

Dollarama announces strong second quarter results

Written by Australian Business

MONTREAL, Sept. 11, 2013 /PRNewswire/ - Dollarama Inc. (TSX: DOL) ("Dollarama" or the "Corporation") today reported an increase in sales and an improvement in net earnings for the second quarter ended August 4, 2013. The quarter was characterized by strong sales growth and solid comparable store sales growth.

Financial and Operating Highlights

(All comparative figures below and in the "Financial Results" section that follows, are for the second quarter ended August 4, 2013 compared to the second quarter ended July 29, 2012. All financial information presented in this news release has been prepared in accordance with generally accepted accounting principles in

Canada

("GAAP") as set out in the Handbook of the Canadian Institute of Chartered Accountants - Part 1 which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Throughout this news release, EBITDA, which is referred to as the "Non-GAAP Measure", is used to provide a better understanding of the Corporation's financial results. For a full explanation of the Corporation's use of the Non-GAAP Measure, please refer to footnote 1 of the "Selected Consolidated Financial Information" section of this news release.)

Throughout this news release, all references to "Fiscal 2013" are to the Corporation's fiscal year ended February 3, 2013 and to "Fiscal 2014" are to the Corporation's fiscal year ending February 2, 2014

Compared to the second quarter of Fiscal 2013

- Sales increased by 16.0% to \$511.3 million;

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- Comparable store sales grew 6.2%;
- EBITDA grew 17.3% to \$95.7 million, or 18.7% of sales;
- Operating income grew 17.1% to \$84.4 million, or 16.5% of sales; and
- Diluted net earnings per share increased by 24.2%, from \$0.66 to \$0.82.

In addition, 93 net new stores were opened over the past 12 months, including 22 net new stores during the second quarter of Fiscal 2014, bringing the total number of stores to 828 as at August 4, 2013.

The acceleration of net new store openings over the past 12 months to 93 net new stores compared to 55 during the prior comparable period had a temporary cost impact in the second quarter of approximately 0.20% on gross margin due to costs associated with new store openings. This cost impact is expected to decrease over the next two quarters.

"We are very satisfied with the financial and operating results being reported for our second quarter. These results demonstrate the growth of our business through our store expansion across Canada, the success of our merchandising strategy and our team's ability to execute on our operating plans," stated Larry Rossy, Chairman and Chief Executive Officer of Dollarama.

Financial Results

Sales for the second quarter of Fiscal 2014 increased by 16.0% to \$511.3 million from \$441.0 million

in the corresponding period of the prior fiscal year. The increase was driven by the growth in the number of stores over the past twelve months from 735 stores on July 29, 2012

to 828 stores on August 4, 2013

, and continued organic sales growth driven by comparable store sales growth of 6.2% in the second quarter of Fiscal 2014, over and above comparable store sales growth of 7.3% in the second quarter of Fiscal 2013. Comparable store sales growth for the second quarter of Fiscal 2014 consisted of a 4.6% increase in average transaction size combined with a 1.5% increase in the number of transactions. In the quarter ended

August 4, 2013

, 62% of our sales originated from products priced higher than

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\$1.00

compared to 56% in the corresponding quarter last year. Debit card penetration also increased, as 41% of sales were paid with debit cards compared to 39% in the corresponding period of the previous fiscal year.

The gross margin stood at 36.6% of sales in the second quarter of Fiscal 2014, compared to 36.9% of sales in the second quarter of Fiscal 2013, mainly due to the fact that stable product margins were offset by additional occupancy and logistics costs associated with the increased pace of new store openings in the second quarter of Fiscal 2014. The cost impact associated with the acceleration of net new store openings is expected to decrease in the second half of Fiscal 2014.

General, administrative and store expenses ("SG&A expenses") for the second quarter of Fiscal 2014 decreased to 17.9% of sales, compared to 18.3% of sales in the corresponding period of Fiscal 2013. SG&A expenses in the second quarter of Fiscal 2014 stood at \$91.6 million, a

13.2% increase over

\$80.9 million

in the corresponding period of Fiscal 2013. The increase is due primarily to the opening of 93 net new stores over the past twelve months. The Corporation's ongoing productivity initiatives are expected to result in a slight improvement in our SG&A expenses as a percentage of sales for Fiscal 2014 when compared to Fiscal 2013.

Net financing costs decreased by \$0.3 million, from \$2.6 million for the second quarter of Fiscal 2013 to \$2.3 million for the second quarter of Fiscal 2014. This decrease is attributed to lower interest rates on the long-term debt and lower financing costs compared to the second quarter of Fiscal 2013.

For the second quarter of Fiscal 2014, net earnings increased to \$59.8 million, or \$0.82 per diluted share, compared to

\$49.8 million

, or

\$0.66

per diluted share, for the corresponding period of Fiscal 2013.

Dividend

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On September 11, 2013, the Corporation's Board of Directors announced that it had approved a quarterly dividend for holders of its common shares of \$0.14 per common share. The Corporation's quarterly dividend will be paid on November 5, 2013 to shareholders of record at the close of business on October 2, 2013 and is designated as an "eligible dividend" for Canadian tax purposes.

Normal Course Issuer Bid

On June 12, 2013, the Corporation received approval from the Toronto Stock Exchange to renew its normal course issuer bid ("NCIB") to purchase, for cancellation, up to 3,364,523 common shares, or 5% of the public float of 67,290,467 common shares as at May 31, 2013, during the period from June 17, 2013 to June 16, 2014.

Total common shares repurchased during the period from June 17, 2013 to August 4, 2013 amounted to 1,561,247 common shares for a total cash consideration of \$115.3 million. As at August 4, 2013, all common shares repurchased under the NCIB had been cancelled, except for 156,800 common shares, which were held in treasury to be cancelled.

Following the end of the quarter, the Corporation continued to repurchase shares under the NCIB pursuant to an automatic purchase plan. As at September 10, 2013, an additional 657,871 common shares had been repurchased, for a total of 2,219,118 common shares repurchased since June 17, 2013 for a total consideration of \$165.0 million.

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"We believe we have a balanced approach to enhance shareholder value, which includes ongoing growth of the core business, quarterly dividends and share buybacks," stated Michael Ross, Chief Financial Officer and Secretary of Dollarama.

About Dollarama

Dollarama is Canada's leading dollar store operator with 828 locations across the country. Our stores provide customers with compelling value in convenient locations, including metropolitan areas, mid-sized cities and small towns. Dollarama aims to provide customers with a consistent shopping experience, offering a broad assortment of everyday consumer products, general merchandise and seasonal items. Products are currently sold in individual or multiple units at select fixed price points up to \$3.00.

Forward-Looking Statements

Certain statements in this news release about our current and future plans, expectations and intentions, results, levels of activity, performance, goals or achievements or any other future events or developments constitute forward-looking statements. The words "may", "will", "would", "should", "could", "expects", "plans", "intends", "trends", "indications", "anticipates", "believes", "estimates", "predicts", "likely" or "potential" or the negative or other variations of these words or other comparable words or phrases, are intended to identify forward-looking statements. Forward-looking statements are based on information currently available to us and on estimates and assumptions made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we believe are appropriate and reasonable in the circumstances, but there can be no assurance that such estimates and assumptions will prove to be correct. Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, which are discussed in greater detail in the "Risks and Uncertainties" section of the Corporation's management's discussion and analysis (MD&A) for Fiscal 2013 and in its continuous disclosure filings (available on SEDAR at www.sedar.com): future increases in operating and merchandise costs, inability to sustain assortment and replenishment of our merchandise, increase in the cost or a disruption in the flow of imported goods, disruption of distribution infrastructure, inventory shrinkage, inability to renew store, warehouse, distribution center and head office leases on favourable terms, inability to increase our warehouse and distribution center capacity in a timely manner, seasonality, market acceptance of our private brands, failure to protect trademarks and other

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proprietary rights, foreign exchange rate fluctuations, potential losses associated with using derivative financial instruments, level of indebtedness and inability to generate sufficient cash to service our debt, interest rate risk associated with variable rate indebtedness, competition in the retail industry, current economic conditions, failure to attract and retain qualified employees, departure of senior executives, disruption in information technology systems, unsuccessful execution of our growth strategy, holding company structure, adverse weather, natural disasters and geo-political events, unexpected costs associated with our current insurance program, litigation, product liability claims and product recalls, and environmental and regulatory compliance.

These factors are not intended to represent a complete list of the factors that could affect us; however, they should be considered carefully. The purpose of the forward-looking statements is to provide the reader with a description of management's expectations regarding the Corporation's financial performance and may not be appropriate for other purposes; readers should not place undue reliance on forward-looking statements made herein. Furthermore, unless otherwise stated, the forward-looking statements contained in this news release are made as of September 11, 2013, and we have no intention and undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. The forward-looking statements contained in this news release are expressly qualified by this cautionary statement.

Selected Consolidated Financial Information

	13-Week Periods Ended August 4, 2013	26-Week Periods Ended August 4, 2013
	\$	\$
Earnings Data		
Sales	511,322	440,979
Cost of sales	324,036	278,468
Gross profit	187,286	162,511
SG&A expenses	91,611	80,919
Depreciation and amortization	11,290	9,512
Operating income	84,385	72,080
Net financing costs	2,297	2,621
Earnings before income taxes	82,088	64,459
Provision for income taxes	22,319	19,668
Net earnings	59,769	49,791
Basic net earnings per common share	\$0.82	\$0.67
Diluted net earnings per common share	\$0.82	\$0.66

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Weighted average number of common shares outstanding during the period:

Basic	72,718	73,814
Diluted	72,903	75,831

Other Data

Year-over-year sales growth	16.0%	13.8%
Comparable store sales ⁽²⁾ growth		6.2%
Gross margin ⁽³⁾		36.6%
SG&A expenses as a % ⁽³⁾ of sales		17.9%
EBITDA ⁽¹⁾		95,675
Operating margin ⁽³⁾		16.5%
Capital expenditures	29,902	18,305
Number of stores ⁽⁴⁾		828
Average store size (gross square feet) ⁽⁴⁾		9,927
Declared dividends per common share	\$0.14	\$0.11

As at

Statement of Financial Position Data

Cash and cash equivalents

Merchandise inventories

Property and equipment

Total assets

Total debt⁽⁵⁾

Net debt⁽⁶⁾

⁽¹⁾ In this press release EBITDA is referred to as the "Non-GAAP measure". EBITDA represents operating income plus depreciation and amortization. Non-GAAP measures are not generally accepted measures under GAAP and do not have a standardized meaning under GAAP. The Non-GAAP measure, as calculated by the Corporation, may not be comparable to those of other issuers and should be considered as a supplement to, not a substitute for, or superior to, the comparable measures calculated in accordance with GAAP.

We have included the Non-GAAP measure to provide investors with supplemental measures of our operating and financial performance. We believe that Non-GAAP measures are important supplemental metrics of operating and financial performance because they eliminate items that have less bearing on our operating and financial performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on GAAP measures. We also believe that securities analysts, investors and other interested parties frequently use non-GAAP measures in the evaluation of issuers, many of which present non-GAAP measures when reporting their results. Our management also uses the Non-GAAP measure in order to facilitate operating and financial performance comparisons from period to period, to prepare annual budgets, and to assess our ability to meet our future debt service, capital expenditure and working capital requirements.

13-Week Periods Ended

26-Week Periods Ended

(dollars in thousands)

August 4,

2013

\$

\$

A reconciliation of operating income to EBITDA is included below:

Operating income	84,385	72,080
Add: Depreciation and amortization	11,290	9,512

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EBITDA	95,675	81,592
<i>EBITDA margin</i>	⁽²⁾	18.7%

⁽²⁾ Comparable store sales represents sales of stores, including relocated and expanded stores, open for at least 13 complete fiscal months relative to the same period in the prior year. ⁽³⁾ Gross margin represents gross profit divided by sales. SG&A as a % of sales represents SG&A divided by sales. Operating margin represents operating income divided by sales. EBITDA margin represents EBITDA divided by sales. ⁽⁴⁾ At the end of the period. ⁽⁵⁾

Total debt is comprised of long-term debt and other bank indebtedness before debt issue costs and discounts.

⁽⁶⁾

Net debt is defined as total debt minus cash and cash equivalents.

SOURCE Dollarama Inc.