



## Dollarama Earnings: 3 Insightful Comments

### Description

**Dollarama Inc. (TSX:DOL)** reported earnings for the first quarter of the fiscal year 2021. Dollarama earnings for the first quarter of the fiscal year ending March 31, 2020, will tell investors and analysts what to expect for the second quarter of the year.

The most crucial takeaway is that the effect of the COVID-19 health crisis on first-quarter earnings will likely be more muted than the second quarter. The second quarter of the year will bear the brunt of the effects of social distancing restrictions.

Still, slight changes in first-quarter costs and sales revenue will give you an idea of what to expect from Dollarama stock for the rest of the year.

If you currently own Dollarama stock, you should pay attention to these three insightful comments from the Dollarama conference call. For Canadian investors considering a purchase of Dollarama shares, this information will help you decide when to buy the stock.

## Dollarama quarterly sales increased by 2%

Dollarama President and CEO Neil Rossy commented on the effects of the pandemic on sales:

“Sales for the quarter were up 2% compared to the same period last year and comparable store sales growth, excluding temporarily closed stores, was a positive 0.7%. After a solid start to the quarter through February, we experienced a surge in traffic, in early March, as customers stocked up amid growing fears surrounding the spread of COVID-19.”

At the start of the [coronavirus pandemic](#), consumers increased purchases of household and cleaning products, health and hygiene essentials, and food products. Thus, in-stores sales did not decline even as customers stayed home and transitioned to online shopping.

## Dollarama earnings: a decline in gross margins

Dollarama CFO Michael Ross explained the decline in the gross margin during the first quarter of the fiscal year 2021:

“Gross margin was 41.3% of sales, down from 42.1% last year due to negative scaling effects of lower sales per store, higher sales of lower-margin consumable products and incremental direct cost related to COVID-19 measures implemented, which had a 10 basis points impact.”

Additional health and safety measures, as well as temporary wage increases, weighed on Dollarama’s gross margin. Luckily, the overall effects on the first quarter were only a 0.8% decline.

Nonetheless, the pandemic began at the very end of the first quarter. The effect on the second quarter’s gross margin is likely to be much stronger.

## Dollar City acquisition revalued due to Covid-19 crisis

CFO Michael Ross also discussed the impact of the COVID-19 crisis on the purchase price of the Dollar City acquisition:

“In the context of COVID-19 and its projected impact on Dollar City sales and operating results: we have adjusted the estimated purchase price from USD 92.7 million to USD 80.4 million. An upfront payment of USD 40 million was already made in August 2019.”

Dollarama shareholders will be happy to hear that Dollarama recently agreed to a revaluation of the Dollar City acquisition. The firm saved USD \$12.3 million on the purchase of the Dollar City chain comprising over 200 stores.

Dollarama paid USD \$40 million in August 2019. The firm will pay the remaining balance out of available free cash flow in the third quarter of fiscal 2021.

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