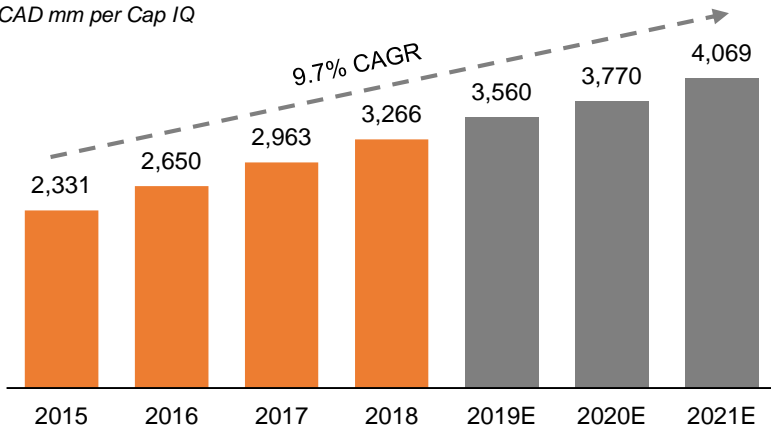
## Short Interest



# Operating Metrics

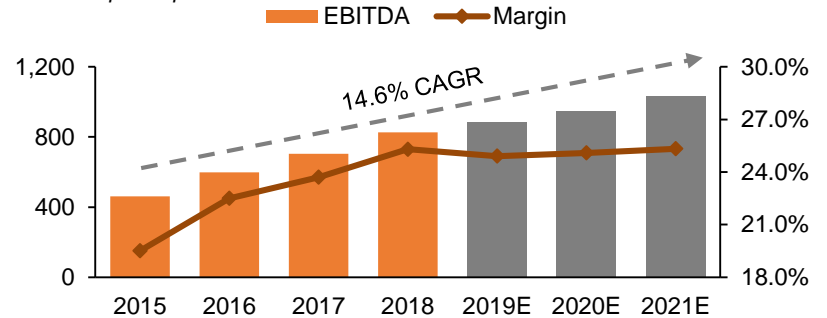
## Revenue Growth

CAD mm per Cap IQ



## EBITDA Growth

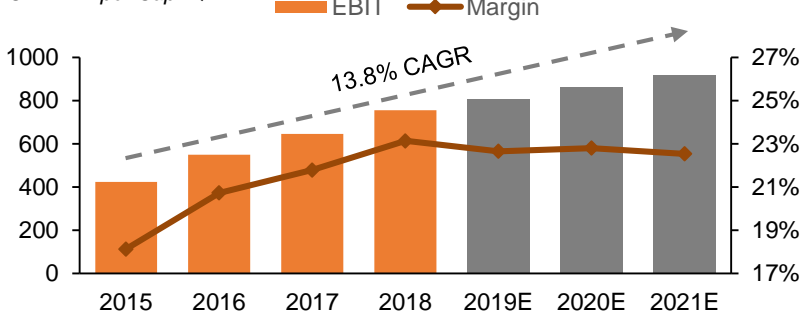
CAD mm per Cap IQ



Margin expansion has fueled EBITDA growth that has significantly exceeded revenue growth in recent years

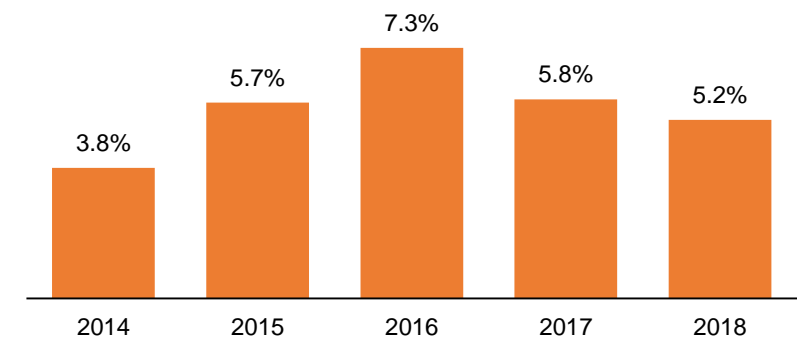
## Operating Income

CAD mm per Cap IQ



Analysts are projecting a compression in operating margins due to beneficial forex circumstances that are expected to normalize

## Same-Store Sales



Slowing same-store sales growth has contributed to the recent decline in Dollarama's share price

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**DOLLARAMA**



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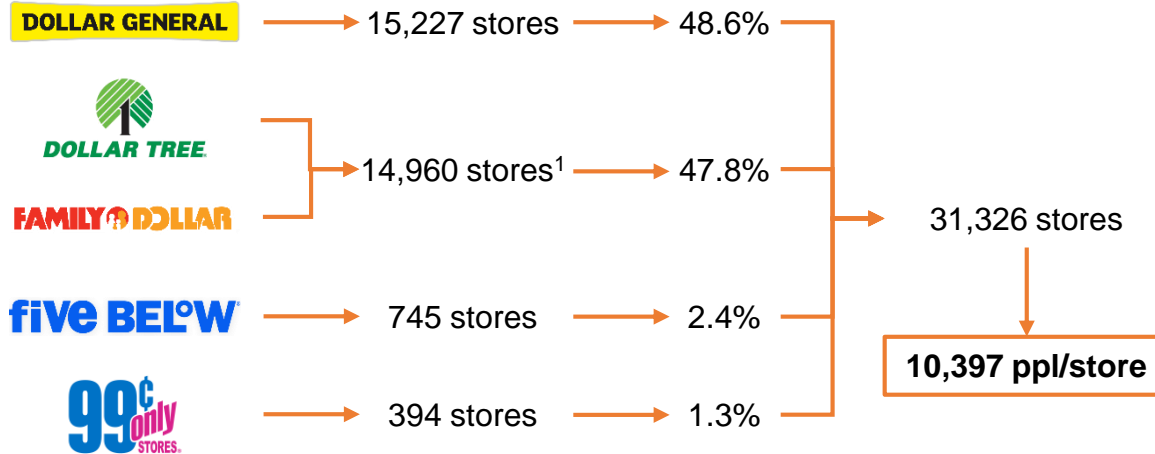
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# Key Competitors in the Dollar Store Industry

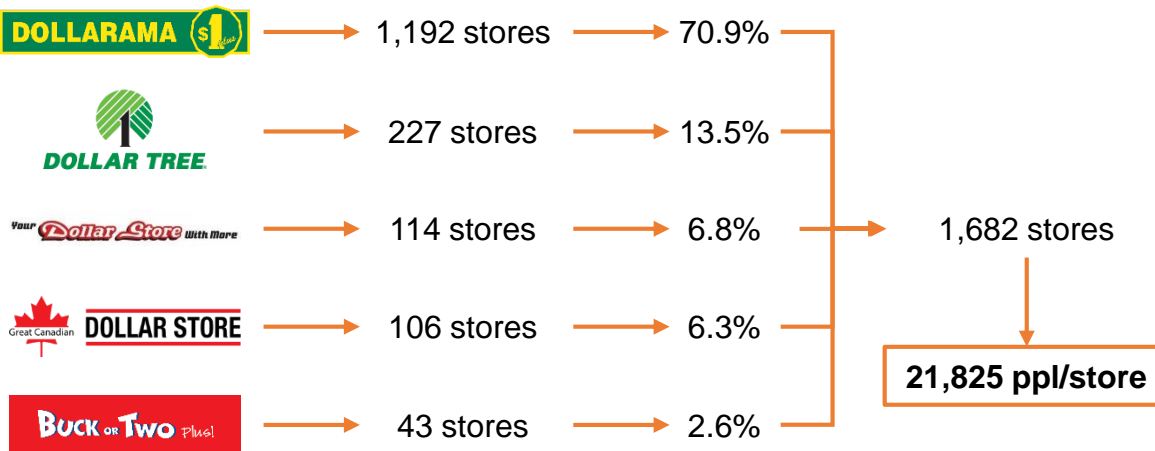
## U.S. Market – Top 5 Brands



## U.S. Market Overview

- The U.S. market is dominated by 2 main players, Dollar General and Dollar Tree
- Dollar Tree acquired Family Dollar for \$8.5bn in 2014
- Dollar Tree and Dollar General have more locations than Walmart, Kroger, Costco, Home Depot, CVS and Walgreens combined

## Canadian Market – Top 5 Brands



## Canadian Market Overview

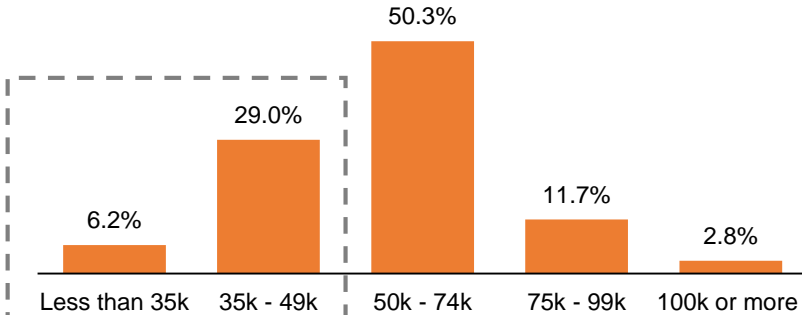
- The Canadian market is largely dominated by Dollarama, which has >70% share among the top 5 retailers
- Dollar Tree entered the Canadian market in 2010 through a \$52mm acquisition of Dollar Giant
- Currently Dollar Tree's Canadian operations represent ~1.5% of its total stores



# Dollar Store Consumer Behaviour Analysis

## Dollar Store Locations by Median Income<sup>1</sup>

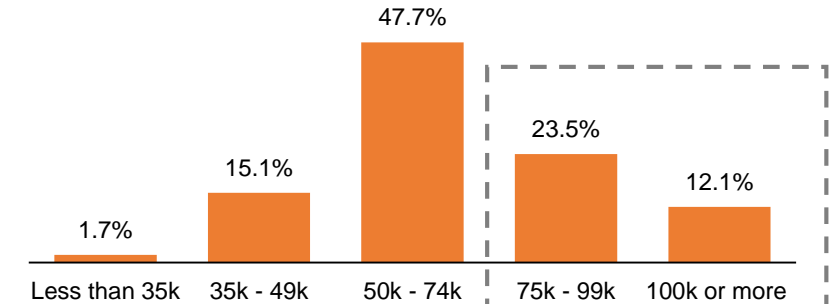
Annual income in USD



The majority (50k–75k) is associated with the middle class, with much stronger share of the lower-income market

## Big Box Retailer Locations by Median Income<sup>2</sup>

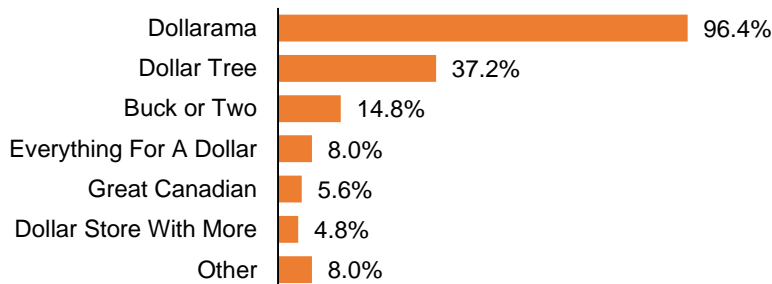
Annual income in USD



Big Box retailers are notably less competitive among lower-income customers while capturing more of the affluent demographic

## Dollarama Stores by Province

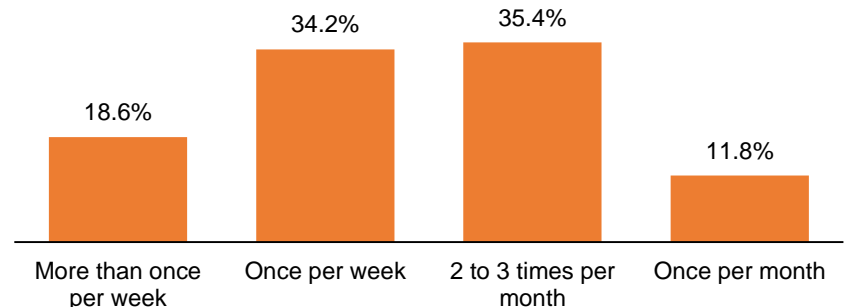
Percentage of Canadians that shopped at a given store in 2015



Dollarama is clearly the most popular Canadian dollar store, with almost 100% of respondents having shopped at Dollarama in 2015

## Frequency of Visiting Dollar Stores

Percentage of Canadian Consumers as of 2015



Dollar stores are very effective at driving repeat visits, with the majority of consumers visiting at least once per week

# U.S. Market Dynamics and Starboard Value Investment

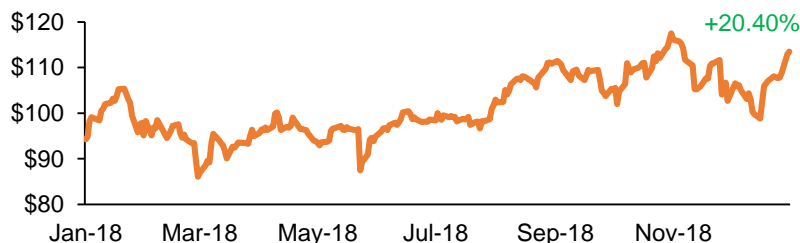
## Starboard Value Investment

- On Jan 7, 2018, Starboard Value announced a 1.7% stake in Dollar Tree worth ~\$370mm
- Starboard Value is seeking majority control of the company's 12-person board
- Starboard Value is pushing Dollar Tree to sell its Family Dollar business and tweak its pricing model
  - Dollar Tree would likely incur a significant loss on its Family Dollar acquisition
- Currently, Dollar Tree sells all products for \$1.00 in the U.S. and \$1.25 in Canada, while Dollar General prices its products at a variety of price points
  - Dollar Tree's \$1.00 cap has not changed in its 30-year history, despite the value of a dollar rising to ~\$2.30 over the same period

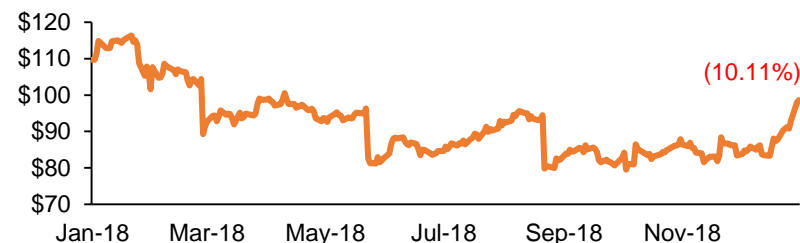
## What Does This Mean for Dollarama?

- Dollar Tree's Canadian operations are likely not a focal point of Starboard Value's investment
- The pricing model request from Starboard Value and other DLTR investors is indicative of a broader trend of dollar stores raising prices across the industry
- Should DLTR raise prices at its Canadian locations, this could strengthen DOL's competitive position

## Dollar General (NYSE:DG) 1-Year Price Chart



## Dollar Tree (NASDAQ:DLTR) 1-Year Price Chart



## Dollar Tree vs. Dollar General vs. Dollarama

	<b>DOLLAR GENERAL</b>	<b>DOLLAR TREE</b>	<b>DOLLARAMA</b>
Locations	15,227	15,187	1,192
Pricing Strategy	Majority under \$10	\$1 in U.S and \$1.25 in CAN	9 price points \$0.82 - \$4.00
EBITDA Margin	10.3%	11.8%	24.9%

Source: CNBC, WSJ, Company Filings, Equity Research

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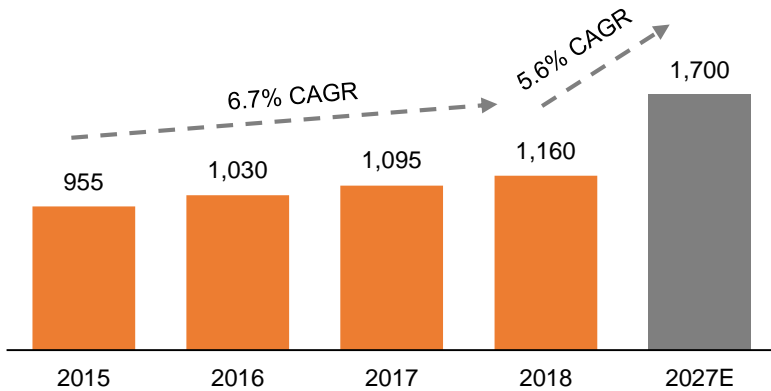
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# Low Market Penetration Supports Growth Targets

## Expansion Plan Questioned by Short Sellers



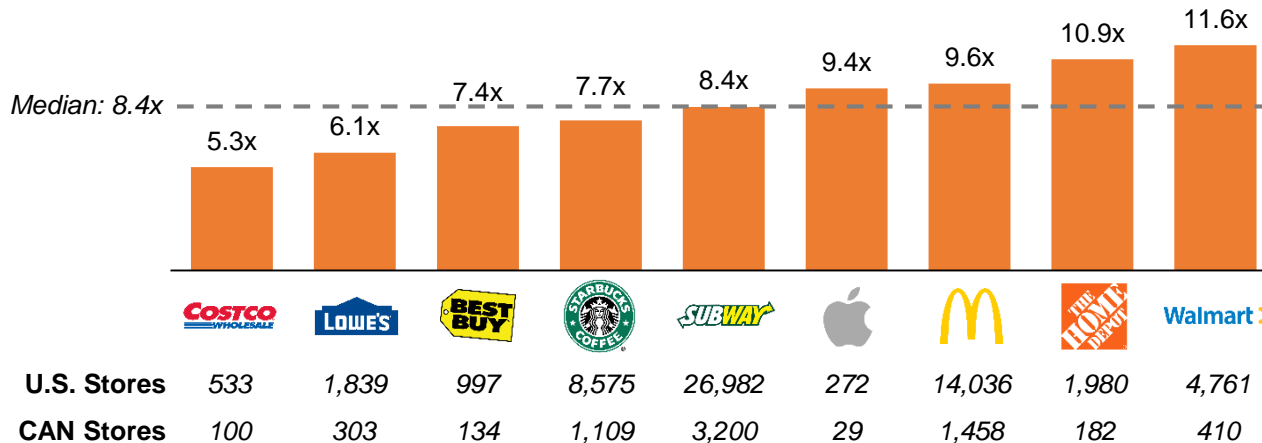
Dollarama is targeting a total of 1,700 stores by 2027

## Canadian Market Penetration Lags U.S.

	CAN (2018)	CAN (2027)	US
Dollarama Stores	1,192	1,700	-
Other Stores	490	490	31,328
<b>Total Stores</b>	<b>1,682</b>	<b>2,190</b>	<b>31,328</b>
Population (M)	36.7	36.7	325.7
<b>Stores / Capita (M)</b>	<b>45.8</b>	<b>59.7</b>	<b>96.2</b>
Penetration Ratio	2.1x	1.6x	-

Even post-expansion, Canadian market will be under-penetrated

## Mature North American Retailers Indicate That 1,700 Store Goal is Appropriate



Conclusion	
DLTR Stores	14,960
U.S./CAN Ratio	8.4x
<b>Implied DOL Stores</b>	<b>1,774</b>

Using DLTR's store count, the median U.S./CAN store count ratio implies DOL's 1,700 store goal is appropriate

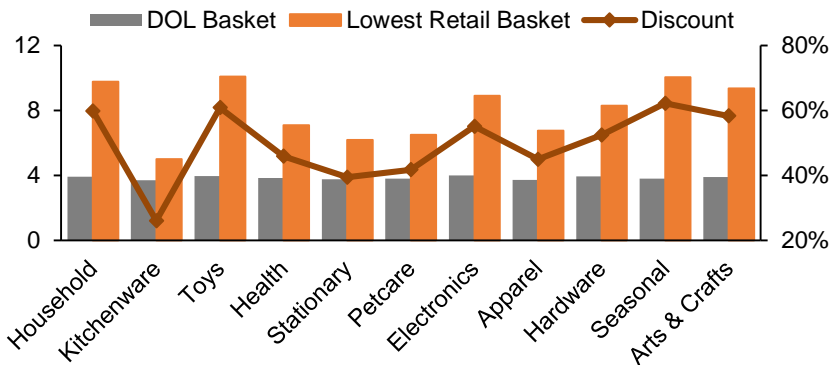
Sources: Capital IQ, Company Filings, Statista

# Limited Threat Posed by Competitors

## Structural Challenges Limit Amazon Threat

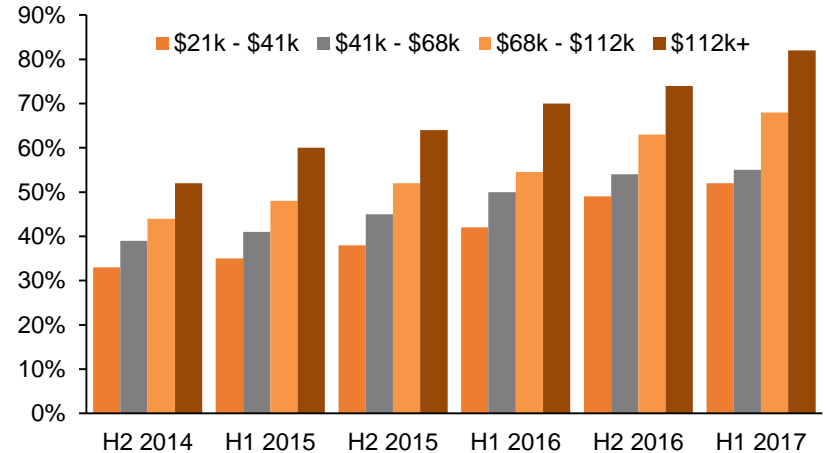
- Due to shipping costs, Amazon struggles to profitably sell items in DOL's \$1-4 price range, insulating DOL from meaningful competition
- Low priced items (known as "add-on items") cannot be purchased on Amazon unless the total order is at least \$25, nearly double the average dollar store basket size of \$13.54 in Canada
- Low-income consumers who frequent DOL are reluctant to adopt Amazon Prime despite an available low-income Prime discount in the U.S. (no discount is offered in Canada)

## Vast Price Difference in Product Offerings



Dollarama dominates other major retailers in product offerings catered towards low-income families

## Poor US Prime Adoption by Low-Income Families



## Short Sellers Overstate Competitive Threats

- Short sellers' claims that Miniso & DLTR pose significant threats to DOL are unfounded
- Chinese value retailer Miniso was deemed to be a "Dollarama Disruptor" in 2018, planning to open 500 Canadian stores over a 10-year period
- In December 2018, the Chinese Miniso parent company filed an Application for Bankruptcy in British Columbia related to unethical asset transfers
- From DLTR 2017 10K: **"Our revenue and assets in Canada are not material"**

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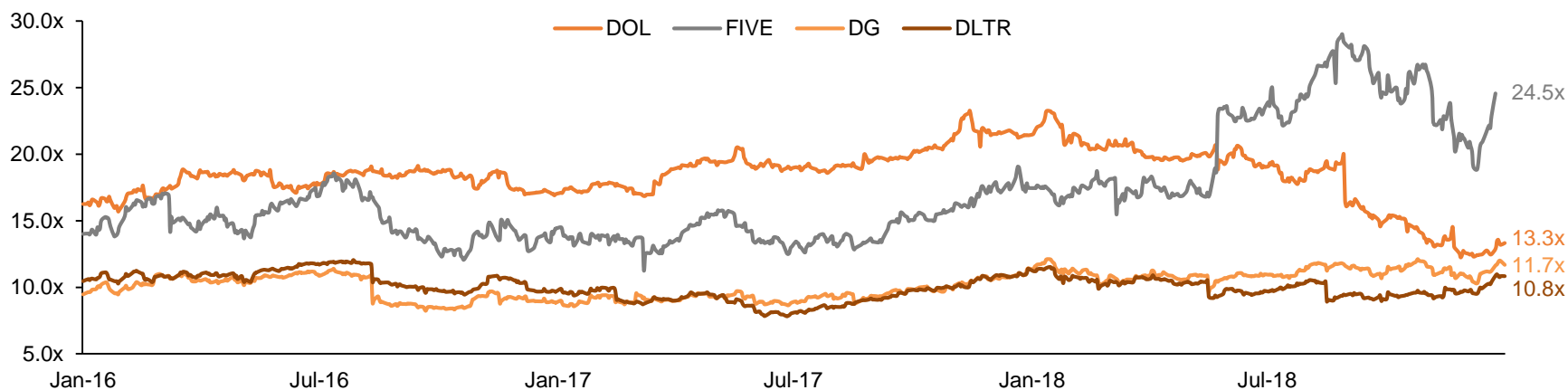
**6** Recommendation

# Comparables Analysis

## Comparable Companies: Dollarama Continues to Trade at a Premium to Peers

(In CAD millions)	Equity Value	Enterprise Value	P/E			EV/EBITDA			Revenue Growth		EBITDA Margin	
			2018E	2019E	2020E	2018E	2019E	2020E	2019E	2020E	2019E	2020E
<b>Dollar Stores</b>												
Dollar General Corporation	\$39,412	\$42,922	18.7x	17.0x	15.5x	12.5x	11.6x	10.9x	7.6%	7.0%	10.2%	10.2%
Dollar Tree, Inc.	\$30,507	\$36,262	17.1x	16.6x	15.0x	11.1x	10.6x	10.0x	4.6%	4.8%	10.8%	11.0%
Five Below, Inc.	\$8,809	\$8,559	45.5x	37.5x	30.4x	28.5x	23.0x	18.7x	22.0%	21.4%	15.0%	15.2%
Median			18.7x	17.0x	15.5x	12.5x	11.6x	10.9x	7.6%	7.0%	10.8%	11.0%
<b>Canadian Retail</b>												
Alimentation Couche-Tard Inc.	\$40,631	\$48,399	22.2x	20.9x	18.7x	14.3x	13.4x	12.6x	6.7%	2.1%	5.8%	6.0%
Loblaw Companies Limited	\$24,097	\$38,559	14.1x	14.7x	12.9x	9.4x	10.5x	9.8x	1.8%	2.9%	7.6%	8.0%
Metro Inc.	\$11,169	\$13,648	8.0x	16.3x	15.1x	12.0x	10.0x	9.7x	11.7%	2.0%	8.1%	8.3%
Empire Company Limited	\$8,174	\$9,250	24.5x	15.8x	14.0x	9.0x	7.4x	7.0x	3.3%	2.3%	4.9%	5.1%
Median			18.1x	16.1x	14.6x	10.7x	10.3x	9.7x	5.0%	2.2%	6.7%	7.0%
Overall Median			18.4x	16.5x	15.0x	11.6x	11.0x	10.3x	6.3%	4.6%	8.8%	9.0%
Dollarama Inc.	\$10,946	\$12,770	20.2x	17.9x	15.6x	14.5x	13.5x	12.4x	6.1%	7.8%	25.2%	25.4%

## Historical Trading Multiples – EV/NTM EBITDA



# Comparables Analysis

## Comparables Output Table: Dollarama Continues at Premium to Most Comps, Implying a Negative Return<sup>1</sup>

Metric	Multiple			Implied Share Price			Implied Return		
	Min	Median	Max	Lower Limit	Median	Upper Limit	Lower Limit	Median	Upper Limit
P / 2018E EPS	12.9x	18.4x	23.9x	\$21.67	\$30.92	\$40.17	(36.1%)	(8.9%)	18.3%
P / 2019E EPS	12.8x	16.5x	20.3x	\$24.28	\$31.31	\$38.34	(28.5%)	(7.7%)	13.0%
P / 2020E EPS	12.3x	15.0x	17.8x	\$26.66	\$32.72	\$38.77	(21.5%)	(3.6%)	14.2%
EV / 2018E EBITDA	8.5x	11.6x	14.7x	\$17.64	\$26.14	\$34.65	(48.0%)	(23.0%)	2.1%
EV / 2019E EBITDA	8.6x	11.0x	13.3x	\$19.60	\$26.42	\$33.23	(42.2%)	(22.2%)	(2.1%)
EV / 2020E EBITDA	8.6x	10.3x	12.0x	\$21.69	\$27.15	\$32.61	(36.1%)	(20.0%)	(3.9%)

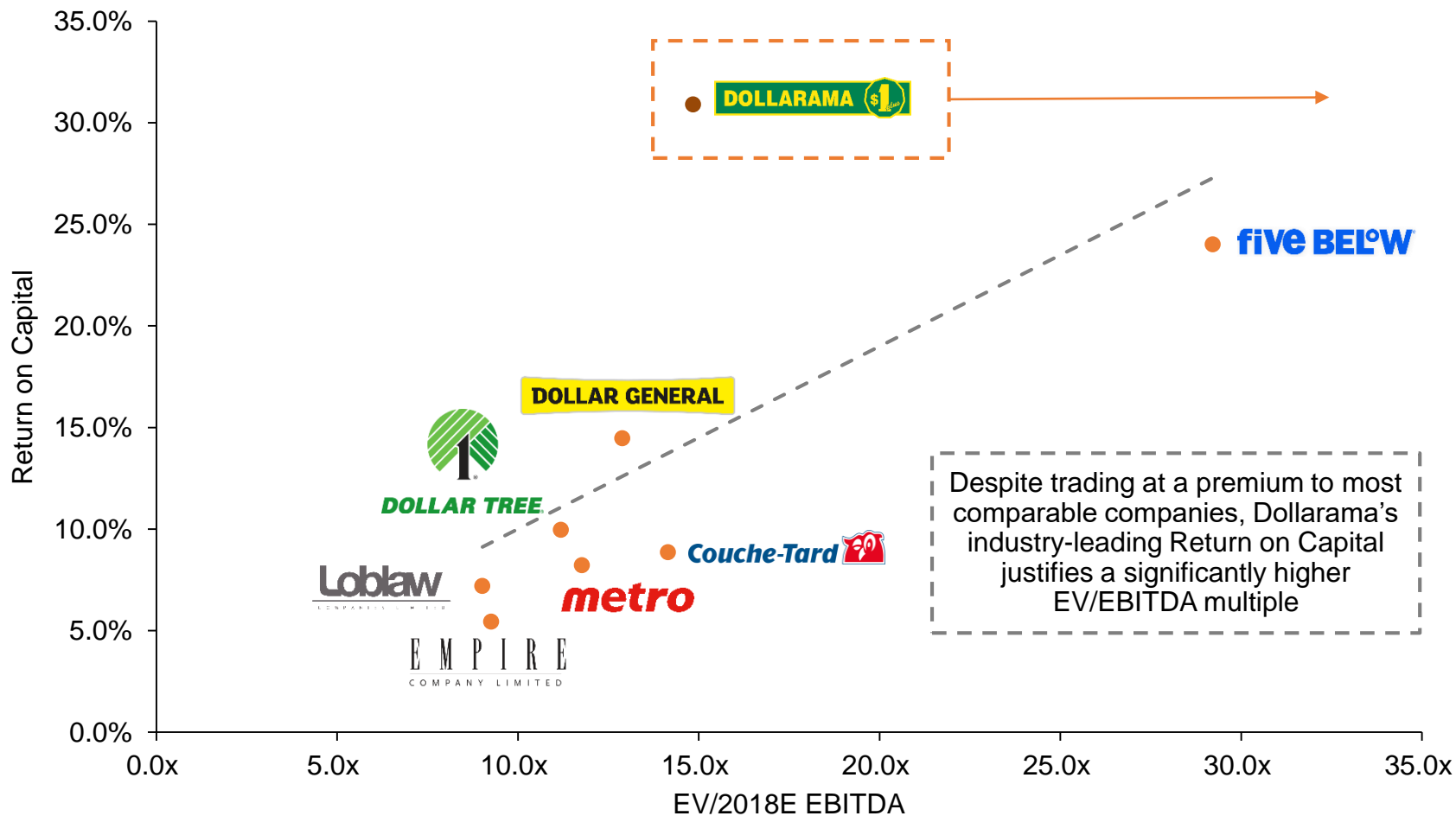
## Conclusions

- The peer group is imperfect considering the lack of Canadian peers to DOL
- DOL has always commanded a premium multiple due to its superior operational efficiency, EBITDA margins, and return on invested capital relative to its U.S. peers
- Following recent weakness in the stock, the premium to peers has fallen significantly
- Peer trading multiples serve as an indication of where DOL may trade when it has reached maturity
- Comparables analysis ultimately receives **zero weight** in the overall valuation



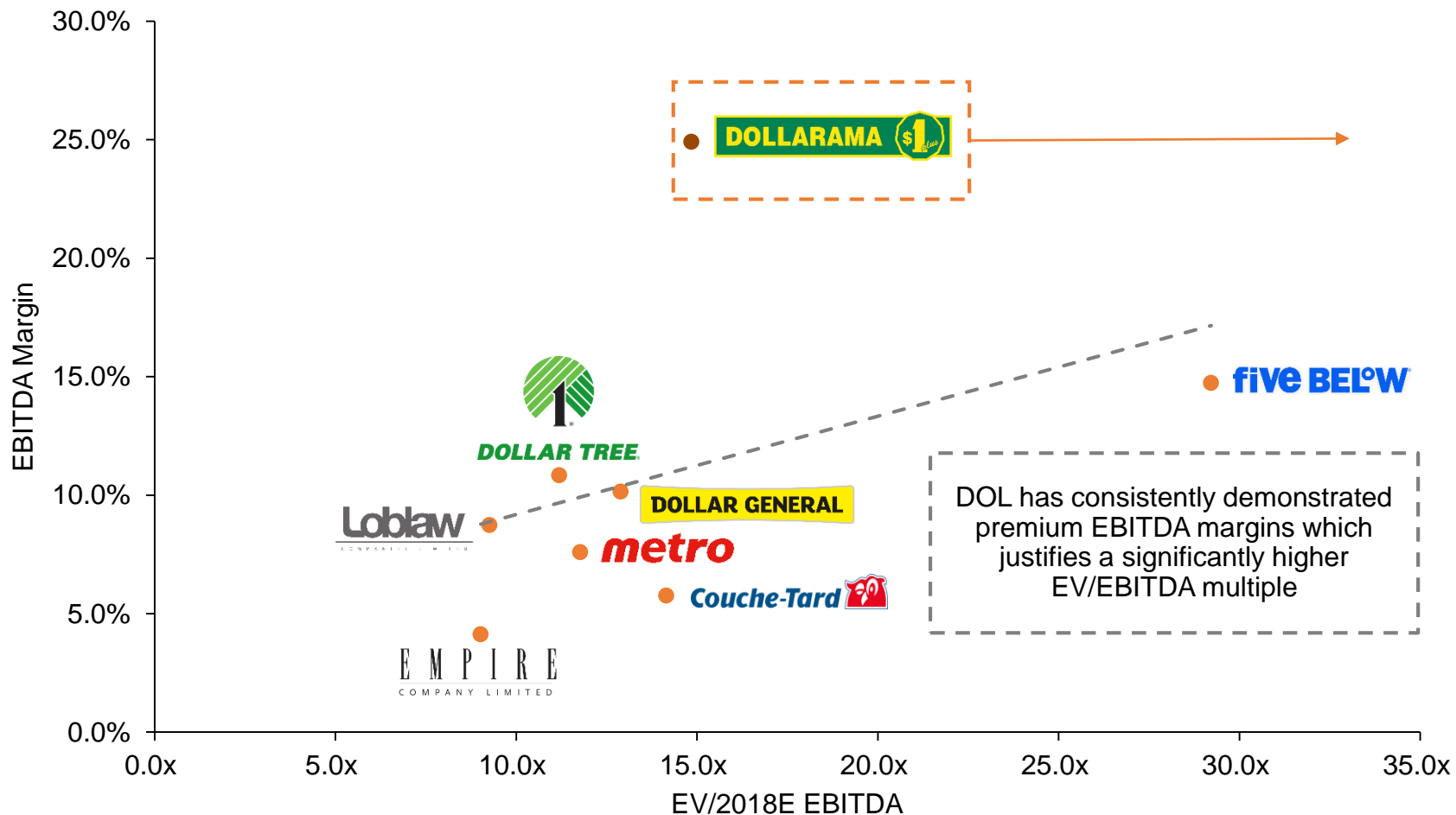
# Comparables Analysis

## DOL is a Positive Outlier on the Basis of Return on Capital



# Comparables Analysis

## DOL is a Positive Outlier on the Basis of EBITDA Margin



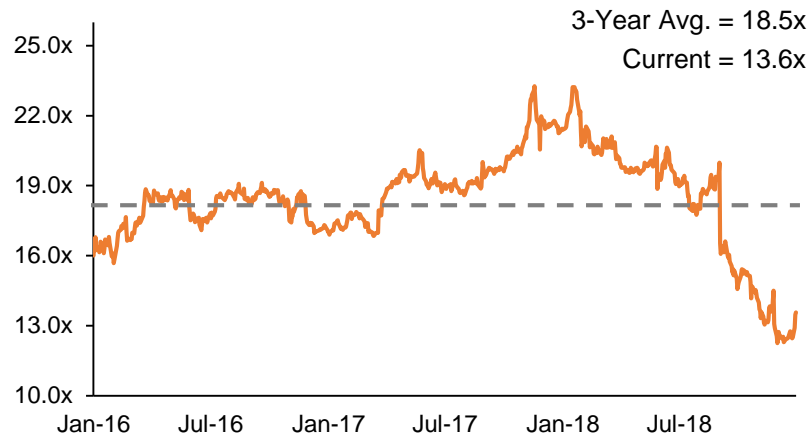
DOL has consistently demonstrated premium EBITDA margins which justifies a significantly higher EV/EBITDA multiple

# Comparables Analysis

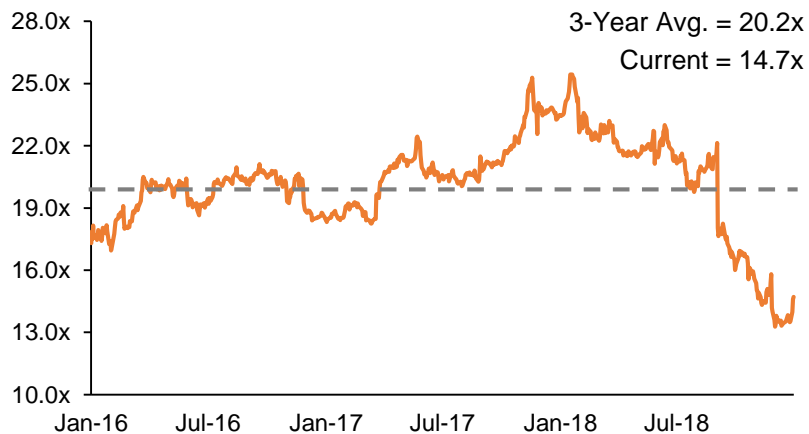
**EV/NTM Revenue**



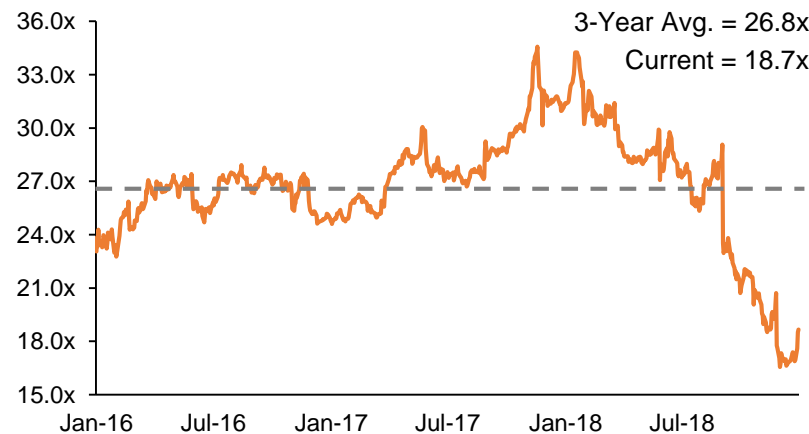
**EV/NTM EBITDA**



**EV/NTM EBIT**

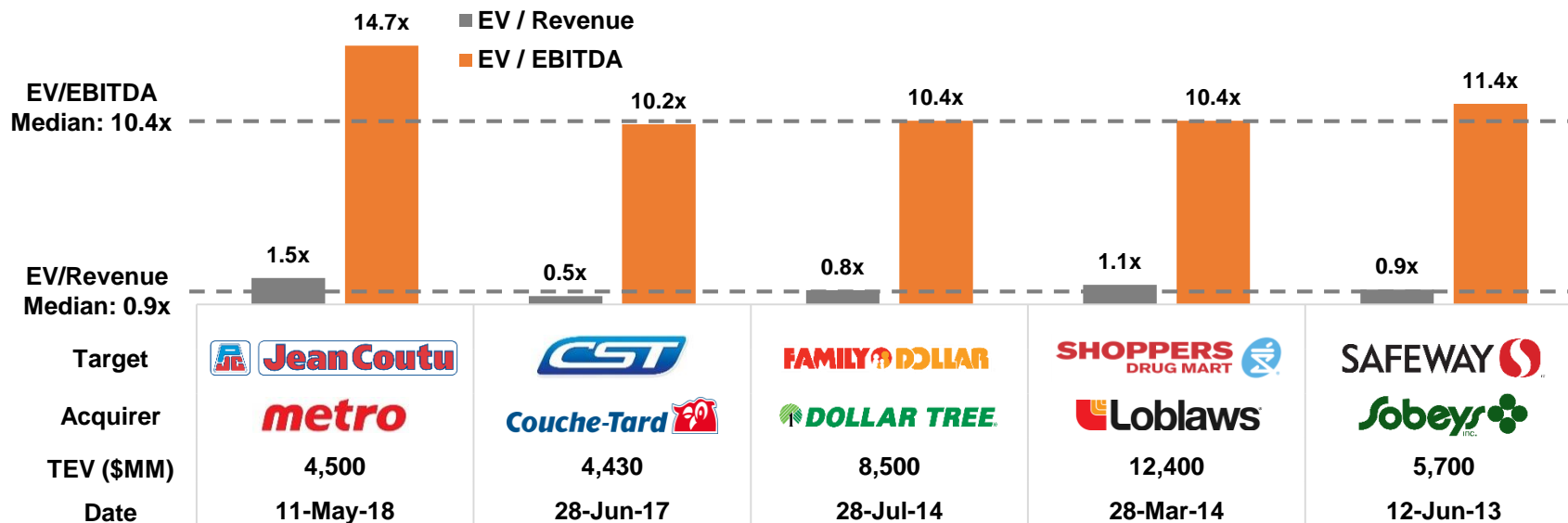


**P/NTM EPS**



# Precedent Transactions Analysis

## Acquisition Multiples Summary



### Valuation Takeaways

- On an EBITDA basis, the valuation yields an EV range for DOL between \$9,001mm - \$12,967mm, representing a share price between \$22.24 - \$34.54
- On an revenue basis, the valuation yields an EV range for DOL between \$2,824mm - \$4,014mm, representing a share price between \$3.10 - \$6.79. However, this is not useful due to DOL's superior margin profile

### Valuation Methodology

- Precedents transaction valuations are based on major historical acquisitions in the grocery, convenience, and discounted goods sectors

# Discounted Cash Flows

## DCF Valuation Assumptions

- Revenue growth is based on same-store sales growth and new-store sales:
  - Same-store sales growth is estimated based on projections of average transaction size and number of transactions
  - New-store sales growth is estimated based on projections of net store additions, average store size, and new store productivity
- EBITDA margins, depreciation and amortization, capital expenditures and changes in net working capital are projected based on historical trends

WACC: **6.7%**Perp. Growth Rate: **2.5%**FDSO: **323 million**Statutory Tax Rate: **25.7%**

## DCF Unlevered Cash Flow Summary

(CAD millions)	Forecast Period													Terminal
	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	
<b>Revenue</b>	<b>2,650</b>	<b>2,963</b>	<b>3,266</b>	<b>3,523</b>	<b>3,747</b>	<b>3,962</b>	<b>4,165</b>	<b>4,362</b>	<b>4,552</b>	<b>4,732</b>	<b>4,903</b>	<b>5,064</b>	<b>5,211</b>	<b>5,342</b>
% Growth (Live)	-	11.8%	10.2%	7.9%	6.4%	5.7%	5.1%	4.7%	4.3%	4.0%	3.6%	3.3%	2.9%	2.5%
<b>Adjusted EBITDA</b>	<b>590</b>	<b>694</b>	<b>813</b>	<b>846</b>	<b>899</b>	<b>951</b>	<b>1,000</b>	<b>1,047</b>	<b>1,092</b>	<b>1,136</b>	<b>1,177</b>	<b>1,215</b>	<b>1,251</b>	<b>1,282</b>
% Margin (Live)	22.3%	23.4%	24.9%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%
(-) Depreciation & Amortization	(48)	(58)	(71)	(73)	(83)	(94)	(105)	(116)	(128)	(141)	(153)	(166)	(179)	(183)
% of CapEx	57.8%	43.9%	78.7%	60.2%	64.4%	68.6%	72.8%	77.0%	81.2%	85.4%	89.6%	93.8%	98.0%	98.0%
<b>Adjusted EBIT</b>	<b>542</b>	<b>636</b>	<b>743</b>	<b>773</b>	<b>816</b>	<b>857</b>	<b>895</b>	<b>931</b>	<b>964</b>	<b>995</b>	<b>1,024</b>	<b>1,049</b>	<b>1,072</b>	<b>1,099</b>
% Margin	20.4%	21.5%	22.7%	21.9%	21.8%	21.6%	21.5%	21.3%	21.2%	21.0%	20.9%	20.7%	20.6%	20.6%
% Growth		17.4%	16.8%	4.0%	5.6%	5.0%	4.4%	4.0%	3.6%	3.2%	2.9%	2.5%	2.2%	2.5%
(-) Cash Taxes	(118)	(179)	(167)	(198)	(210)	(220)	(230)	(239)	(248)	(256)	(263)	(269)	(275)	(282)
Tax rate (%)	21.9%	28.1%	22.5%	25.7%	25.7%	25.7%	25.7%	25.7%	25.7%	25.7%	25.7%	25.7%	25.7%	25.7%
<b>NOPAT</b>	<b>423</b>	<b>457</b>	<b>576</b>	<b>574</b>	<b>607</b>	<b>637</b>	<b>665</b>	<b>692</b>	<b>716</b>	<b>740</b>	<b>761</b>	<b>780</b>	<b>797</b>	<b>817</b>
(+) Depreciation & Amortization	48	58	71	73	83	94	105	116	128	141	153	166	179	183
(-) CapEx	(83)	(131)	(90)	(121)	(129)	(137)	(144)	(151)	(158)	(165)	(171)	(177)	(182)	(187)
% of Revenue	3.1%	4.4%	2.7%	3.4%	3.4%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
(-) Change in Net Working Capital	-	63	63	(26)	(20)	(17)	(14)	(11)	(9)	(7)	(4)	(2)	(1)	(1)
% of Change in Revenue		(20.2%)	(20.8%)	10.0%	8.9%	7.9%	6.8%	5.8%	4.7%	3.7%	2.6%	1.6%	0.5%	0.5%
<b>Unlevered Free Cash Flows</b>	<b>388</b>	<b>446</b>	<b>620</b>	<b>500</b>	<b>541</b>	<b>577</b>	<b>612</b>	<b>645</b>	<b>678</b>	<b>709</b>	<b>739</b>	<b>766</b>	<b>792</b>	<b>812</b>

Source: Equity Research, Capital IQ, Company Filings

# Discounted Cash Flows

## Valuation Summary

<b>Cumulative PV of Free Cash Flow</b>	<b>4,505</b>
<i>% of Enterprise Value</i>	28.8%
<b>Terminal Value</b>	
Terminal Year EBITDA	1,282
Terminal Year UFCF	812
Perpetuity Growth Rate	2.5%
<b>Terminal Value</b>	<b>19,354</b>
Terminal Value for EBITDA Multiple	19,991
Implied EV / EBITDA Multiple	15.6x
Implied EV / UFCF Multiple	24.6x
<b>PV of Terminal Value</b>	<b>11,127</b>
<i>% of Enterprise Value</i>	71.2%
<b>Enterprise Value</b>	<b>15,632</b>
(-) Short Term Debt	(415)
(-) Long Term Debt	(1,488)
(-) Minority Interest	-
(+) Cash	79
(+) Investments in Associates	-
<b>Equity Value</b>	<b>13,808</b>
Basic Shares	320
(+) Diluted Securities	4
<b>Fully Diluted Shares Outstanding</b>	<b>323</b>
<b>Implied Share Price</b>	<b>\$42.68</b>
Current Share Price	\$33.94
<b>Premium to Current Share Price</b>	<b>25.8%</b>

## Discount Rate Analysis

WACC	
10-Year Canadian Treasury	2.1%
Market Risk Premium	5.4%
Beta	0.99
<b>Cost of Equity</b>	<b>7.5%</b>
Cost of Debt	3.3%
Tax Rate	25.7%
<b>After-Tax Cost of Debt</b>	<b>2.4%</b>
Target Debt/Capitalization	15.3%
<b>WACC</b>	<b>6.7%</b>

Debt Tranches		
	Face Value	Effective Interest Rate
<i>(CAD millions)</i>		
DOL 03/16/20	300	2.96%
DOL 02/01/21	300	3.19%
DOL 07/22/21	525	3.21%
DOL 11/10/22	250	3.42%
DOL 11/6/23	500	3.56%
<b>Weighted Average</b>		<b>3.29%</b>

## Valuation Takeaways

- The DCF yields an implied price of \$42.69 (+25.8%), with a range of \$36.34 (+7.1%) to \$50.03 (+47.4%)
- The base case uses a 6.7% WACC with a 2.5% perpetuity growth rate

# Discounted Cash Flows

## Sensitivity Analysis

		Equity Value Per Share				
		Terminal growth				
		1.5%	2.0%	2.5%	3.0%	3.5%
Discount rate	5.7%	\$45.77	\$50.90	\$57.64	\$66.88	\$80.33
	6.2%	\$40.30	\$44.20	\$49.15	\$55.65	\$64.57
	6.7%	\$35.88	\$38.92	\$42.68	\$47.46	\$53.74
	7.2%	\$32.24	\$34.66	\$37.60	\$41.23	\$45.84
	7.7%	\$29.20	\$31.15	\$33.49	\$36.32	\$39.83

		Implied Return				
		Terminal growth				
		1.5%	2.0%	2.5%	3.0%	3.5%
Discount rate	5.7%	34.9%	50.0%	69.8%	97.1%	136.7%
	6.2%	18.7%	30.2%	44.8%	64.0%	90.2%
	6.7%	5.7%	14.7%	25.8%	39.8%	58.3%
	7.2%	(5.0%)	2.1%	10.8%	21.5%	35.1%
	7.7%	(14.0%)	(8.2%)	(1.3%)	7.0%	17.3%

		Equity Value Per Share				
		Revenue Growth Sensitivity				
		(1.0%)	(0.5%)	0.0%	0.5%	1.0%
Margin Sensitivity	(2.0%)	\$34.28	\$36.09	\$37.98	\$39.96	\$42.02
	(1.0%)	\$36.43	\$38.34	\$40.33	\$42.42	\$44.60
	0.0%	\$38.58	\$40.59	\$42.68	\$44.88	\$47.17
	1.0%	\$40.73	\$42.83	\$45.04	\$47.34	\$49.74
	2.0%	\$42.87	\$45.08	\$47.39	\$49.80	\$52.32

		Implied Return				
		Revenue Growth Sensitivity				
		(1.0%)	(0.5%)	0.0%	0.5%	1.0%
Margin Sensitivity	(2.0%)	1.0%	6.3%	11.9%	17.7%	23.8%
	(1.0%)	7.3%	13.0%	18.8%	25.0%	31.4%
	0.0%	13.7%	19.6%	25.8%	32.2%	39.0%
	1.0%	20.0%	26.2%	32.7%	39.5%	46.6%
	2.0%	26.3%	32.8%	39.6%	46.7%	54.1%

# Agenda

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**DOLLARAMA**



**1** Company Overview

**2** Industry Outlook

**3** Investment Thesis

**4** Valuation

**5** Catalysts and Risks

**6** Recommendation



# Short-Term Tailwinds With Limited Downside

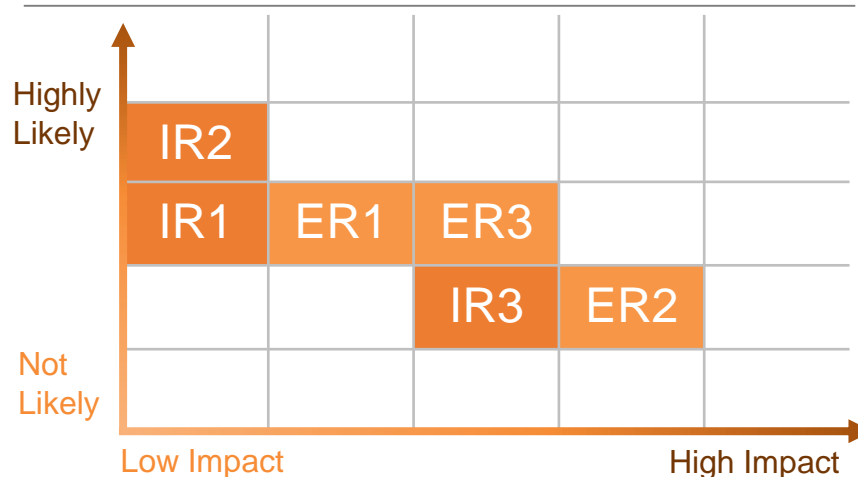
## Near-Term Catalysts

- **Miniso Bankruptcy** – Financial struggles with the new Chinese value retailer may open up new market share for Dollarama to capture
- **Starboard Value Dollar Tree Investment** – Starboard Value may push Dollar Tree to lower its focus in the Canadian market, reducing competition
- **Decreasing Short Sentiment** – Should Dollarama deliver on its short-term expectations, negative sentiment should begin to disseminate

## Long-Term Catalysts

- **Credit Card Penetration** – Average basket sizes will increase with increased credit card penetration compared to cash transactions
- **Moving Towards Market Saturation** – Dollarama will continue to find attractive locations for new stores due to current market under-penetration
- **Improving In-Store Experience** – Future investments in renovating existing locations could reinvigorate same-store sales growth

## Risks



### External Risks

- Minimum wage hikes compressing margins (ER1)
- New competitors entering or expanding in the market (ER2)
- Further short coverage from Spruce Point or others (ER3)

### Internal Risks

- Intellectual property lawsuits for knock-off products (IR1)
- Product recalls due to health or safety violations (IR2)
- Decline in traffic due to further price increases (IR3)

# Agenda

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**DOLLARAMA**



**1** Company Overview

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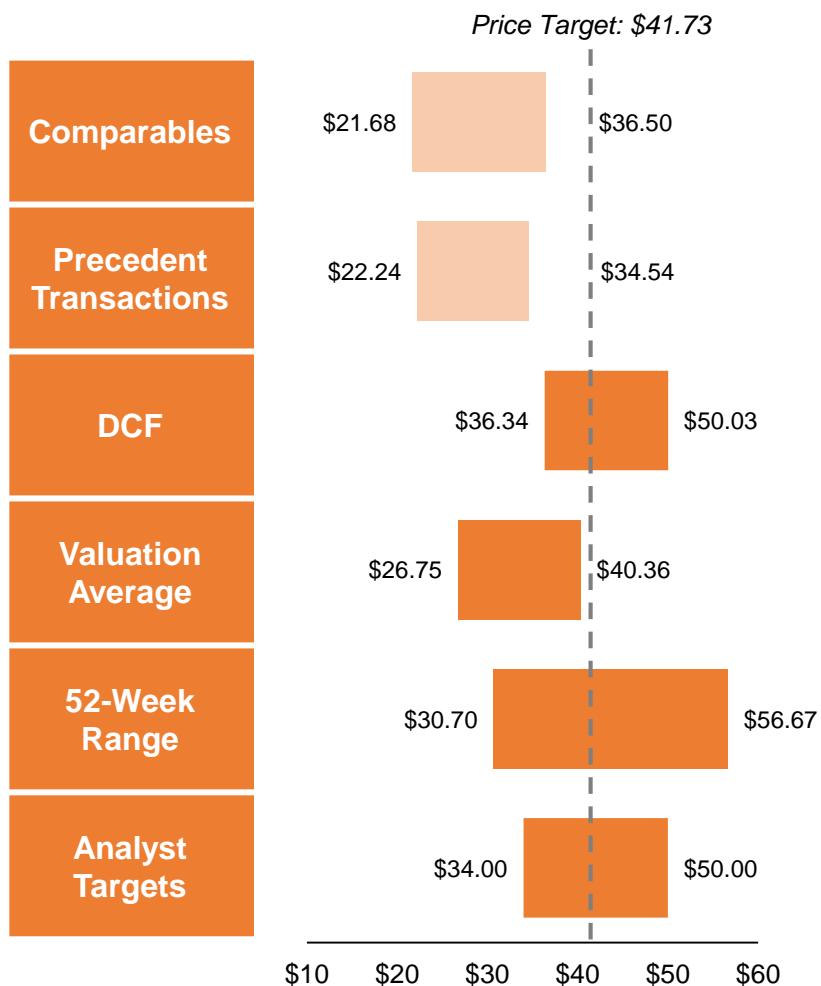
**5** Catalysts and Risks

**6** Recommendation

RECOMMENDATION

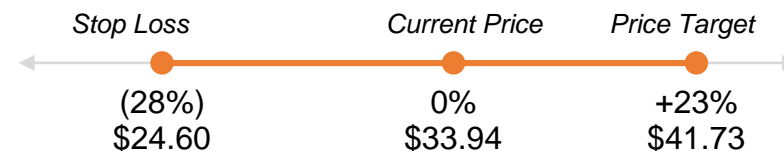
# Buy With a Price Target of ~\$42 (+23%)

## Indicative Valuation Range



## Price Target

Valuation Summary		
Analysis	Price	Weight
Comparables	\$29.03	0%
Precedent Transactions	\$28.39	0%
Discounted CF	\$42.68	70%
Street Consensus	\$39.50	30%
<b>Average</b>	<b>\$41.73</b>	<b>100%</b>



## Selected Broker Summary



# APPENDIX A

## WACC Analysis

### Beta Comparable Analysis

(In CAD millions)	Equity Value	Total Debt	Levered Beta		D/E	Tax Rate	Unlevered Beta	
			Raw	Adjusted			Raw	Adjusted
<b>Dollar Stores</b>								
Dollar General Corporation	\$39,412	\$42,922	0.702	0.802	0.098	24%	0.654	0.769
Dollar Tree, Inc.	\$30,507	\$36,262	0.501	0.667	0.219	24%	0.429	0.619
Five Below, Inc.	\$8,809	\$8,559	1.152	1.101	-	24%	1.152	1.101
<b>Median</b>					<b>0.098</b>		<b>0.654</b>	<b>0.769</b>
<b>Canadian Retail</b>								
Alimentation Couche-Tard Inc.	\$40,631	\$48,399	0.942	0.961	0.199	28%	0.823	0.882
Loblaw Companies Limited	\$24,097	\$38,559	0.478	0.652	0.648	28%	0.326	0.551
Metro Inc.	\$11,169	\$13,648	0.576	0.718	0.238	28%	0.492	0.661
Empire Company Limited	\$8,174	\$9,250	0.457	0.638	0.200	28%	0.399	0.600
<b>Median</b>					<b>0.219</b>		<b>0.446</b>	<b>0.631</b>
<b>Overall Median</b>					<b>0.200</b>		<b>0.492</b>	<b>0.661</b>

### Valuation Assumptions

Assumption	Key Metric	Justification
Beta	0.99	Based on 2 year historical beta from Bloomberg
Risk-free Rate	2.1%	10-year Canadian treasury bill interest rate
Cost of Debt (pre-tax)	3.3%	Weighted average of interest rates based on Dollarama's current debt structure
Perp. Growth Rate	2.5%	Assumption which slightly outpaces the target inflation rate in North America due to sustained store growth

# Same-Store Sales Growth

## Historical Same-Store Sales Growth Break-Down

Percentage growth vs. same period in prior year

	Avg Transaction Size	Number of Transactions	Same-Store Sales Growth
<b>FY 2015</b>	4.2%	1.4%	5.7%
<b>Q1</b>	3.7%	(0.4%)	3.3%
<b>Q2</b>	3.1%	1.1%	4.2%
<b>Q3</b>	4.8%	1.1%	5.9%
<b>Q4</b>	4.7%	3.6%	8.5%
<b>FY 2016</b>	5.2%	1.9%	7.3%
<b>Q1</b>	5.9%	1.0%	6.9%
<b>Q2</b>	6.1%	1.3%	7.9%
<b>Q3</b>	5.4%	0.9%	6.4%
<b>Q4</b>	3.5%	4.2%	7.9%
<b>FY 2017</b>	5.5%	0.2%	5.8%
<b>Q1</b>	3.7%	2.8%	6.6%
<b>Q2</b>	4.6%	1.0%	5.7%
<b>Q3</b>	5.8%	(0.6%)	5.1%
<b>Q4</b>	7.8%	(1.9%)	5.8%
<b>FY 2018</b>	5.2%	0.0%	5.2%
<b>Q1</b>	6.1%	(1.4%)	4.6%
<b>Q2</b>	5.9%	0.2%	6.1%
<b>Q3</b>	4.5%	0.1%	4.6%
<b>Q4</b>	4.6%	0.8%	5.5%
<b>FY 2019</b>			
<b>Q1</b>	2.9%	(0.3%)	2.6%
<b>Q2</b>	3.1%	(0.5%)	2.6%
<b>Q3</b>	4.0%	(0.9%)	3.1%

Source: Company Filings

# Revenue Model

## Projected Growth Attributable to Same-Store Sales

	Forecast Period													
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b><u>Average Transaction Size</u></b>														
Base Case	4.2%	5.2%	5.5%	5.2%	3.5%	3.2%	2.9%	2.7%	2.4%	2.1%	1.8%	1.6%	1.3%	1.0%
Bear Case	4.2%	5.2%	5.5%	5.2%	3.0%	2.7%	2.3%	2.0%	1.7%	1.3%	1.0%	0.7%	0.3%	0.0%
Bull Case	4.2%	5.2%	5.5%	5.2%	4.0%	3.8%	3.6%	3.3%	3.1%	2.9%	2.7%	2.4%	2.2%	2.0%
<b><u>Number of Transactions</u></b>														
Base Case	1.4%	1.9%	0.2%	0.0%	(0.6%)	(0.5%)	(0.5%)	(0.4%)	(0.3%)	(0.3%)	(0.2%)	(0.1%)	(0.1%)	0.0%
Bear Case	1.4%	1.9%	0.2%	0.0%	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.6%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Bull Case	1.4%	1.9%	0.2%	0.0%	(0.6%)	(0.4%)	(0.2%)	(0.1%)	0.1%	0.3%	0.5%	0.6%	0.8%	1.0%
<b><u>Same-store Sales Growth</u></b>														
Base Case	5.7%	7.3%	5.8%	5.2%	2.9%	2.7%	2.5%	2.3%	2.1%	1.8%	1.6%	1.4%	1.2%	1.0%
Bear Case	5.7%	7.3%	5.8%	5.2%	2.4%	2.1%	1.8%	1.4%	1.1%	0.8%	0.5%	0.1%	(0.2%)	(0.5%)
Bull Case	5.7%	7.3%	5.8%	5.2%	3.4%	3.4%	3.3%	3.3%	3.2%	3.2%	3.1%	3.1%	3.0%	3.0%
<b><u>Number of Stores</u></b>														
Base Case	955	1,030	1,095	1,160	1,225	1,278	1,331	1,383	1,436	1,489	1,542	1,594	1,647	1,700
Bear Case	955	1,030	1,095	1,160	1,220	1,262	1,304	1,347	1,389	1,431	1,473	1,516	1,558	1,600
Bull Case	955	1,030	1,095	1,160	1,230	1,288	1,346	1,403	1,461	1,519	1,577	1,634	1,692	1,750
<b><u>Net Additions</u></b>														
Base Case		75	65	65	65	53	53	53	53	53	53	53	53	53
Bear Case		75	65	65	60	42	42	42	42	42	42	42	42	42
Bull Case		75	65	65	70	58	58	58	58	58	58	58	58	58
<b>Average Store Size (sq. ft.)</b>														
Base Case	9,913	9,942	10,023	10,120	10,193	10,244	10,270	10,270	10,270	10,270	10,270	10,270	10,270	10,270
Growth		0.29%	0.81%	0.97%	0.72%	0.50%	0.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b><u>Total Square Feet (mm)</u></b>														
Base Case	9.47	10.24	10.98	11.74	12.49	13.09	13.66	14.21	14.75	15.29	15.83	16.37	16.92	17.46
Bear Case	9.47	10.24	10.98	11.74	12.44	12.93	13.40	13.83	14.26	14.70	15.13	15.56	16.00	16.43
Bull Case	9.47	10.24	10.98	11.74	12.54	13.19	13.82	14.41	15.00	15.60	16.19	16.79	17.38	17.97

Source: Capital IQ, Company Filings, Equity Research

# Revenue Model

## Projected Growth Attributable to New Store Openings

	Forecast Period													
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>Total Square Feet Growth</b>														
<i>Base Case</i>		8.2%	7.2%	7.0%	6.4%	4.8%	4.4%	4.0%	3.8%	3.7%	3.5%	3.4%	3.3%	3.2%
<i>Bear Case</i>		8.2%	7.2%	7.0%	5.9%	4.0%	3.6%	3.2%	3.1%	3.0%	3.0%	2.9%	2.8%	2.7%
<i>Bull Case</i>		8.2%	7.2%	7.0%	6.8%	5.2%	4.7%	4.3%	4.1%	4.0%	3.8%	3.7%	3.5%	3.4%
New Store Productivity		78.5%	83.7%	72.1%	78.1%	76.1%	74.1%	72.1%	70.0%	68.0%	66.0%	64.0%	62.0%	60.0%
<b>New Store Growth</b>														
<i>Base Case</i>		6.4%	6.0%	5.0%	5.0%	3.7%	3.3%	2.9%	2.7%	2.5%	2.3%	2.2%	2.1%	1.9%
<i>Bear Case</i>		6.4%	6.0%	5.0%	4.6%	3.0%	2.7%	2.3%	2.2%	2.1%	1.9%	1.8%	1.7%	1.6%
<i>Bull Case</i>		6.4%	6.0%	5.0%	5.3%	4.0%	3.5%	3.1%	2.9%	2.7%	2.5%	2.3%	2.2%	2.0%
<b>Total Revenue Growth</b>														
<i>Base Case</i>		13.7%	11.8%	10.2%	7.9%	6.4%	5.7%	5.1%	4.7%	4.3%	4.0%	3.6%	3.3%	2.9%
<i>Bear Case</i>		13.7%	11.8%	10.2%	7.0%	5.1%	4.4%	3.8%	3.3%	2.9%	2.4%	2.0%	1.5%	1.1%
<i>Bull Case</i>		13.7%	11.8%	10.2%	8.7%	7.3%	6.8%	6.4%	6.1%	5.9%	5.6%	5.4%	5.2%	5.0%
<b>Total Revenue</b>														
<i>Base Case</i>	2,331	2,650	2,963	3,266	3,523	3,747	3,962	4,165	4,362	4,552	4,732	4,903	5,064	5,211
<i>Bear Case</i>	2,331	2,650	2,963	3,266	3,496	3,674	3,837	3,981	4,113	4,230	4,333	4,418	4,487	4,537
<i>Bull Case</i>	2,331	2,650	2,963	3,266	3,551	3,811	4,071	4,330	4,594	4,864	5,138	5,418	5,701	5,989
<b>Revenue Per Store</b>														
<i>Base Case</i>	2.44	2.57	2.71	2.82	2.88	2.93	2.98	3.01	3.04	3.06	3.07	3.08	3.07	3.07
<i>Bear Case</i>	2.44	2.57	2.71	2.82	2.87	2.91	2.94	2.96	2.96	2.96	2.94	2.92	2.88	2.84
<i>Bull Case</i>	2.44	2.57	2.71	2.82	2.89	2.96	3.03	3.09	3.14	3.20	3.26	3.31	3.37	3.42