Proxy Alert: Dollarama Inc. (TSX: DOL) Shareholder Proposals

May 2023

The B.C. General Employees’ Union (BCGEU) has submitted two shareholder proposals to be considered at Dollarama Inc.’s 2023 annual general meeting of shareholders. This proxy memo provides supplementary information relevant to your consideration of the proposals, and this memo addresses Dollarama’s responses to the proposals.

The first proposal relates to Dollarama’s sustainability-linked loan (SLL), which it entered into July 2022, with RBC and CIBC acting as co-sustainability structuring agents. The second proposal concerns Dollarama’s use of third-party staffing agencies.

Shareholder Proposal No. 1 – Disclosure of SLL Targets

Since 2017, over $809 billion in sustainability linked financial instruments have been brought to market.1 Since January 2021, at least 45 Canadian public issuers have established sustainability linked loans (SLLs) and three have issued sustainability linked bonds (SLBs).

According to an April 2022 report from the Global Risk Institute (GRI), SLBs have gone from a marginal portion of total sustainable Canadian debt issued in 2020 to 5 per cent by the end of 2021. A report from S&P Global, the market for SLBs has grown seven-fold globally since 2020.2

In its response to the shareholder proposal, Dollarama reiterates its ESG commitments as disclosed in its June 2022 ESG report (ESG Report Commitments), namely:

(i) Reduce Scope 1 and Scope 2 GHG emissions intensity by 25% by 2030 (using a 2019 baseline), and

(ii) Maintain at least 40% female representation in management positions.

Dollarama has not disclosed the specific terms and targets for the sustainability performance targets (SPTs) in its SLL. Investors are left in the dark as to whether the terms of the ESG Report Commitments and the SLL SPTs are the same. Instead, Dollarama uses troublesome language in its April 2023 annual


information form, stating that the SLL SPTs “have been developed based on, and are generally consistent and conceptually aligned with” the ESG Report Commitments.

Investors are left to wonder why Dollarama is reluctant to disclose the terms of its SPTs.

- The GHG emissions commitment has a 2030 timeline, whereas the four tranches of its SLL will expire between 2023 and 2027. If the GHG emissions SPT has truly been structured utilizing the guidance of the Sustainability-Linked Loan Principles, Dollarama should have disclosed the timeline for achieving the GHG emissions reductions targets.

- Dollarama has not addressed the fact that its previous disclosure indicates it has already met the 40% female representation in its management target for the last two years. If the female representation SPT is truly ambitious, investors wonder why Dollarama states that it is “conceptually aligned” with a target level that has already been met.

There appears to be a disclosure chasm between Dollarama’s ESG Report Commitments and its SLL SPTs. This chasm can only be bridged through Dollarama making additional disclosures on the SLL SPTs to show why these SPTs are relevant, of high strategic significance and consistent with Dollarama’s overall ESG strategy.

A recent Globe and Mail article argues that SLBs are ripe for abuse. In an excerpt from the article, the author writes,

> in the short time that SLBs have been available, experts have discovered that targets are often set too low to make any environmental difference or change corporate behaviour. And if issuers fail to reach their targets, the penalty rates can still be less than the standard rates on comparable corporate bonds.³

In the case of Dollarama’s targets, it has already met one of its two targets two years in a row as previously noted.

A December 2021 Reuters analysis reviewing targets set by 48 SLBs globally found that nearly half included a target that allowed the borrower to improve at a slower rate than they had done previously. This means that a company “could issue an SLB, collect the money, achieve less environmental progress than it had in the past, and still meet its goals and avoid paying the penalty rates.”⁴

A final criticism of SLBs is that they can be issued by companies with plans to ignore their targets, and the company can call back the bonds before penalties can be applied.

BCGEU’s shareholder proposal could meaningfully address some of these concerns. Our proposal asks that Dollarama disclose in its next interim financial report the specific targets included in its SLL, together with additional information on why Dollarama believes such SPTs to be relevant, of high strategic significance and consistent with Dollarama’s overall ESG strategy.

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Shareholder Proposal No. 2: Third Party Staffing Agencies

Dollarama’s six warehouses (occupying over 1.7 million square feet) and its 500,000 square foot distribution centre support its long-term growth plans. The company relies entirely on third-party staffing agencies to hire and train warehouse and distribution centre workers. In 2022, Dollarama announced plans to open a seventh warehouse in Laval to increase its warehousing capacity. The new 500,000 sqft facility is expected to be operational by the end fiscal 2023.

Dollarama describes its use of staffing agencies as “integral to [its] business model in order to continuously maintain the significant staffing requirements of these un-automated operations”.

Shareholders have limited information on how staffing agency arrangements function or the costs and fees associated with such arrangements. Shareholders require more information to understand the benefits of using staffing agencies, and if the risks associated with their use are being managed.

Seasonality

Dollarama says that the use of staffing agencies is integral to its business model in order to continuously maintain its significant staffing requirements, which fluctuate throughout the year based on sales volumes. But other Canadian retailers face the same fluctuations, and none of the major Canadian retailers disclose using staffing agencies as Dollarama does. The main thrust of Dollarama’s response to the staffing agency proposal is that the seasonality of its business requires a nimble workforce:

Dollarama has a very large number of active seasonal stock-keepings units (“SKUs”), as well as a very important – and rapidly expanding – store footprint. This results in substantial and fluctuating staffing needs within the Corporation’s logistics operations based on the seasonality of its business, inventory replenishment, SKU refreshment, both year-round and during peak seasons, and growing sales volumes. Dollarama therefore relies on the expertise of a limited number of reputable Quebec-based third-party employment agencies to meet the unique and fluctuating staffing requirements of its unautomated logistics operations, as previously disclosed in the Corporation’s responses to similar proposals made by the same shareholder in the last two years. The use of employment agencies to meet the peaks favors employee retention and engagement as it avoids the necessity of regular cycles of lay-offs based on the seasonal needs of the business. [emphasis added]

However, Dollarama’s recently filed annual information form (AIF) tells a different story. In its AIF, Dollarama states (page 16):

The Corporation’s sales generally increase ahead of major holidays, but otherwise experience limited seasonal fluctuations.

Dollarama discloses the following table in its AIF, which it says reflects the seasonality of sales and gross margin:

<table>
<thead>
<tr>
<th>Fiscal 2023 (in % of total)</th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>4th Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>21.2%</td>
<td>24.1%</td>
<td>25.5%</td>
<td>29.2%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>29.5%</td>
<td>24.1%</td>
<td>25.4%</td>
<td>29.5%</td>
</tr>
</tbody>
</table>
Interestingly, Canadian Tire Corporation, Limited’s financial results reveal a higher level of seasonality:

<table>
<thead>
<tr>
<th></th>
<th>Q1 2022</th>
<th>Q2 2022</th>
<th>Q3 2022</th>
<th>Q4 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales</td>
<td>18%</td>
<td>28%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Revenue</td>
<td>21%</td>
<td>25%</td>
<td>24%</td>
<td>30%</td>
</tr>
<tr>
<td>Income before Income taxes</td>
<td>14%</td>
<td>12%</td>
<td>13%</td>
<td>61%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Q1 2021</th>
<th>Q2 2021</th>
<th>Q3 2021</th>
<th>Q4 2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail Sales</td>
<td>17%</td>
<td>27%</td>
<td>25%</td>
<td>31%</td>
</tr>
<tr>
<td>Revenue</td>
<td>20%</td>
<td>24%</td>
<td>24%</td>
<td>30%</td>
</tr>
<tr>
<td>Income before Income taxes</td>
<td>9%</td>
<td>18%</td>
<td>19%</td>
<td>54%</td>
</tr>
</tbody>
</table>

(Source: Canadian Tire MD&A for the 2022 financial year, page 22)

Metro states the following in its most recent AIF:

Seasonality

Other than certain holiday periods in the year that correlate with higher sales, there is no significant seasonality factors affecting METRO’s business.

**Neither Canadian Tire nor Metro rely on third party staffing agencies**

Dollarama has stated that its use of staffing agencies is integral to its business model, and that it must use staffing agencies due to seasonality in its business. It has also stated that it has a “unique business model”. But this position does not stand up to scrutiny.

Dollarama has disclosed that it includes Canadian Tire in its comparator/peer group for executive compensation purposes. Canadian Tire experiences more seasonality effects than Dollarama, yet Canadian Tire does not rely on third party staffing agencies. Another peer, Metro Inc., states that other than certain holiday periods, there are no significant seasonality factors affecting its business.

Given the above, shareholders need additional information on why Dollarama believes the costs of using staffing agencies outweighs the risks to workers, risks which have led the Québec government to increase oversight on staffing agencies.

**Staffing Agency Employees: A Vulnerable Workforce**

The proposal outlines the heightened risks faced by third party staffing agency workers. Forthcoming research from the University of Laval\(^5\) demonstrates that close to 100% of staffing agency workers at Dollarama’s warehouse and distribution centre are foreign-born. Using surveys and in-depth interviews with Dollarama warehouse workers to assess working conditions and identify issues, the study identifies

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\(^5\) D’Amours, Baril-Gingras, Noiseux et al, in partnership with the Immigrant Workers Center (forthcoming, 2023) “Mobilizing for Occupational Health and Safety in Warehouses: from agency workers to digital Taylorism”.
a racialized, predominantly male workforce whose precarious immigration status leads them to endure precarious working conditions.

According to the analysis, most workers are refugee claimants, international students with student permits or the spouse of a student or have temporary status. 75.7% of Dollarama staffing agency workers interviewed have a precarious migration status, that is, they do not have permanent residency in Canada. More precisely, nearly 70% are refugee claimants, nearly 10% have temporary status, and just 2.7% have citizenship. In contrast, the average proportion of immigrants in the warehousing sector is 32.5% elsewhere.

The use of employment agencies allows Dollarama to disengage from many of its responsibilities as an employer and to take advantage of a flexible workforce that is deprived of many labour rights, including the right to unionization and collective bargaining.

The University of Laval study further argues that the nexus between labour conditions and precarious immigration status makes the Dollarama workforce substantially more vulnerable than citizens with full rights. This situation is specifically important in the case of vulnerable labour force who often do not know their rights, are isolated or have communicational and language barriers as refugee claimants. Agency workers working at Dollarama are therefore highly vulnerable, due to their migratory profile, socio-economic status, isolation, lack of knowledge of official languages and lack of rights.

**Research in brief**

- 75.7% of workers would prefer to be hired directly by Dollarama than by an agency
- At least 50% of workers feel they cannot share their concerns with management. 37% fear losing their jobs.
- 83% of workers reported medium-high to high degree of risk associated with their job, and at least 78% reported a lack of health and safety risk measures.
  - Dollarama has previously disclosed working with six agencies, but researchers identified at least eight temporary agencies, suggesting an expansion in staffing agencies. According to workers, salaries differ depending on with which agencies the workers is employed.

Dollarama Annual Meeting date: June 7, 2023
Proxy cut-off date: June 5, 2023 at 9am EST


NOTE: This is not a solicitation of authority to vote your proxy. Please DO NOT send us your proxy card; BCGEU is not able to vote your proxies, nor does this communication contemplate such an event. BCGEU urges shareholders to vote FOR its shareholder proposal at Dollarama following the instructions provided on management’s proxy mailing.

Please contact BCGEU’s Capital Stewardship Office at investor@bcgeu.ca for questions related to these two proposals.