

# Dollar General Corp. (NYSE: DG)

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# Macro Tailwinds and Strong Value Create **BUY** Opportunity

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1

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- The current U.S. inflation rate of 8.26% (which we have not seen since 1981) is stretching consumers thin; and more consumers are being forced to turn away from higher-priced big box retailers (like Walmart and Target) and seek out dollar stores for the majority of their purchases

2

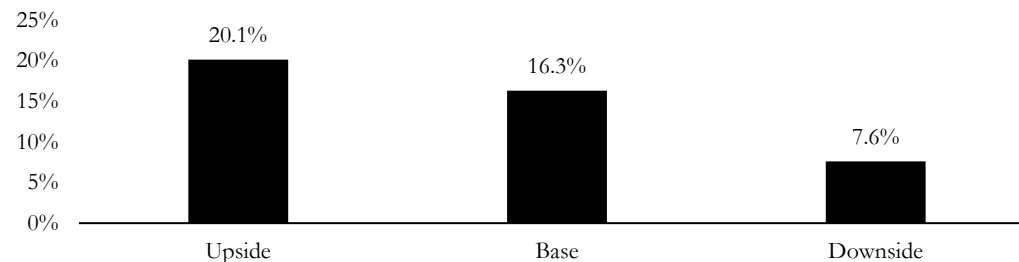
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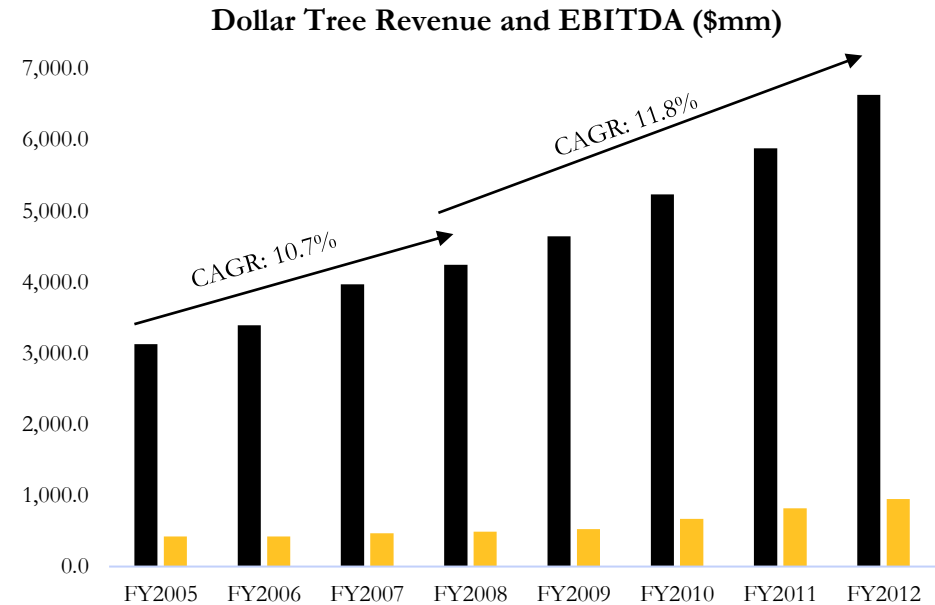
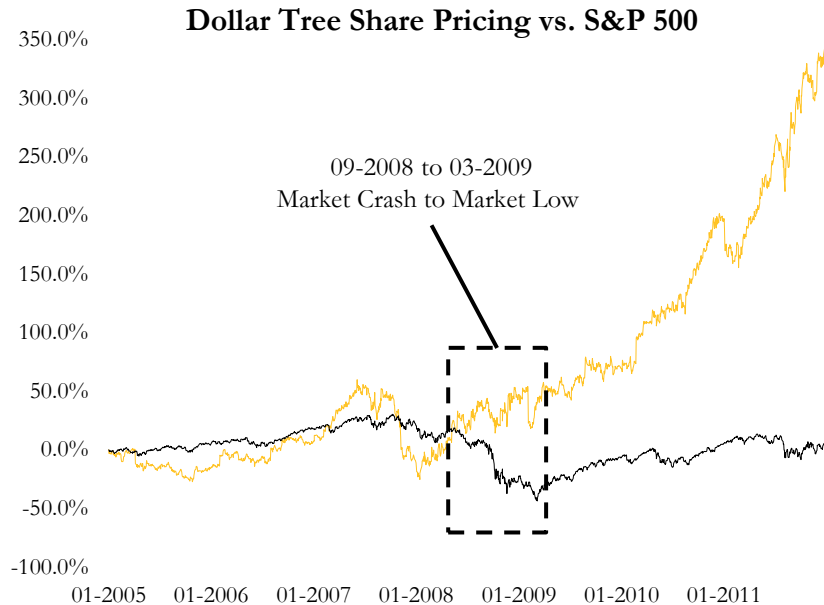
**Dollar General has long-term upside within their core business and short term catalysts that will allow for quick share price appreciation**

- DG has a large share buyback program and has bought back 16% of shares in the past 5 years
- A new, home-grown CEO is taking over at the end of the year; he is committed to sticking with the current CEO's vision for growth
- New store openings are going into prime locations; important in order to capitalize on their "cluster" strategy and fully capture the markets they operate in



# Recessionary Environment Creates Favorable Tailwinds

Dollar stores are an excellent asset to have in the portfolio because of their defensibility and resiliency in a recessionary environment



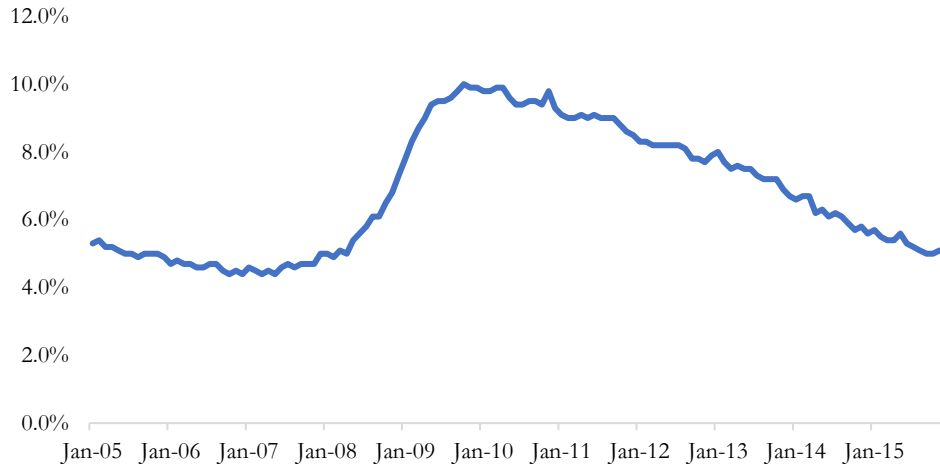
- Dollar Tree's stock **outperformed** the market by a sizeable margin during the 2008 recession and performed better than previous years
- **32%** of our current portfolio is tech; and tech tends to underperform the market in a recession
- Our portfolio could use a defensible investment that is benefited (rather than hurt) by current macro trends

- Dollar Tree's revenue continued its **upward trend** during 2008 and grew at a faster rate after the recession; similarly, Dollar Tree's EBITDA stayed **relatively consistent** during that same time
- Unlikely for dollar store revenues and EBITDA to be negatively impacted to the **same degree** as other companies in our current portfolio

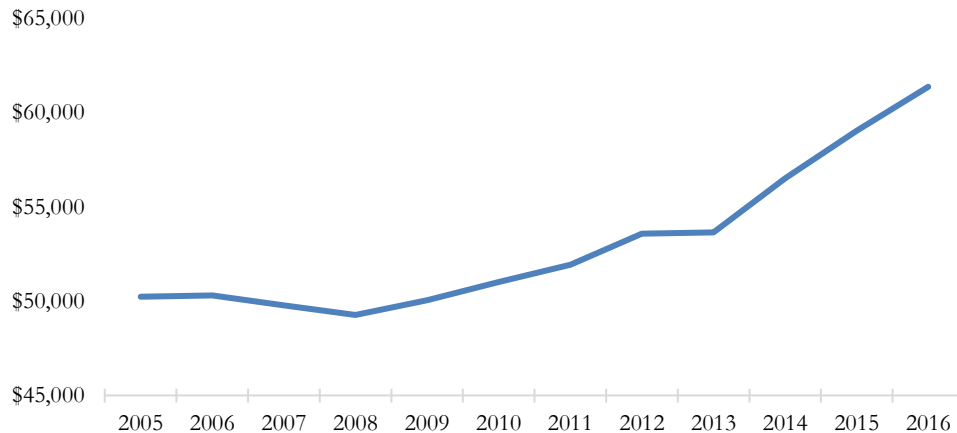
# Rapidly Growing Core Customer Base

DG is positioned to grow from projected short term job losses but long term income growth

**US Unemployment Rate**



**US Median Income**



## Core Customer



### Trends

- While the unemployment rate rose and remained elevated years after the financial crisis, **median income** was impacted to a lesser extent and **quickly rebounded**
- **65%** of Americans making **\$100,000+** are **very concerned** about inflation
- This combination allows for DG to gain market share from **higher income** individuals becoming more price conscious



### DG's Response

- Given that the average American is getting wealthier, DG wants to increase their share in this **growing price conscious** demographic
- Strategy includes targeting them with new store openings

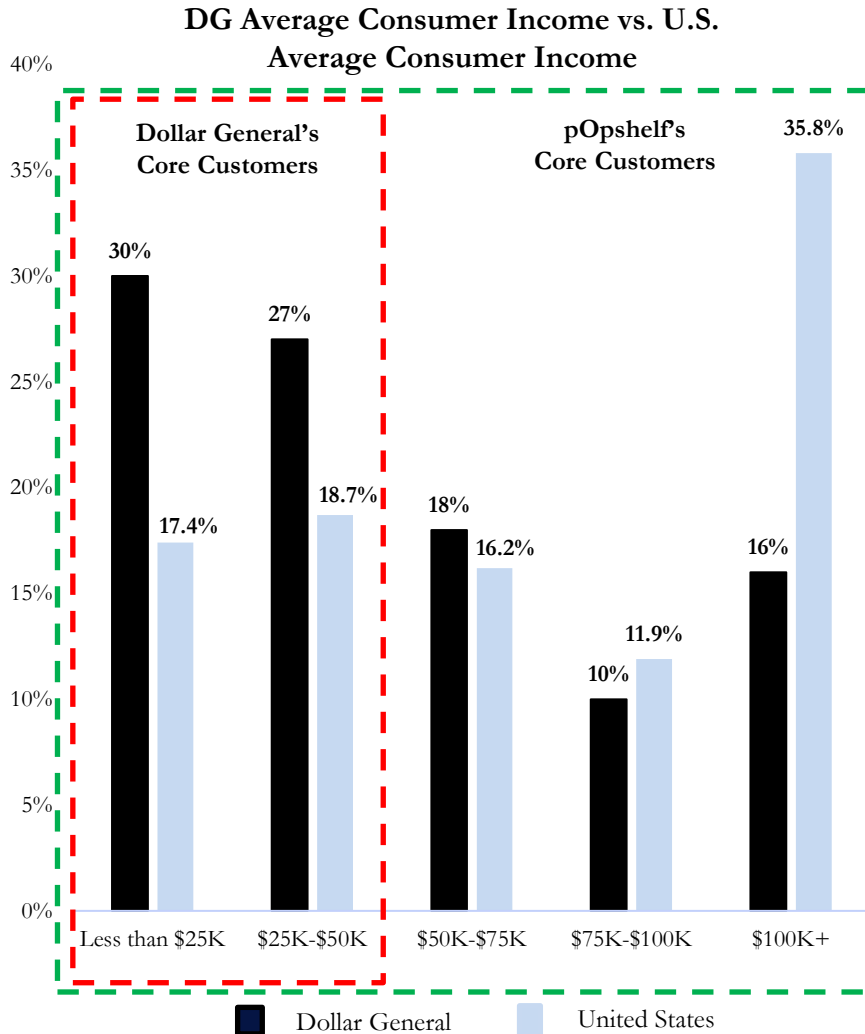


### Early Results

- CEO announced DG has been attracting **more customers** with annual income of **\$100,000+**
- Overall **increase in average transaction amount** with more profitable non-consumables, indicating an increase in higher income customers

# Diversifying Value Base

Dollar General has strategically positioned themselves within multiple markets to take advantage of growing customer base



## pOpshelf

- Target customer base is women with household incomes of \$50,000 - \$125,000
- Located in suburban areas and focuses on selling home furnishings, party items, toys and beauty products
- Currently opened 100 stores plan to open 1000 by 2025

## DG Fresh

- Target upscale consumers with fresh & frozen produce
- Emphasizes “grab and go” business model
- In over 2,300 stores nationally with projections to be in over 3,000 by the end of 2022
- Strong margins with frozen food

# New Store Openings

Dollar General is a company with a prudent management that has and will continue investing in long-term goals for DG

## Long-Term Value Added



### Investment Strategy

- LTM Capex is \$1.2 billion
- Capex include; store fronts, remodeling, & distribution centers



### Store Locations

- Located within **5 miles** of **75%** of the US.
- **75%** of stores are in communities of **20k** or fewer households.
- **15-20 miles** from the nearest Target/Walmart retailer and wants to be a **“one-stop-shop”** for under-privileged consumers



### Market Share

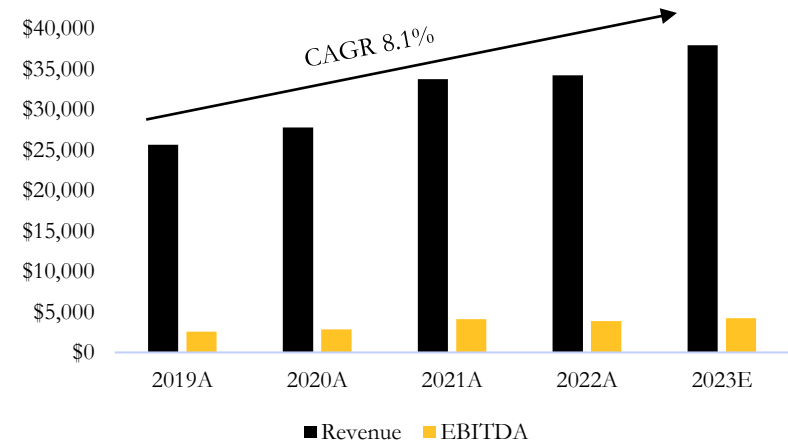
- Majority of the market is dominated by Dollar General & Dollar Tree
- Duopoly makes up 60.9% of the market



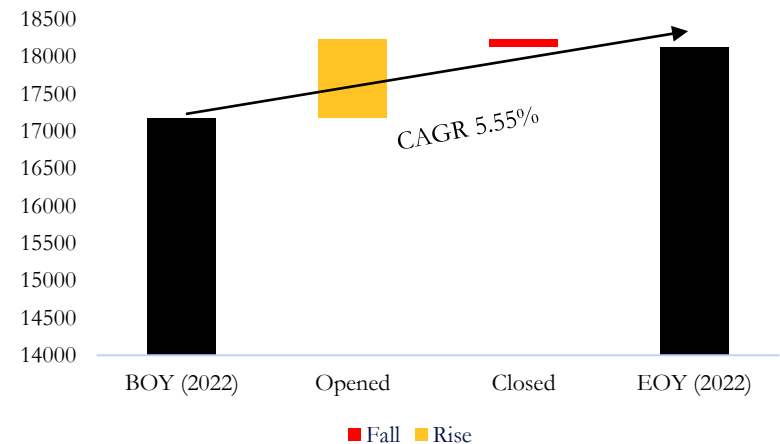
### Location Strategy

- DG opens stores in **“clusters”**- now is a good time to expand these as they attempt to increase their customers and increase their market

## Revenue and EBITDA (\$mm)



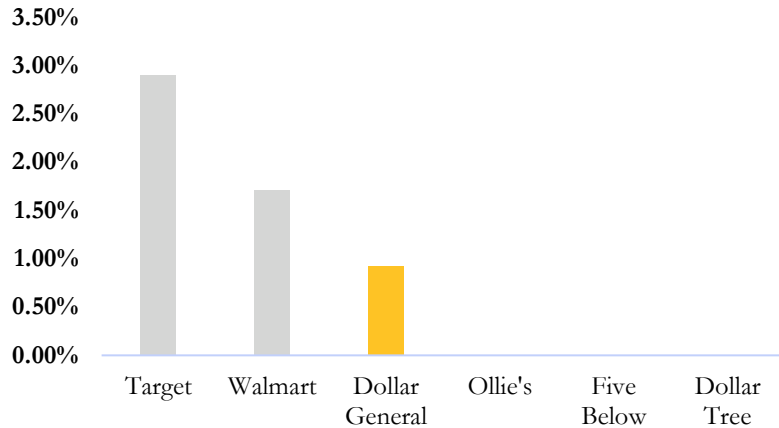
## Store Bridge



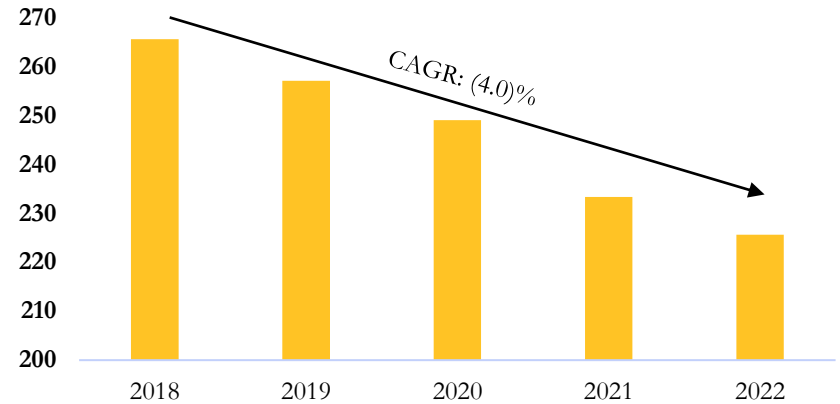
# More than a Long Term Investment

Dollar General will see short term price appreciation from stock buybacks, investor sentiment, and strong dividends

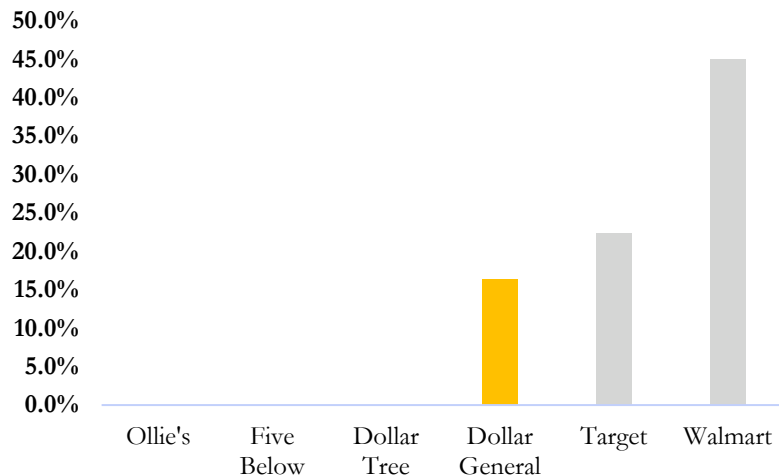
**Dividend Yield**



**Outstanding Share Count (mm)**



**Payout Ratio**



**Short term appreciation of share price**



- DG repurchased 48 million shares in last 5 years
- Currently authorized \$3.03 billion for more planned share repurchases



- Bearish market causing investors to flock toward safe assets like DG
- Fed continues to hike rates, creating greater potential to outperform market



- Morningstar recommends Dollar General at the top of their list of dividend stocks
- Closest competitors pay zero dividends

# Dollar General is NOT Comparable

DG is a fundamentally different company from its peers due to its ability to be a one-stop shop for price-conscious and value-sensitive consumers

<i>LTM Margins</i>	<b>DOLLAR GENERAL</b>	<b>TARGET</b>	<b>Walmart</b>	<b>OLLIE'S</b> <small>GOOD STUFF CHEAP</small>	<b>five BELOW</b>	<b>DOLLAR TREE</b>
<b>EBITDA Margin</b>	10.8%	7.9%	5.9%	8.5%	14.5%	10.7%
<b>Gross Margin</b>	31.4%	26.2%	24.6%	35.6%	35.5%	30.9%
<b>EV/LTM EBITDA</b>	12.2x	9.5x	11.1x	15.6x	12.0x	8.1x
<b>Total Store Count</b>	18,190	1,938	10,566	407	1,282	16,077
<b>5 Year Store Growth CAGR</b>	6.6%	1.1%	(2.0)%	13.8%	18.5%	1.6%
<b>Price/Product Offerings</b>	\$1-\$10 for majority of items	Big Box Retailer	Big Box Retailer	Other stores' extra inventory	\$5 or less for majority of items	\$1.25 for all items
<b>Average Customer Income</b>	~\$40k	~\$80k	~\$60k	~\$25k	~\$80k	~\$40k



# Base Case Valuation

Using conservative estimates, we project a ~16% upside because the market is undervaluing DG's short and long term opportunities for growth

1

Terminal Value	
Exit Multiple Method	
2025 EBITDA	5,776.8
Exit Multiple	12.20x
Terminal Value	70,476.82
<b>Present Value of Terminal Value</b>	<b>\$67,295.69</b>

2

Enterprise Value	
Exit Multiple Method	
PV of Projection Period	11,558.7
PV of Terminal Value	67,295.7
Implied EV	78,854.4
(-) Debt	(4,172.1)
(+) Cash	344.8
Implied Equity Value	75,027.1
Shares Outstanding	227.0
<b>Share Price</b>	<b>330.52</b>

3

Case 1 - Base Case	
Trading Multiple	12.2x
2022 EBITDA	\$ 3,802.80
Enterprise Value	\$ 46,394.16
Less Debt	(4,172)
Plus Cash	345
<b>Equity Value</b>	<b>\$ 50,911.06</b>
Diluted Shares Outstanding	227.0
<b>Implied Share Price</b>	<b>\$224.28</b>

4

Blended Share Price			
Method	Share Price	Weight	
Exit Multiple	\$ 330.52	50.00%	
Public Comps	\$ 224.28	50.00%	
<b>Blended Share Price</b>	<b>\$277.40</b>	1.0	
Current Share Price (As of 9/26/22)	\$238.46		
Implied Upside		16.3%	

1

## Used DG's current valuation as our Exit Multiple

- Future cash flows based on increased store openings and growing customer base
- EBITDA predictions are in line with street estimates

2

## The market is undervaluing DG's opportunity to expand their core customer base

- The recessionary environment makes DG a defensible investment
- However, it will also cause their core customer base to increase and attract customers from higher income levels

3

## Our comparable company valuation is lower than the current market

- Partially due to depressed 2022 EBITDA from large inventory investment
- We also feel that Dollar General is not comparable to their peers

4

## With conservative estimates beneath street projections, our base case upside is 16.3%

- Takes into account short term share price appreciation from share repurchase program
- Also based on Dollar General's long term growth opportunities

# Short Term Appreciation and Long Term Growth

Dollar General is a long-term compounder with an opportunity for short term share price appreciation from share repurchases. Dollar General is better positioned than its peers to take advantage of the growth in their core customer base and higher income consumers.

## 1 Short term: Share repurchases will increase share price

- Dollar General has repurchased 16% of shares outstanding in the past 5 years and plans to continue repurchasing shares every quarter under their current share repurchase agreement
- As shares outstanding increase, this will cause the per-share price to appreciate in the next 6-12 months

Projected share repurchase schedule over the next 5 years using cash from operations

	2023	2024	2025	2026	2027
Retained Earnings BOP	2,412.3	3,120.2	3,873.9	4,676.2	5,529.5
Net Income	2,992.2	3,164.1	3,345.7	3,536.7	3,737.0
Common Dividends Paid	(434.1)	(458.0)	(483.3)	(509.9)	(537.8)
Repurchase of Common Stock	(1,850.3)	(1,952.3)	(2,060.1)	(2,173.5)	(2,292.4)
Change in Retained Earnings	707.8	753.8	802.3	853.3	906.9
<b>Retained Earnings EOP</b>	<b>3,120.2</b>	<b>3,873.9</b>	<b>4,676.2</b>	<b>5,529.5</b>	<b>6,436.4</b>

## 2 Long term: A stable and growing customer base

- Dollar General’s core customer base will grow in the current recessionary environment, and they are well-positioned to take advantage of this growth
- Also, DG’s customer base will expand as consumers in higher income brackets will begin to move away from more expensive options to save money on staples and discretionary purchases
- Finally, DG can better serve these high income groups with their new store concepts: pOpshelf, DGFresh, and DGX

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**Historically, dollar stores are stable investments, and the economy is creating growth in their core customer base, expanding revenue across the industry**

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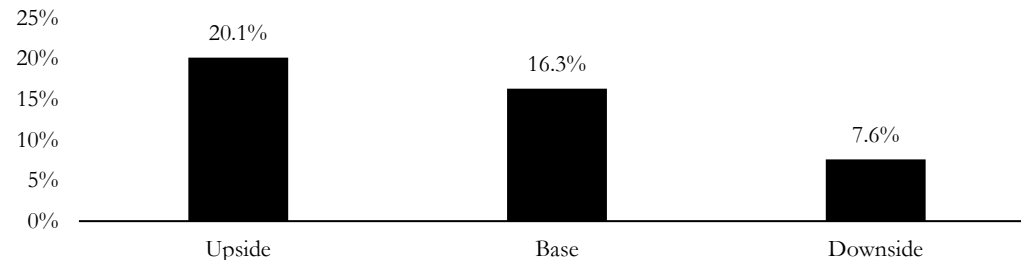
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# Appendix

# Downside Case Valuation

Assuming DG misses store opening targets for the first time in 5 years and sees depressed margins still leads to an upside of 7.6%

1

Terminal Value	
Exit Multiple Method	
2025 EBITDA	5,134.9
Exit Multiple	12.20x
Terminal Value	62,646.06
<b>Present Value of Terminal Value</b>	<b>\$59,818.39</b>

Enterprise Value	
Exit Multiple Method	
PV of Projection Period	9,604.7
PV of Terminal Value	59,818.4
Implied EV	69,423.1
(-) Debt	(4,172.1)
(+) Cash	344.8
Implied Equity Value	65,595.8
Shares Outstanding	227.0
<b>Share Price</b>	<b>288.97</b>

2

Case 3 - Downside Case		
Trading Multiple		10.2x
2022 EBITDA	\$	3,802.80
Enterprise Value	\$	38,788.56
Less Debt		(4,172)
Plus Cash		345
<b>Equity Value</b>	<b>\$</b>	<b>43,305.46</b>
Diluted Shares Outstanding		227.0
<b>Implied Share Price</b>		<b>\$190.77</b>

3

Blended Share Price			
Method	Share Price	Weight	
Exit Multiple	\$ 288.97	50.00%	
Public Comps	\$ 224.28	50.00%	
<b>Blended Share Price</b>	<b>\$256.62</b>	1.0	
Current Share Price (As of 9/26/22)	\$238.46		
Implied Upside			7.6%

1

## Missed store opening targets will only slightly decrease EBITDA projections

- Current stores will continue to provide consistent revenue and EBITDA figures despite not receiving a boost from new openings

2

## Using a trading multiple lower than the industry median greatly reduces our projections

- However, as previously stated, we feel that DG is not comparable to its competitors
- DG is in the best position to take advantage of the recessionary environment, even if they are not perfect in execution

3

## With low projections, missed estimates, and decreased efficiency, we still see an upside of 7%

- Because Dollar General is a necessary store for price-sensitive consumers, their core customer base will remain strong despite minor setbacks

# Dollar General is Clearly Superior

Dollar General is positioned stronger than Dollar Tree on all fronts, clearly justifying its premium multiple



<b>Store Count</b>	18,190+	16,077+
<b>Store Growth CAGR</b>	6.6%	1.6%
<b>Store Location</b>	Mostly rural, 15-20 miles from closest Target/Walmart to avoid competition	Mostly suburban strip malls; a lot less strict on placement of new stores
<b>Price Point</b>	Items are in \$1-\$10 range; better able to withstand inflationary pressure to COGS	All items are \$1.25 (recently increased from \$1 due to inflation)
<b>Longer Term Initial Lease Length w/ Multiple Renewal Option</b>	✓	✗
<b>Lease Clauses with Opt-Out</b>	✓	✗
<b>More SKUs</b>	✓	✗

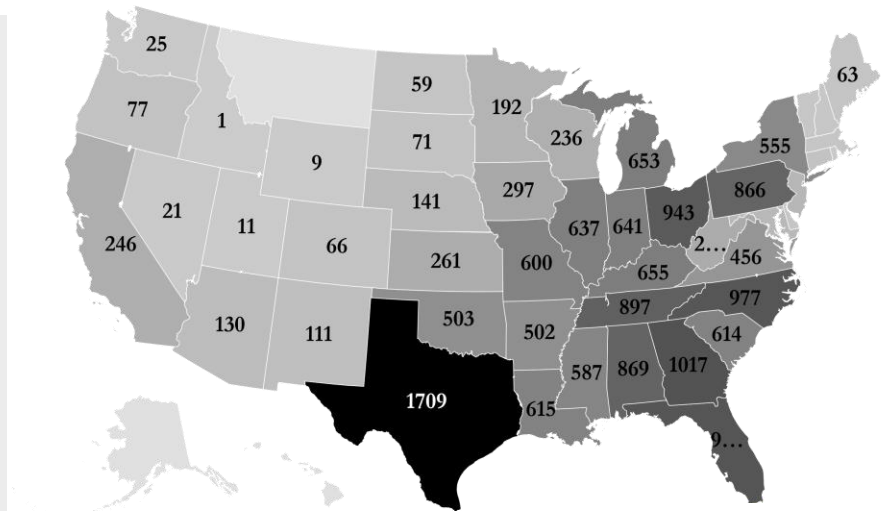
# Flexible Leasing Creates Unique Positioning

Dollar General stores are leased, and favorable contracts provide unprecedented flexibility for a retailer with 18,000+ locations

## DG Leasing Facts

- DG's stores are leased; primary term is **15 years**
- DG requires a broad agreement that allows them to move/change their stores with little notice
- Keeps strict gross margin requirements- stores with **<20% gross margins** can change locations in **>12 months**
- Most leases also have multiple renewal options
- DG's margin requirements allows them to pull the plug on underperforming stores
- This also **insulates them from risk**- if one area is hit especially hard by a recession, DG can leave that area easily
- Give them a competitive advantage over their competitors; Dollar Tree has shorter, less-flexible leasing agreements

## DG Stores by State



# Store Visit





# Management Team

Dollar General's current CEO of 7 years is passing title to Jeff Owen Current COO November 1st



**Todd Vasos, *Chairman & CEO***

- Former Executive Vice President, Chief Operating Officer and Senior Vice President at Long Drug Stores Corporation
- Serves as a member on the Dollar General board since 2015
- Joined Dollar General in 2008 and became CEO in 2015



**John Garratt, *President & Chief Financial Officer***

- 20+ years of financial management experience, previously held positions with General Electric, Alcoa Inc, and Yum
- Appointed Chief Financial Officer in September 2022
- 7 years with Dollar General having Senior Vice President, Finance & Strategy Role before current position



**Jeff Owen, *Chairman & Chief Operating Officer***

- Appointed Chief Operating Officer in 2019 after serving 21 years of previous employment with Dollar General
- Served multiple roles throughout the company including; Vice President, Division Manager, and Retail Division Manager
- Current director of Kirkland's Inc. since March 2015

# Stock Chart

Dollar General's business model has been proven through steady compounding in share price



# Primary Discovery

## Rhonda Taylor

Executive VP & General Counsel at DG



### Service to others

“Dollar General’s mission of *Serving Others* is the foundation of all we do and differentiates us from the rest of the retail landscape – and in particular, Dollar Tree/Family Dollar. We serve communities that others choose not to serve – often lower income, rural households.”

### Masters of Innovation

“We also are masters at innovating within our own channel – for example, a couple of years ago we converted our fresh/frozen supply chain from externally managed to internally managed... This allowed us to expand our assortment while improving cost of goods (and thus margin/profitability). Companies such as DLTR are years behind us – so even if they decided to copy our idea (which they often do), we are far, far ahead.”

### Changing Economy

“We are seeing ‘trade down’ customer – i.e., higher earning individuals who normally don’t shop with us... We like to say that we do well in a variety of economic conditions because of the strength of our model.”

### Management Team

“We have a great deal of tenure on our team, along with several of us who have been promoted from within and now hold c-suite roles. What makes the management team special is the same thing that makes our company successful: a belief in our mission, and understanding of our customer and her needs, and the ability to act decisively even in the absence of complete information.”