

PALOS

CONTENTS

Palos Weekly Commentary

Issue No. 27 | JULY 4 2019

Dollarama Goes to Latin America	1
Palos Funds vs. Benchmarks (Total Returns)	2
Disclaimer & Contacts	3

Palos Funds

*By Charles Marleau, CIM
& Joany Pagé, CFA*

Dollarama Goes to Latin America

On July 2nd, 2019, Dollarama (TSX: DOL) announced that they exercised their option to acquire 50.1% of Dollarcity. This acquisition will establish the next growth era for DOL. The purchase price is approximately US\$90M and is expected to close in August 2019. The transaction is immediately accretive to EPS. Dollarcity has lower margins, however I see this as an opportunity for DOL. The acquisition is priced at 5.0x EBITDA minus net debt. I'm of the opinion that the acquisition price is fair, especially considering that El Salvador, Guatemala and Colombia have high growth opportunities. At the moment, Dollarcity has 180 stores. I can easily see them expanding their store count by roughly 50 stores a year.

I believe the integration will be smooth as DOL has been involved with Dollarcity since 2013; 6 years of due diligence in the making. I see very little integration risk and can comfortably say that the due diligence process has been thorough.

This acquisition will act as a catalyst for growth in emerging markets. The impact will be quite significant as it will most likely lead to further growth in other Latin American countries. All in all, this acquisition is the beginning of something enormous as they rollout their new stores and seek new markets. As DOL continues to expand, it will gain an increasing amount of buying power, leading to higher margins overtime.

Disclaimer: Palos Funds are shareholders of DOL.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.51	12.90%
Palos Equity Income Fund - RRSP	PAL101	\$5.75	11.31%
Palos Merchant Fund L.P. (Dec 31, 2018) ²	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.55	6.73%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$9.63	2.41%
S&P TSX Composite (Total Return with dividends reinvested)			17.57%
S&P 500 (Total Return with dividends reinvested)			20.75%
S&P TSX Venture (Total Return with dividends reinvested)			5.34%
Chart 2: Market Data ¹			Value
US Government 10-Year			2.05%
Canadian Government 10-Year			1.50%
Crude Oil Spot			US \$59.38
Gold Spot			US \$1,415.40
US Gov't10-Year/Moody BAA Corp. Spread			236 bps
USD/CAD Exchange Rate Spot			US \$0.7618

¹ Period ending July 3, 2019. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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PALOS

1 Place Ville Marie, Suite 1670
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

www.palos.ca