

The logo features the word "DOLLARAMA" in bold yellow capital letters on a green rectangular background with a yellow border. To the right of the text is a yellow octagonal sign with a black border, containing a large black "1" and the word "plus" in a script font.

**DOLLARAMA**



**BUY: \$34.91**

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A photograph of a Dollarama store exterior. The building is a modern, multi-story structure with large glass windows. In the foreground, there is a large, white, 3D sign that reads "DOLLARAMA" mounted on a grey stone wall. The sign is partially obscured by a large, stylized, semi-transparent graphic of a red and blue bull's head. The background shows a blue sky with white clouds and some greenery in the foreground.

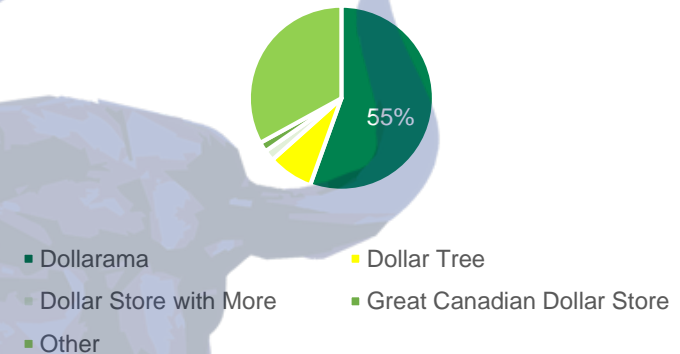
**DOLLARAMA**

## Interest Rates Spread



## Market Share

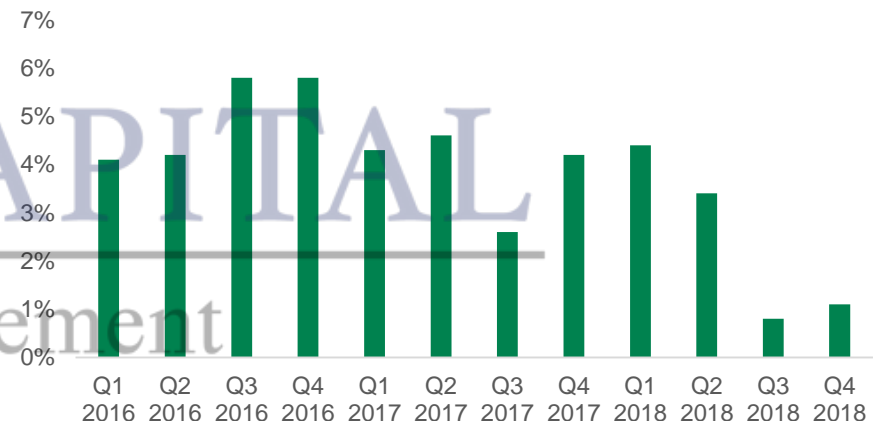
### Canadian Dollar & Variety Store Market



## Canadian Economic Reports

- Economic momentum slowed to 0.4% annualized in Q4 2018, down from 2.0 in Q3
- On a monthly basis, GDP fell 0.1% in December alone
- Canadian CPI dipped to 1.4% in January from 2.0% in December
- January' retail sales fell by 0.3% vs. a 0.4% expected increase

## Canadian Household Savings Rate

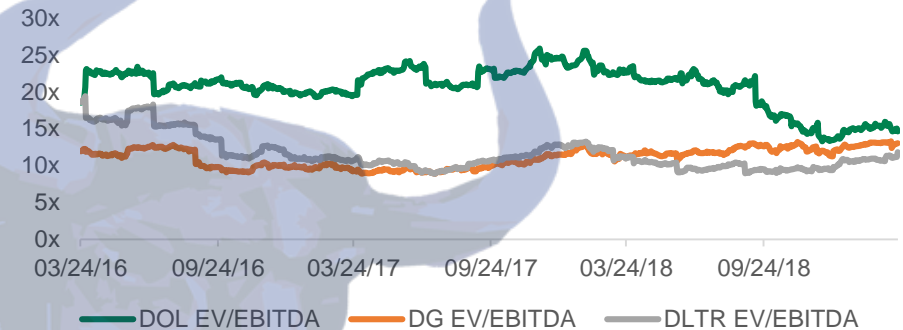




## DOLLARAMA



- **Clear comparative advantage:** DOL's \$0.82 → \$4 price points allow for an increasingly attractive product mix in comparison to other discount retailers
- **Historical Spread:** Historically, DOL has had a spread between its closest competitors' EV/EBITDA, recently they have diverged, but we expect them to return to historical averages
- **Large Market Share:** 55%



## DOLLAR TREE

- Dollar Tree, Inc. operates 227 discount variety stores in Canada. Its stores offer merchandise at the fixed price of \$1.25.
- Dollar Tree has less than 1/5 of the stores as Dollarama, and they are restricted by their fixed price point.
- In July 2015, Dollar Tree closed the acquisition of Family Dollar, which has negatively affected their bottom line.

## DOLLAR GENERAL

- Dollar General does not operate in Canada but has 15,000 stores in the United States. They offer merchandise at a wide price range from \$1+, similar to Dollarama.
- Dollar General faces steep competition in the US, with Dollar Tree matching their store count and annual sales, and with big players such as Wal-Mart and Target encroaching on their market share.

# Company Overview

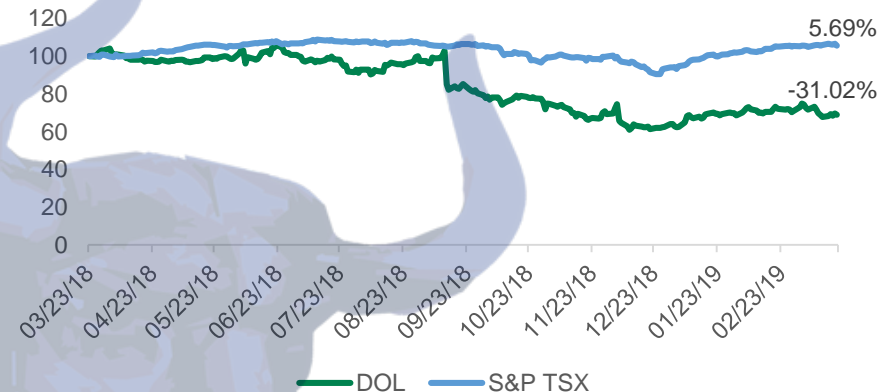
**DOLLARAMA**

## Highlights

As of January 28, 2018, Dollarama owned and operated 1,160 stores across Canada, and generated sales of \$3.27 billion and EBITDA of \$826.1 million during the fiscal year ended January 28, 2018.

Stores average 10,120 square feet and offer a broad assortment of general merchandise, consumable products and seasonal products, including private label and nationally branded products, at compelling values. Merchandise is sold in individual or multiple units at nine select fixed price points ranging from \$0.82 to \$4.00.

## Share Price Performance



## Management



### Neil Rossy: President and Chief Executive Officer

- Neil took over the reins from his father in 2016, prior to his appointment as CEO he served as the Chief Merchandising Officer at Dollarama (2010 – 2016)



### Michael Ross: Chief Financial Officer

- Michael has been CEO at Dollarama for 9 years now (2010 – present) and has been a key figure in the company's success to this date.



### Johanne Choinière: Chief Operating Officer

- Johanne was appointed as COO in 2014, with experience in the retail industry gained from her time at Metro as Senior Vice President, Ontario Division (2008 – 2014)

## Significant Events

- January 2019:** Dollarama announces the launch of its online store
- March 2018:** Dollarama announces plans to expand existing Montreal distribution centre by 50% to 500,000 square feet to support expansion of store network
- May 2017:** Dollarama accepts credit cards at all stores across Canada
- March 2017:** Dollarama management announces plans to expand store network to 1,700 stores by 2027



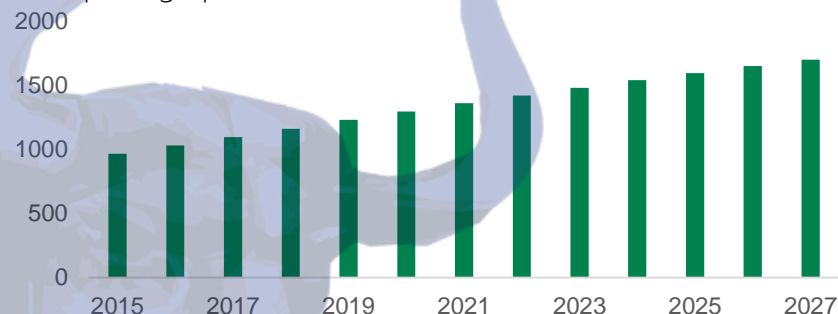


### Compelling Value Proposition

- DOL's relative pricing model is an extremely important component of its business model and brand loyalty statement
- Offering the same products, at lower prices
- A comparison of the aggregate basket of like products reveals an extremely compelling value proposition for Canadian consumers

### Aggressive Expansion Schedule

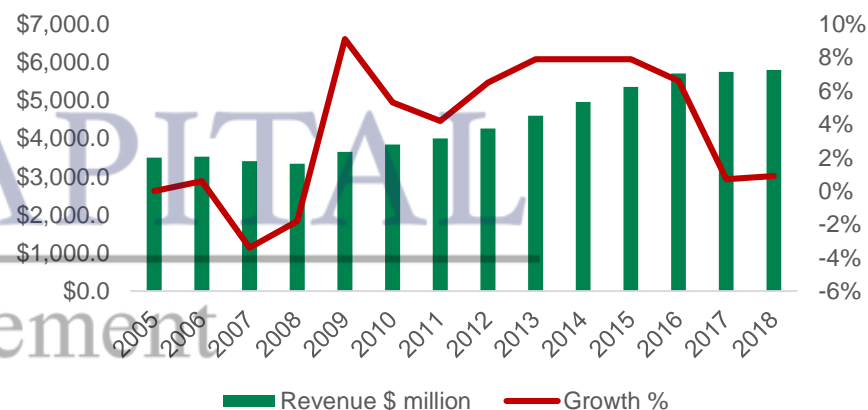
- Looking to expand to 1700 stores by 2027, with plans of opening up 65-70 stores in fiscal 2019



### Store Comparison: DOL Basket vs. Competitors

Store	Comp SKU's	DOL Basket	Comp Basket	Total Savings
WMT	80 \$	201.75 \$	372.24 \$	170.49
CTC	55 \$	151.00 \$	341.35 \$	190.35
AMZN.ca	50 \$	145.00 \$	382.60 \$	237.60
Pharmaprix	29 \$	66.25 \$	145.02 \$	78.77
<b>Total Comp Average</b>	<b>\$</b>	<b>141.00 \$</b>	<b>\$</b>	<b>169.30</b>

### Industry Performance Post Recession

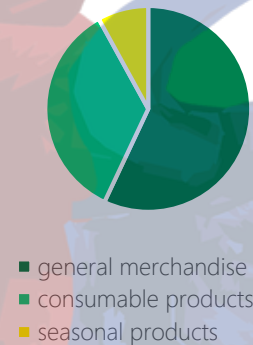


## Breakdown

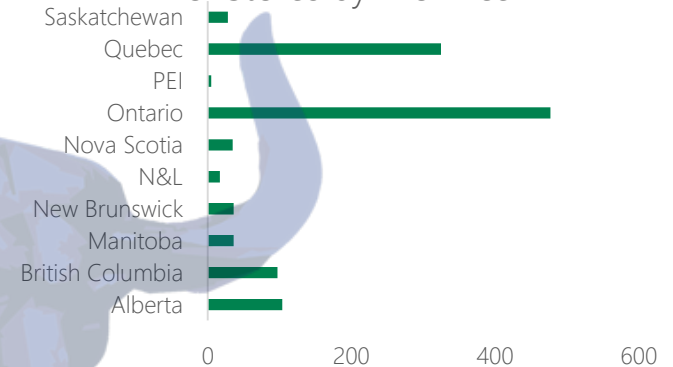
Dollarama is able to differentiate themselves from their competitors in the following ways:

1. Low fixed price points
2. Convenient store size and locations
3. Broad offerings of branded and unbranded merchandise
4. Small or individualized product quantities
5. A No-Frills, self service environment

% of Product Mix



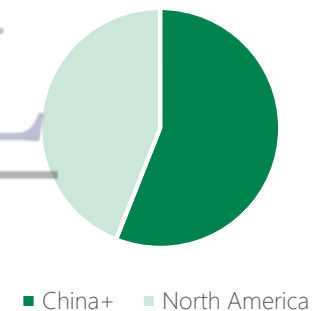
# of Stores by Province



## Key Drivers

- **Private Labels:** DOL purchases directly from manufacturers, providing them with high margins and private branding opportunities
- **Merchandise Sourcing:** DOL sources mainly from China + 25 other countries, as well as products sourced from North America
- **Consistent Store Format:** allows for effective display of the assortment of merchandise
- **Diversified Supplier Base:** Extremely diversified supplier base, with the largest supplier accounting for only 3% of total purchases

Sourcing Distribution



## Catalysts

### New Online Store:



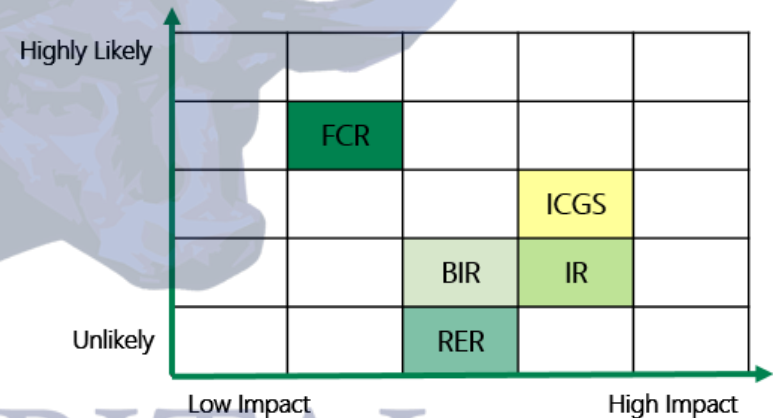
- 1000 of 4000 items available in bulk on website Canada-wide, following a successful 5-week pilot in Quebec
- Big move after recent sales growth challenges
- Aimed towards corporate customers
- Canadian online retail sales expected to grow 12.8% from 2017-22

## Dollarcity

- In 2020, Dollarama has the option to purchase a majority stake in Latin American Dollar Chain Dollar City
- In 2013 Dollar City owned 15 stores, currently operates 77 stores across Latin America
- Dollarama currently imports and distributes products to Dollar City allowing them to have a similar product mix as Dollarama
- As of 2017, these distributions to Dollar City were roughly \$7 million in Q1 and accounted for 1% of revenues

## Risks

- Inflation risk; decreasing product mix
- Brand image/reputation risk
- Real estate risk
- Foreign Currency Risk
- Increase in COGS



(FCR) Foreign Currency Risk

(RER) Real Estate Risk

(BIR) Brand Image/Reputation Risk

(IR) Inflation Risk

(ICGS) Increase in COGS

# Comparable Companies Analysis

**DOLLARAMA**



Based on a relative multiple approach, we see significant upside based on current and historical pricing comparison to their peers

Company Name	Fiscal Period	Market Value	EV/EBITDA			Price to Sales			EV/SALES			Price/Earnings		
			LTM	2019E	2020E	LTM	2019E	2020E	LTM	2019E	2020E	LTM	2019E	2020E
Dollarama Inc.	10/28/2018	\$11,054.90	14.73x	14.57x	13.65x	3.37x	3.11x	2.92x	3.75x	3.63x	3.43x	21.28x	20.65x	18.35x
Average		\$36,507.35	12.42x	11.72x	10.66x	1.19x	1.07x	1.01x	1.33x	1.18x	1.10x	16.24x	18.64x	16.55x
Median		\$36,507.35	12.42x	11.72x	10.66x	0.66x	0.64x	0.62x	1.33x	1.18x	1.10x	16.24x	18.64x	16.55x
Dollar Tree Inc.	11/03/2018	\$32,046.50	11.51x	11.14x	9.82x	1.09x	1.02x	0.97x	1.28x	1.15x	1.06x	14.34x	19.03x	16.57x
Dollar General Corp.	11/02/2018	\$40,968.20	13.32x	12.31x	11.49x	1.29x	1.12x	1.05x	1.38x	1.22x	1.13x	18.15x	18.25x	16.53x
Discount Department Stores														
Walmart	10/31/2018	\$385,602.00	11.38x	10.36x	10.16x	0.60x	0.55x	0.53x	0.71x	0.64x	0.62x	59.08x	20.70x	19.67x
Target	02/02/2019	\$53,849.90	7.98x	7.69x	7.57x	0.56x	0.52x	0.51x	0.71x	0.66x	0.65x	14.62x	13.43x	12.57x
Canadian Tire	12/29/2018	\$9,416.38	9.21x	8.14x	7.72x	0.66x	0.64x	0.62x	1.10x	0.99x	0.96x	13.36x	11.04x	10.08x

EV/EBITDA Multiple			
	Bear	Base	Bull
2020E EBITDA (In Millions CAD)	1007	1007	1007
Multiple	14.00x	16.00x	18.00x
Implied Enterprise Value	\$ 14,098.00	\$ 16,112.00	\$ 18,126.00
Equity Value/Share	\$ 39.70	\$ 46.10	\$ 52.50
Discount Rate	7.88%	7.88%	7.88%
Current Share Price	\$ 36.80	\$ 42.73	\$ 48.66
Implied 1 Year Return	5.41%	22.40%	39.40%

P/E Multiple			
	Bear	Base	Bull
2020E EPS	2.1	2.1	2.1
Multiple	18.00x	20.00x	22.00x
Implied Share Price	\$ 37.80	\$ 42.00	\$ 46.20
Discount Rate	7.88%	7.88%	7.88%
Current Share Price	\$ 35.04	\$ 38.93	\$ 42.83
Implied 1 Year Return	0.37%	11.52%	22.67%

## Commentary

- We believe the Dollarama's EV/EBITDA Multiple will increase to 16.00x
- This base Multiple forecasts a share price of \$42.73, which will give Dollarama a 22.4% upside from their current Share Price
- A base case of 20x for P/E is also very conservative, providing us with 11.52% upside

# Discounted Cash Flow Analysis

**DOLLARAMA**

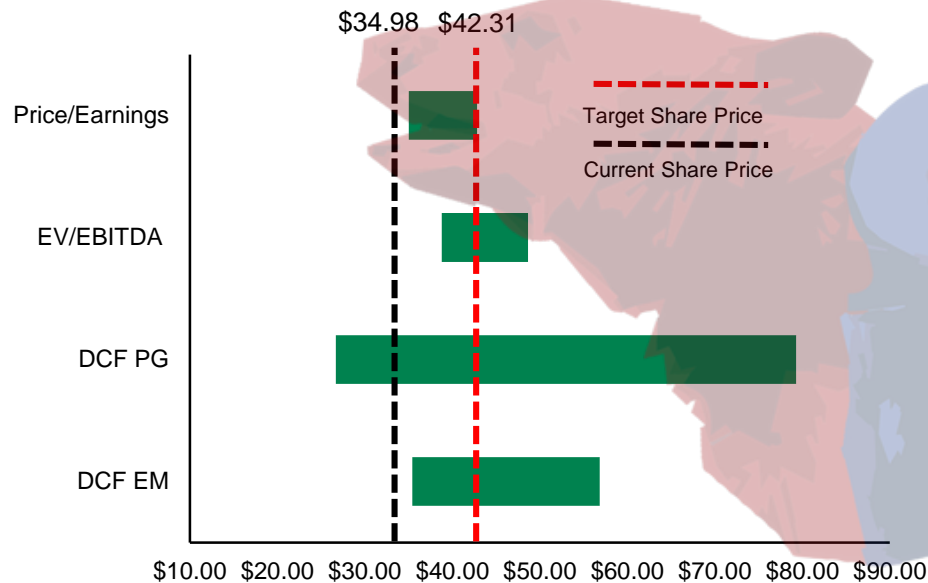


Dollarama												
Discounted Cash Flow Analysis (Millions of Dollars)												
Calculation of FCFE												
Units	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Scenario												
Revenue	\$2,065	\$2,331	\$2,650	\$2,963	\$3,266	\$3,534	\$3,872	\$4,234	\$4,522	\$4,816	\$5,117	\$5,428
% Growth	97.5%	12.9%	13.7%	11.8%	10.2%	8.2%	9.6%	9.3%	6.8%	6.5%	6.2%	6.1%
Cost of Goods Sold (Excl. D&A)	1,311.0	1,484.9	1,693.1	1,847.7	1,960.8	2,120.2	2,323.4	2,540.4	2,758.1	2,986.1	3,223.7	3,419.6
Gross Profit	753.7	845.9	957.2	1,115.5	1,305.3	1,413.5	1,549.0	1,693.6	1,763.4	1,830.2	1,893.3	2,008.3
% Margin	36.5%	36.3%	36.1%	37.6%	40.0%	40.0%	40.0%	40.0%	39.0%	38.0%	37.0%	37.0%
Selling, General & Administrative	363.2	398.7	435.8	458.0	474.8	510.0	542.0	581.0	617.0	640.4	662.5	702.7
EBITDA	391	447	521	657	830	903	1,007	1,113	1,146	1,190	1,231	1,306
% Margin	18.9%	19.2%	19.7%	22.2%	25.4%	25.6%	26.0%	26.3%	25.4%	24.7%	24.1%	24.1%
Depreciation & Amortization	48.4	38.9	48.7	57.7	71.0	78.0	86.0	93.0	95.8	99.5	102.9	109.1
EBIT	342	408	473	600	759	825	921	1,020	1,051	1,090	1,128	1,196
% Margin	16.6%	17.5%	17.8%	20.2%	23.3%	23.4%	23.8%	24.1%	23.2%	22.6%	22.0%	22.0%
Income Taxes	92.7	107.2	142.8	166.8	196.3	224.5	250.5	277.3	285.7	296.6	306.8	325.4
EBIAT	249	301	330	433	563	601	670	742	765	794	821	871
Free Cash Flow Adjustments:												
Plus: Depreciation & Amortization	48.4	38.9	48.7	57.7	71.0	78.0	86.0	93.0	95.8	99.5	102.9	109.1
Less: Capital Expenditures	(107.4)	(84.9)	(94.4)	(166.2)	(131.9)	(180.0)	(117.0)	(115.0)	(115.0)	(115.0)	(110.0)	(110.0)
Less: Increase in NWC						(466)	(74)	(25)	(133)	(67)	33	(117)
Free Cash Flow to Firm						\$392.9	\$799.4	\$925.1	\$842.9	\$941.5	\$1,067.2	\$973.3
Weighted Average Cost of Capital	7.88%											
Discount Period						1.0	2.0	3.0	4.0	5.0	6.0	7.0
Discount Factor						0.93	0.86	0.80	0.74	0.68	0.63	0.59
Present Value of FCFs						\$364.2	\$686.9	\$736.8	\$622.3	\$644.3	\$677.1	\$572.4

Exit Multiple Method	
Enterprise Value	\$15,821.0
Less: Total Debt	\$1,660.5
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$55.0
Implied Equity Value	\$14,215.5
Shares Outstanding	314.7
Implied Share Price	\$45.17

Perpetuity Growth Method	
Enterprise Value	\$14,040.2
Less: Total Debt	\$1,660.5
Less: Preferred Securities	\$0.0
Less: Non-Controlling Interest	\$0.0
Plus: Cash & Equivalents	\$55.0
Implied Equity Value	\$12,434.7
Shares Outstanding	314.7
Implied Share Price	\$39.51

## Valuation Summary



## Sensitivity Analysis: DCF

Implied Share Price		Exit Multiple				
		13.0x	14.0x	15.0x	16.0x	17.0x
WACC	9.9%	\$35.42	\$37.56	\$39.70	\$41.85	\$43.99
	8.9%	\$37.74	\$40.03	\$42.31	\$44.59	\$46.87
	7.9%	\$40.23	\$42.67	\$45.10	\$47.54	\$49.97
	6.9%	\$42.90	\$45.50	\$48.10	\$50.70	\$53.30
	5.9%	\$45.77	\$48.54	\$51.32	\$54.09	\$56.87

Implied Share Price		Long Term FCF Growth Rate				
		2.1%	2.3%	2.5%	2.7%	2.9%
WACC	9.9%	\$28.15	\$28.69	\$29.27	\$29.87	\$30.51
	8.9%	\$33.23	\$33.99	\$34.80	\$35.67	\$36.59
	7.9%	\$40.06	\$41.19	\$42.40	\$43.70	\$45.12
	6.9%	\$49.75	\$51.52	\$53.46	\$55.58	\$57.92
	5.9%	\$64.56	\$67.63	\$71.06	\$74.92	\$79.30

## Return Analysis

### Target Return

Current Share Price	\$ 34.91
Target Share Price	\$ 42.31
Equity Upside	21.20%

12 Month Return	21.20%
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# Appendix I: SSSG & Revenue Forecast

**DOLLARAMA**

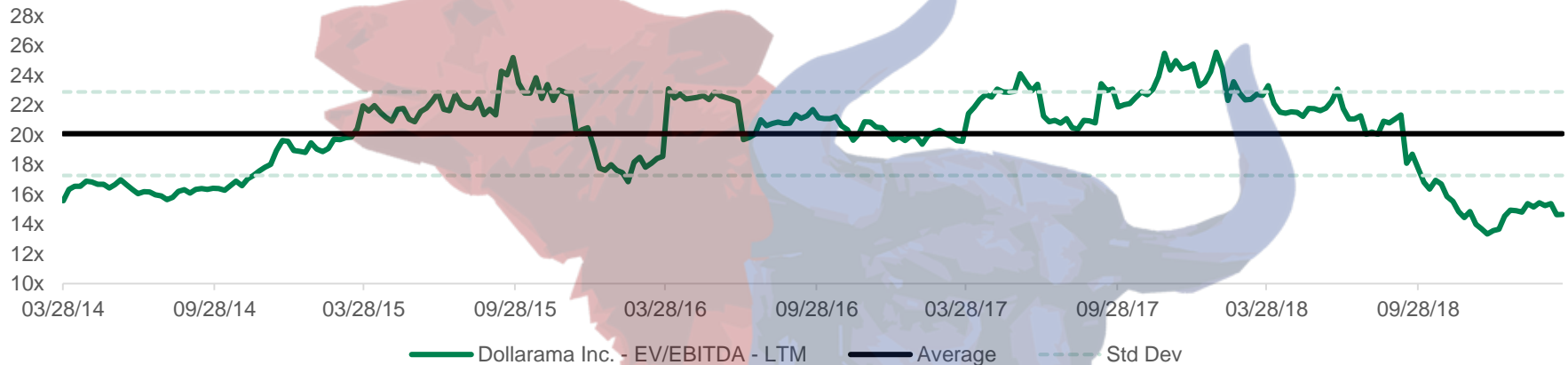


	Historical				Projection Period								
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
1 year old store	81	75	65	65	70	65	65	60	60	60	55	55	50
2 year old store	89	81	75	65	65	70	65	65	60	60	60	55	55
Mature Stores	795	874	955	1030	1095	1160	1230	1295	1360	1420	1480	1540	1595
<b>Total</b>	<b>965</b>	<b>1030</b>	<b>1095</b>	<b>1160</b>	<b>1230</b>	<b>1295</b>	<b>1360</b>	<b>1420</b>	<b>1480</b>	<b>1540</b>	<b>1595</b>	<b>1650</b>	<b>1700</b>
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
<b>2 years in Revenue</b>	2.10	2.10	2.30	2.30	2.35	2.39	2.44	2.49	2.54	2.59	2.64	2.69	2.75
<b>1 year in estimate</b>	1.68	1.68	1.84	1.84	1.88	1.91	1.95	1.99	2.03	2.07	2.11	2.16	2.20
Mature rev/store	2.53	2.69	2.80	2.91	2.97	3.09	3.21	3.27	3.34	3.41	3.47	3.54	3.62
SSSG Mature		7%	4%	4%	2.0%	4.0%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
SSSG 1-2	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
SSSG Weighted Average		8%	5%	5%	3%	5%	5%	3%	3%	3%	3%	3%	3%
<b>Total Revenues</b>													
<b>1 year old stores</b>	136.08	126.00	119.60	119.60	131.38	124.43	126.92	119.50	121.89	124.33	116.25	118.57	109.95
<b>2 year old stores</b>	186.90	170.10	172.50	149.50	152.49	167.50	158.65	161.82	152.36	155.41	158.52	148.21	151.18
<b>Matures</b>	2007.82	2353.90	2670.90	2997.00	3249.85	3580.48	3948.40	4240.20	4542.09	4837.32	5142.55	5458.06	5766.05
<b>Total Revenues</b>	<b>2330.80</b>	<b>2650.00</b>	<b>2963.00</b>	<b>3266.10</b>	<b>3533.72</b>	<b>3872.41</b>	<b>4233.97</b>	<b>4521.52</b>	<b>4816.34</b>	<b>5117.06</b>	<b>5417.32</b>	<b>5724.84</b>	<b>6027.17</b>

UTM CAPITAL  
Management

## Appendix II: Historical Trading Average

EV/EBITDA



P/E

