Quality Convictions – Dollarama

Inclusion in the International Equity Strategy

Key takeaways

- *Dollarama has evolved from a regional, single-price retailer to a national and international discount chain, leveraging operational efficiency, direct sourcing, and a capital-efficient model to deliver everyday value and higher-than-average returns.*
- *Recent acquisitions in LATAM and Australia have broadened the geographic platform as management continue to execute its time-tested playbook, in Canada and abroad.*
- *Looking forward, there is attractive upside in further reinforcing the Canadian franchise all while further deepening its existing international footprint in the Americas and Australia.*

Small Tickets, Big Rewards – the Economics of Everyday Frugality

Over the past decade, the global consumer landscape has quietly tilted toward what we might call 'frugal abundance' – households that still aspire to variety and convenience, but whose purchasing decisions are increasingly filtered through inflation, wage uncertainty, and heightened awareness of overconsumption. This trend accelerated following the pandemic, as the K-shaped economy brought value-focused retailers into the spotlight, changing not just what people buy, but also how brands compete for space on store shelves.

Discount variety chains occupy a distinctive niche in this ecosystem. They straddle multiple categories – consumables, seasonal goods, household basics, discretionary impulse – and translate cost savings from sourcing, format simplicity, and tight labour models into everyday price points that feel insulated from volatility. For budget-conscious shoppers, these stores are not a temporary refuge in downturns; they become a standing part of the weekly routine, a structural rerouting of spend toward perceived value. As these consumers navigate higher rents, rising interest costs, and lingering macro uncertainty, the ability to stretch a basket across more items at a fixed spend becomes a powerful behavioural anchor. The result is a segment that can grow volumes even as broader retail commentary oscillates between cyclical gloom and relief.

The Genesis of a Compounder

Dollarama's roots date back to 1910, when the Rossy family opened the first S. Rossy Inc. department store in Montreal, Quebec. Over the following decades, the business evolved into a network of variety stores, reaching 44 locations by the early 1990s.

In 1992, under Larry Rossy's leadership, the company made a defining strategic shift. Rossy converted one Quebec store into the first Dollarama, built on a strict single-price model with all items priced at C$1.00 or less. The concept's rapid success led to the swift conversion of the remaining variety stores to the Dollarama banner.

This pivot transformed a regional family operation into a modern national retailer. By 1994, Dollarama had expanded into Ontario and, by 2004, had grown to nearly 350 stores across six provinces. That same year, Bain Capital acquired a majority stake, providing capital to accelerate expansion and paving the way for Dollarama's successful 2009 IPO on the Toronto Stock Exchange.

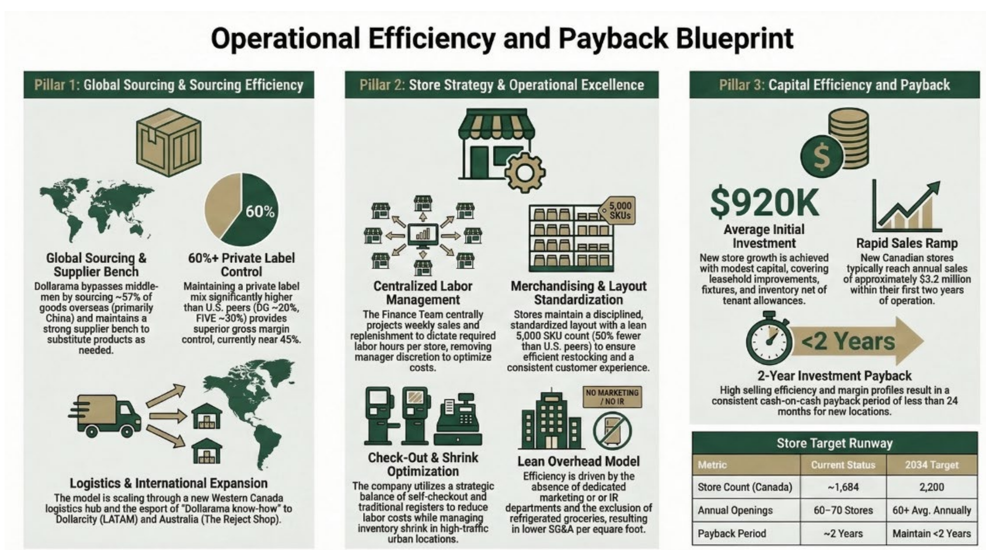
Dollarama's Architecture of Everyday Value

Dollarama today is far removed from the single-price 'dollar store' imagery its name evokes. It spans multiple value offerings across general merchandising, consumables as well as seasonal items. As such, the banner straddles multiple conventional channels such as variety stores, food and home improvement retailers.

Sources: Dollarama, FY 2025.

Dollarama's supply-chain and sourcing model keeps costs low through direct sourcing and ongoing upgrades to its domestic logistics network. About 48% of procurement is imported from China and over 25 other countries, while 52% comes from North American vendors. More than 60% of SKUs are private label or unbranded, giving Dollarama flexibility on specifications, packaging, targeted margins, and, most importantly, significant bargaining power in price negotiations with national brands.

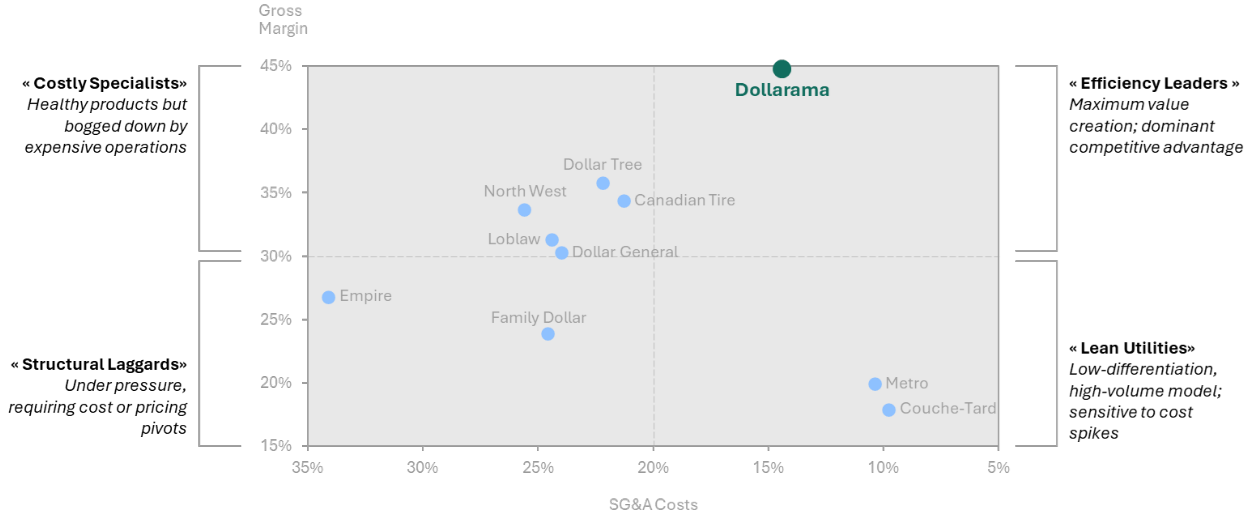
The company currently operates a centralized logistics network in Montreal and is investing up to CAD 500M in a new Calgary hub to support its goal of 2,200 Canadian stores by 2034. The dual-node system, expected in late 2027, should improve warehousing efficiency, risk mitigation, and long-term costs.



Operational efficiency extends to store strategy: larger, standardized ~10,500 sq. ft. stores with optimized labor hours determined centrally by the Finance team. Flexible "zonograms" improve restocking and layout efficiency. Over 1,600 stores now use straight-line queue designs to boost impulse sales, and self-checkout is available in roughly 20% of high-traffic locations. Despite averaging 17 employees per store (vs. 8–13 for U.S. peers) to ensure shelves are fully stocked, Dollarama maintains lower SG&A (as a % of sales) than most of its competitors in part due to its lean corporate structure. This capital-efficient model produces higher ROICs: a new store costs about C$920K to open and typically reaches C$3.2M in annual sales within two years, resulting in a ~2-year cash-on-cash payback.

Dollarama occupies a “best-in-class” position that is increasingly rare in the retail sector. As a dominant value retailer, it has generally operated in the high-margin/high-efficiency quadrant, supported by a direct-sourcing model that can bypass intermediaries and has contributed to gross margins that have typically been in the mid-40% range in recent years.

Gross profitability versus overhead costs
(As a % of revenues, Dollarama vs relevant Canadian & US competitors)



Sources: PineStone Asset Management, FactSet. Data from most recent full fiscal year reporting (except Dollar Tree /Family Dollar, which are from previous reporting period), as of March 10, 2026.

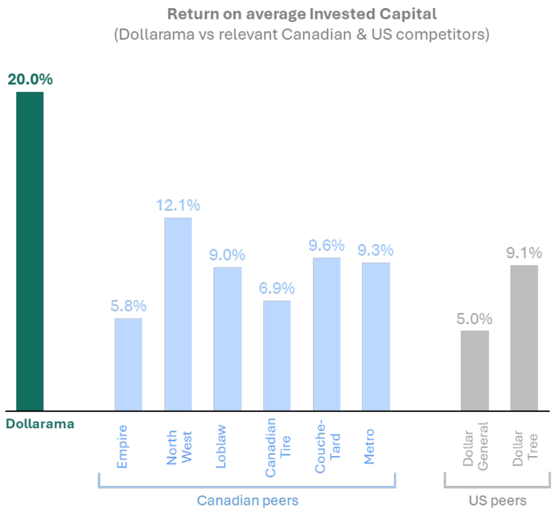
Its positioning is defined by three key pillars:

- Pricing Power: Unlike single-price-point stores, its multi-price strategy (up to C$5.00+) allows it to help offset inflationary pressures while maintaining its “value” perception.
- Operational Leanness: With SG&A expenses tightly managed at approximately 14% to 15% of sales, it operates more efficiently than most North American peers.
- Market Proximity: With over 1,600 stores and a target of 2,200 by 2034, it leverages a "convenience-first" footprint where roughly 85% of Canadian households are within 10 km of a location, creating a defensive, recession-resistant moat.

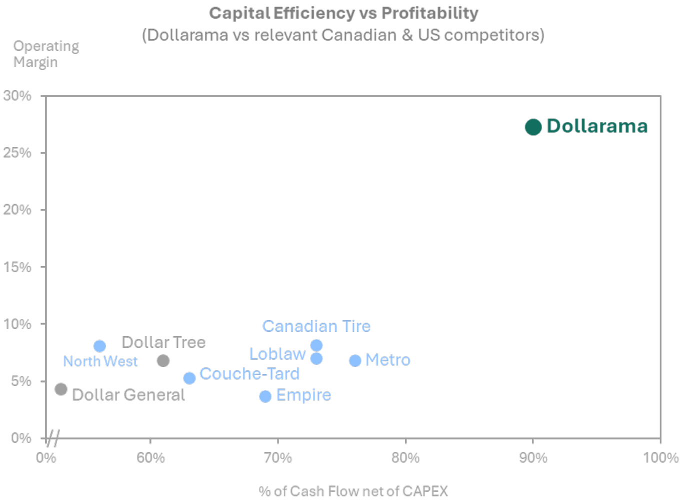
Why Now – Scaling the Platform Across Hemispheres

Management signals a continued focus on incrementally strengthening the core Canadian franchise first, ensuring Dollarama’s profitability and capital efficiency leadership and selectively extending the model to adjacent geographies where the demand for affordable general merchandise is under-served.

The scaling of Dollarama into a broader geographical platform will largely be driven by two vectors: its partnership with Dollarcity in Latin America and, more recently, its entry into Australia through the acquisition of The Reject Shop. In Latin America, Dollarcity has demonstrated that the merchandising and operational playbook can resonate beyond Canada, with strong sales traction and a runway for continued store openings across several markets. While the structure involves staged ownership and ongoing funding commitments, management views this as a long-term avenue for compounding store count and earnings, with potential for increased consolidation of the economics over time. Today, its 684 stores across LATAM are mainly driven by its exposure in Colombia while Mexico still represents a significant untapped potential, with only 1 store as of Q3-FY2026.



Sources: As of November 2, 2025 for Dollarama and at latest publicly available quarter end for peers on December 11, 2025. ROIC is calculated LTM EBIT(1-LTM Effective Tax Rate) / (Total debt + book value of equity).*



Sources: As of November 2, 2025 for Dollarama and at latest publicly available quarter end for peers on December 11, 2025. Operating Margin is calculated as Represents operating income divided by sales, expressed as a percentage of sales. For comparison, EBIT margin is used for peer data as Operating Margin. % of Cash Flow net of CAPEX is calculated as (EBITDA – CAPEX) / EBITDA.

The acquisition of The Reject Shop in Australia adds a new, geographically distant but strategically coherent leg to the story. The Reject Shop operates a national discount retail chain that, despite favorable category positioning, has seen long-term margin erosion, weak SKU density in some formats, and customer experiences that lag best-in-class benchmarks. Dollarama's intent is not to simply transplant its brand, but to gradually migrate The Reject Shop onto its operating platform – resetting merchandising, sharpening price architecture, and upgrading sourcing and inventory management to unlock the format's latent potential. This thesis enabled DOL to target 700 stores in Australia by 2034 versus the 401 stores as of Q3-FY2026.

This expansion is complemented by investments closer to home, such as the development of a West Coast logistics hub aimed at diversifying the supply chain footprint and reducing transportation costs on imported goods. Together, these initiatives suggest a deliberate progression: reinforce the Canadian engine, scale the proven Latin American partnership, and rehabilitate an under-earning Australian asset, all while upgrading the plumbing that ties sourcing and distribution together. The financial contribution of these newer legs is still modest relative to the core, but the strategic option value is significant.

A long-term investment in Dollarama highlights potential risks from expanding its domestic model internationally, including integration challenges with The Reject Shop and adaptation to new markets. In addition, uncertainties such as wage inflation, freight costs, regulatory scrutiny, competition from retailers and grocers, and online alternatives may also threaten pricing, margins, and market share if operations falter. Lastly, governance is key as the founding family holds a large stake and the long-tenured board maintains continuity, though close ties to past private equity remain. Real estate and cross-border structures in Latin America and Australia underscore the importance of transparency and robust oversight as the company grows.

While balancing these risks, Dollarama's compelling value proposition continues to lie in its ability to consistently deliver affordable, diverse merchandise through operational excellence and strategic expansion, making it a resilient and attractive investment in both domestic and international markets.

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