



PMG Investment Memo Guide

**ROTMAN
COMMERCE**
PORTFOLIO MANAGEMENT
GROUP

Overview

In this package we will go through some **common mistakes** that we have seen in PMG applications by using Canadian Tire as an example. Information with an asterisk(*) is provided for demonstration purposes so it might not be true. There is, however, a lot of information that is applicable to your Dollar Tree report. The end of the package outlines where you can find **resources** to begin your research.

6 Common Mistakes

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Company Overview

#1 common mistake is that applicants tend to think is that Company overview = mindless description from wikipedia. You should still touch upon the essentials, but more importantly you should tell us **WHAT DOES IT MEAN** in context.

e.g. Canadian Tire has 1700+ retail locations in Canada - Great, but what does it mean?

e.g. Canadian Tire has 1700+ retail locations in Canada, ~60% of Canadian Tire stores are concentrated in Ontario .

e.g. Canadian Tire has 1700+ retail locations in Canada, ~60% of Canadian Tire stores are concentrated in Ontario. Management believes the Ontario market is saturated, so they are opening new stores in other regions which could lead to lower revenue per store.* - Well thought out logic with some degree of in depth information.



Investment Thesis

A common mistake is being very vague and high-level on why the company will grow in the future. Another common mistake is focusing on the historic and numeric results of the company. You should instead be a fortune teller, and tell us what you think will happen to the company ten years down the line. Is it bad or good for the company?

e.g. CTC is a buy because CTC has been showing a decent amount of sales growth at 4.7% in 2018 and it will be higher in the future. - This is a bad example because it doesn't tell us why the sales grew in 2018, and what would happen in the future.



e.g. Although CTC's revenue growth is temporarily depressed due to the presence of amazon, once it builds up its e-commerce platform, Ontario customers will prefer to buy at CTC over any other company because of its unique product offering and omni channel distribution.* - This thesis could be right or wrong, but this is a better constructed thesis because it tells us your unique view on the future of CTC compared to other companies in the market.



Drivers

These should be events you think will bring the company closer to your investment thesis. Are there any specific events in the future that will potentially lead to value realization?

e.g. Population growth in Canada will lead to more people shopping at Canadian Tire.



e.g. CTC's ecommerce platform will launch in Q3 of 2020. This will drive more revenue as customers who were previously shopping on Amazon will realize the benefit of shopping on CTC's platform as it allows immediate store returns and exchanges.*



Management Analysis

You might not have the space to talk about management in a two page report, and you shouldn't if there is nothing outstanding, but here are two examples

e.g. Management has combined decades of experience in the industry and have been with the firm ranging for 2 to 23 years - Great, but management of all public companies have combined decades of experience.



e.g. Canadian Tire has a good management team because it has achieved consistent 20% return on invested capital for decades* - Good example because management achieved something that is measurable and impressive.



Valuation

You can either do a DCF model or use EV/EBITDA multiples to compare between different businesses. Valuation is technical so applicants tend to shut down their brain, and type in random numbers when they are not sure what to do. One trick is to imagine you are the treasurer and budgeting for the company, and your boss is going to fire you if you can't explain why you put in that number. So, the most important part is to justify your assumptions. If you put in a 20% growth rate for next year when the previous year was 4%, where is this extra growth coming from? Your DCF assumptions should be consistent with your thesis. If your thesis revolves around new store openings but your capex is decreasing this doesn't make sense (this means you are opening more stores, but you are spending less money???). If you're using multiples and your company is trading at a discount, explain potential reasons for this (Hint: difference in growth rates and margins should also be addressed).

e.g. Revenue is growing at 10% for the next 5 years and then drops off to 3%, margins stay at the historical average.



e.g. Revenue grows at 3% in the next year but then increases to 5% the following years as their ecommerce platform gains traction. Margins increase slightly as the online sales have a higher margin.



Risks

Majority of the risks are self-explanatory so your value-add is going to be **JUSTIFYING** your risk, tell us how to keep track of it and any potential mitigants.

e.g. It is difficult for Canadian Tire to find good locations because they already have 1700+ stores. - How do I know that is true?



e.g. It is difficult for Canadian Tire to find good locations because they already have 1700+ stores. There are less new stores opening each year, and each store is making less money. This risk is mitigated though as Canadian Tire can potentially expand in xyz region next, where it could be equally profitable as Ontario stores.



Resources

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Annual Reports



Read company's annual report



Can be found on Edgar (US listed) or Sedar (Canadian listed)



<https://www.sec.gov/edgar/searchedgar/companysearch.html>



https://www.sedar.com/issuers/issuers_en.htm



An annual report is long and intimidating, but the highlighted items are the ones you should be reading with 100% effort.

DOLLAR TREE, INC.
FORM 10-K
FOR THE FISCAL YEAR ENDED FEBRUARY 2, 2019
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Go through the paragraph to see what are the major income sources (i.e. how do they make more money), how does relevant metrics (i.e. Sales per square foot) change. This will be helpful for the "Driver" section in the memo.

Earnings Call Transcripts



Read the latest earnings call transcripts



Search on google and you can find earnings call transcripts



For example: search google: "Dollar Tree earnings calls"



This is the CEO and CFO etc doing a phone call, so trying to understand what the concerns and opportunities are for the future is a good way to understand a business.



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Investor Relations | Dollar Tree

To help put **Dollar Tree's** financial performance into perspective, our **Investor** ... of discount variety stores, will host its conference **call** for investors and analysts to ...

Day High: 88.65 Previous Close: 87.71

Day Low: 87.34 52-week High: 119.71

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Press Releases | Dollar Tree

Results 1 - 10 of 359 - (NASDAQ: DLTR), North America's leading operator of discount variety stores, will host its conference **call** for investors and analysts to discuss financial results for the fourth quarter ended February 1, 2020 . CHESAPEAKE, Va. --(BUSINESS WIRE)--Nov. 19, 2019-- **Dollar Tree**, Inc.

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Dollar Tree's FY2019 4th Quarter **Earnings** Conference **Call**. Click here for webcast. Previous Event. Previous Event. Nov 26, 2019 9:00 AM EST. **Dollar Tree's** ...

www.fool.com › earnings › call-transcripts › 2019/11/26 › dollar-tree... ▾

Dollar Tree Inc (DLTR) Q3 2019 Earnings Call Transcript | The ...

Nov 26, 2019 - On a segment basis, same-store sales for **Dollar Tree** increased 2.8% and Family **Dollar** increased 2.3%. Overall, gross profit was \$1.7 billion, compared to \$1.67 billion in the prior year's quarter. Gross margin was 29.7% of sales compared to 30.2% in Q3 of 2018.

Equity Research Reports



Use Investext to find equity research reports



<https://login.library.utoronto.ca/index.php?url=https://www.mergentonline.com/investextfullsearch.php#>



Equity research reports are reports about a company created by investment banks. They are good information sources, but you should note that they tend to be overly optimistic because they want to make their client (corporations) happy.

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