

DOLLARAMA INC.

Price: March 27 \$70.22
52-Week Range: \$71.00-\$41.96
Shares O/S: 129.57 million
Market Cap: \$9.1 billion
Average Share Volume
 50-day: 306,200
 200-day: 311,000
Year-End: January 31
Symbol: TSX: DOL
Website: www.dollarama.com

Financial Data

<u>FY as at Jan. 31</u>	<u>2014A</u>	<u>2015A</u>	<u>2016E</u>
Revenue (M)	\$2,065	\$2,331	\$2,650
EBITDA (M)	\$402	\$461	\$525
EBITDA Margin	19.5%	19.8%	19.8%
Net Income (M)	\$250	\$295	\$340
Net Margin	12.1%	12.7%	12.8%
EPS	\$1.74	\$2.21	\$2.60

eResearch Analysts:

Bob Weir, B.Sc., B.Comm., CFA

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Source: www.bigcharts.com

PROFILE

Dollarama Inc. is Canada's leading deep-discount general merchandiser, operating close to 1,000 stores across the country.

CORPORATE STRENGTHS

- Recognized as Canada's top low-cost general retailer.
- The only deep-discount general merchandiser operating across Canada in every province.
- Corporate-managed; not franchised.
- Continues to expand aggressively with new store openings.
- Company has more than 5 times the number of stores as its nearest competitor.
- Convenient and accessible store locations.
- Strong balance sheet.
- Generates high gross margins and strong net profitability.
- Substantial free cash flow is available to finance growth initiatives, buy back shares, and increase dividends.
- Good trading liquidity: large number of shares traded daily; market capitalization = \$9.1 billion.
- Significant institutional share ownership.

COMMENT: *The Company should continue to experience above-average growth and perform solid execution of its operating strategies. Its predictable model and performance support the Company's high, but increasing, valuation. The shares of Dollarama should be considered as a core holding for those investors wanting exposure to the Canadian consumer landscape.*

THE COMPANY

Dollarama is Canada's leading dollar-store operator. The Company has 955 locations across the country. Its stores provide customers with compelling value in convenient locations, including metropolitan areas, mid-sized cities, and small towns.

Dollarama's goal is to provide its customers with a consistent shopping experience by offering a broad assortment of everyday consumer products, general merchandise, and seasonal items. Its quality merchandise is sold in individual or multiple units at select fixed price-points up to \$3.00.

In its latest operating year, fiscal 2015, its revenue mix was: (1) 49% general merchandise; (2) 37% consumables; and (3) 14% seasonal items. The average transaction size increased 4.2%, and the total number of transactions increased by 1.4%.

For the twelve months of Fiscal 2015 (ended February 1, 2015), 68% of sales were for items greater than \$1.00, compared to 61% in the previous year.

NUMBER OF STORES

Year (Jan.31)	Number of Stores	Average Sq.Ft.
2011A	652	9,874
2012A	704	9,905
2013A	785	9,942
2014A	874	9,918
2015A	955	9,913
2016E	1,030	9,910

DIVIDEND INCREASED

On March 25, 2015, the Company announced an increase of 12.5%, from \$0.08 per share to \$0.09 per share, in its quarterly cash dividend for common shareholders. This dividend will be paid on May 7, 2015 to shareholders of record at the close of business on April 29, 2015. The current dividend yield is approximately 0.5%. This is not a high-yielding stock, as management prefers to reinvest cash flow back into the business.

RECENT EARNINGS NEWS

Dollarama has just reported its financial results, for its fiscal year that ended on February 1, 2015 (FullYear/FY2015 and Q4/FY2015).

Latest Quarter: Q4/FY2015 Compared to Q4/FY2014

- Comparable store sales grew 8.5% in the fourth quarter of Fiscal 2015;
- Sales increased by 14.9% to \$669.1 million;
- Gross margin was 38.8% of sales compared to 38.4% of sales;
- EBITDA grew 15.8% to \$151.3 million, or 22.6% of sales;
- Operating income grew 19.8% to \$140.9 million, or 21.1% of sales; and
- Diluted net earnings per share increased by 28.8%, from \$0.59 to \$0.76.

In addition, during Q4/FY2015, the Company opened 27 net new stores for a total of 81 net new stores opened over the past fiscal year (since February 2, 2014).

Full Year: Fiscal 2015 Compared to Fiscal 2014

- Comparable store sales grew 5.7%;
- Sales increased by 12.9% to \$2,330.8 million;
- Gross margin was 36.9% of sales compared to 37.1% of sales;
- EBITDA grew 14.5% to \$460.9 million, or 19.8% of sales;
- Operating income grew 19.2% to \$422.6 million, or 18.1% of sales; and
- Diluted net earnings per share increased by 27.0%, from \$1.74 to \$2.21.

Dollarama has increased its target for the total number of stores it expects to operate in Canada to 1,400 from 1,200. For the current fiscal year, the Company intends to open between 70-80 stores. Over the medium term (3-5 years), Dollarama expects to open, on average, about 60 new stores annually.

FINANCIALS

<u>Year</u> <u>(Jan.31)</u>	<u>Revenue</u> <u>(\$ million)</u>	<u>EBITDA</u> <u>(\$ million)</u>	<u>EBITDA</u> <u>Margin</u>	<u>Earnings</u> <u>(\$ million)</u>	<u>Net</u> <u>Margin</u>	<u>EPS</u> <u>(\$)</u>
2011A	\$1,420	\$234	16.5%	\$123.5	8.7%	\$1.64
2012A	\$1,603	\$295	18.4%	\$173.5	10.8%	\$2.29
2013A	\$1,859	\$360	19.4%	\$224.5	12.1%	\$1.50
2014A	\$2,065	\$402	19.5%	\$250.1	12.1%	\$1.74
2015A	\$2,331	\$461	19.8%	\$295.4	12.7%	\$2.21
2016E	\$2,650	\$525	19.8%	\$340.0	12.8%	\$2.60

INVESTMENT CONSIDERATIONS

Strengths

- Dominant deep-discount dollar-store operator in Canada
- Only national dollar-store operator
- Competition currently weak
- Strong position in leading markets
- Moving into secondary and tertiary markets where big-box retailers are unlikely to follow
- Excellent financial strength

Challenges

- Could reach store saturation point within a few years
- Main competitor, Dollar Tree, intends eventually to operate 1,000 stores in Canada
- Best markets may already be taken, and growth in secondary and tertiary markets may not emulate
- The shares sell at a high price-earnings (P/E) multiple and vulnerable to any negative earnings surprise
- As a growth stock, the shares have a small yield, making them unsuitable for investors requiring income

MANAGEMENT & DIRECTORS**Management**

Larry Rossy, Chair of the Board of Directors, and Chief Executive Officer (CEO)

Larry Rossy has been a retailer since 1965 and is the founder of Dollarama. In 1992, Mr. Rossy made the strategic decision to convert the company to the “dollar store” concept. Since that time, Mr. Rossy’s principal focus has been on the expansion of the Dollarama retail network. In addition to overseeing the organization, Mr. Rossy is directly responsible for new store development and site selection. He received a Bachelor of Arts from McGill University.

Michael Ross, Chief Financial Officer (CFO)

Stephanie Gonthier, Chief Operating Officer (COO)

Neil Rossy, Chief Merchandising Officer (CMO)

Geoffrey Robillard, Senior Vice-President

John Assaly, Vice-President

Directors

Larry Rossy
Neil Rossy

Joshua Bekenstein
Richard Roy

Gregory David
John Swidler

Stephen Gunn
Huw Thomas

Nicholas Nomicos

CORPORATE LOGO

eRESEARCH CORPORATION**eResearch Analyst on this report:**

Bob Weir, B.Sc., B.Comm., CFA

Analyst Affirmation: I, Bob Weir, hereby state that, at the time of issuance of this report, I do not own, directly or indirectly, shares of Dollarama Inc.

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