



<p><b>Staples Committee</b></p>	<p><b>DOLLAR GENERAL</b></p>
<p>Cole Davis Will Guy</p>	<p>NYSE: DG</p>
<p>Walt Shelton Ethan Sneckenberger Alex Nowicki Elle Schriver Caroline Egger</p>	

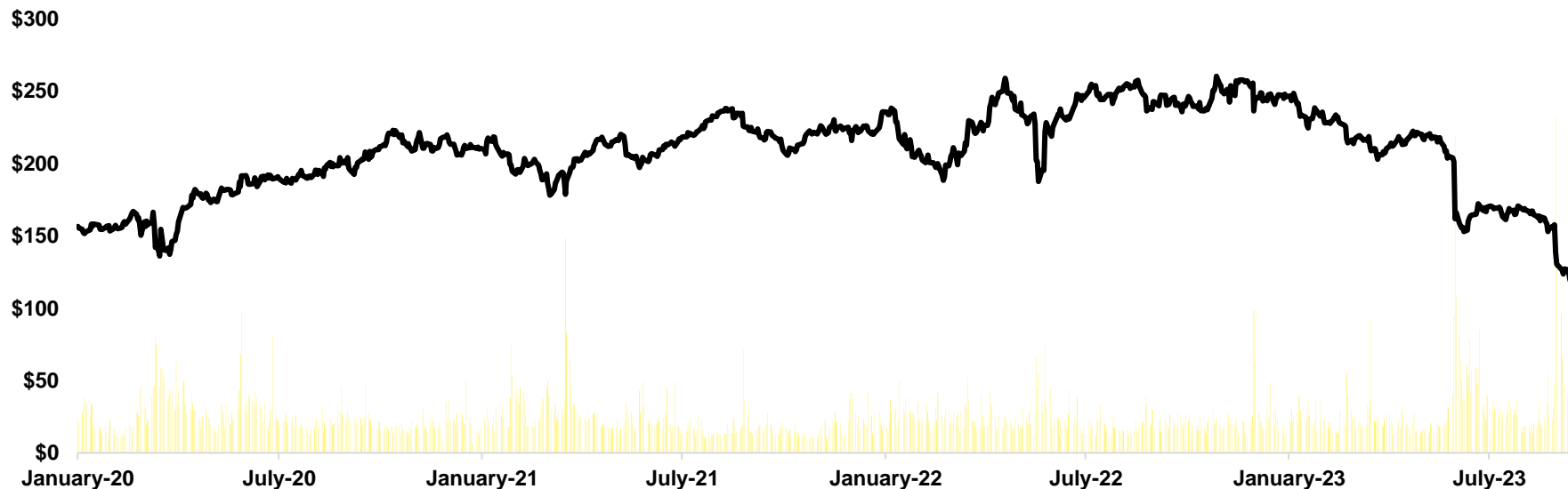


# DOLLAR GENERAL®

Market Cap	\$23,680mm
Last Close	\$108.14
52 Week Range	\$108.14-\$261.59
P/E	11.06x
EV/EBITDA	7.33x

## Investment Thesis

1. Recent margin compression due to inventory mismanagement and decreased full year guidance has caused DG stock to **fall >50% YTD**.
2. We believe that ongoing investments in inventory management, new distribution centers, and a continued buildout of a private tractor fleet will turn margins around in the long run.
3. Recent price decreases on select SKUs following a decrease in SNAP benefits will have a positive effect on same store sales.
4. DG is currently trading at a 4-year low. We believe that we have the opportunity to buy a great business at a cheap valuation.





**DOLLAR GENERAL**  
Save time. Save money. Every day!  
**GRAND OPENING!**

**DOLLAR GENERAL**  
Save time. Save money. Every day!  
**GRAND OPENING!**

happy halloween  
happy halloween

happy halloween  
happy halloween

Magazines  
Cookies



Company Overview 



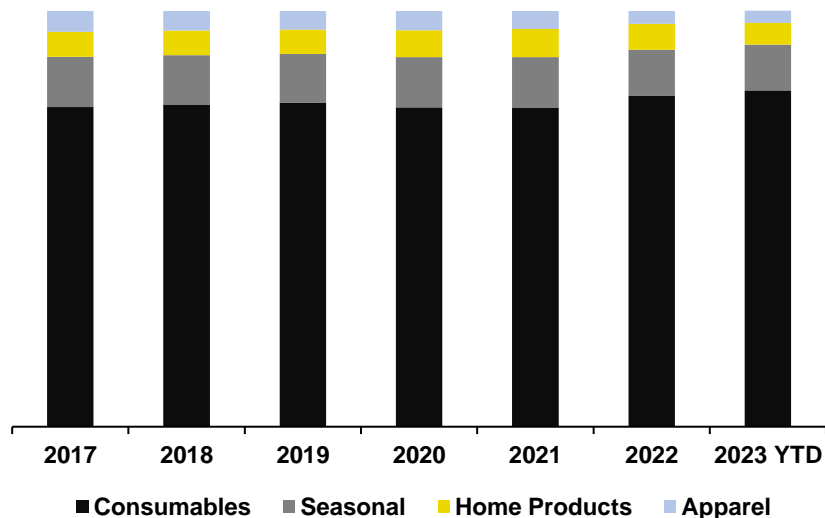
# The Largest Low-Cost Retailer in the Nation

## Basic Dollar General Financials

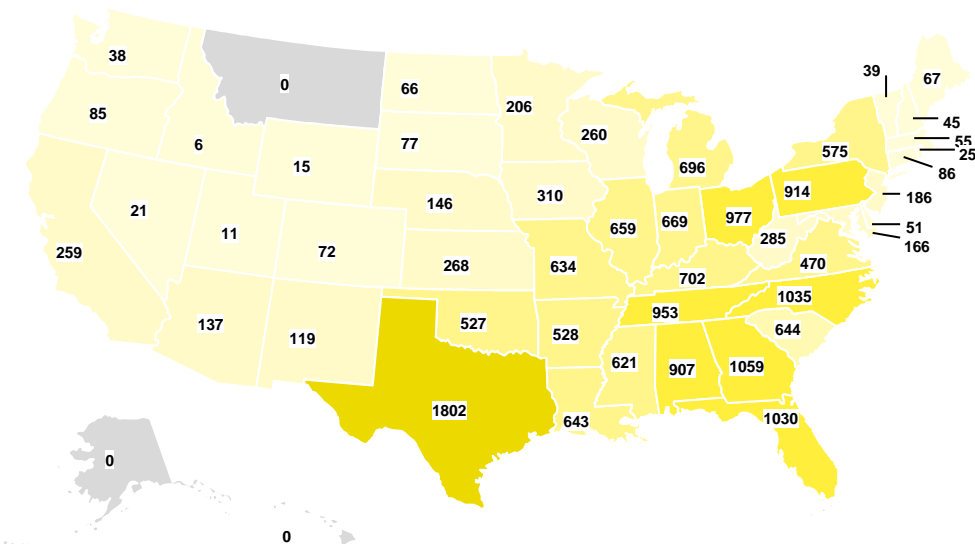
# DOLLAR GENERAL

Sales	<b>\$37.8B</b>
Gross Margin	<b>31%</b>
Op Profit Margin	<b>9%</b>
Operating Income	<b>\$3.3B</b>
Net Income	<b>\$2.4B</b>

## Net Sales by Product Category



## Stores across US



**19,104 Total Stores**

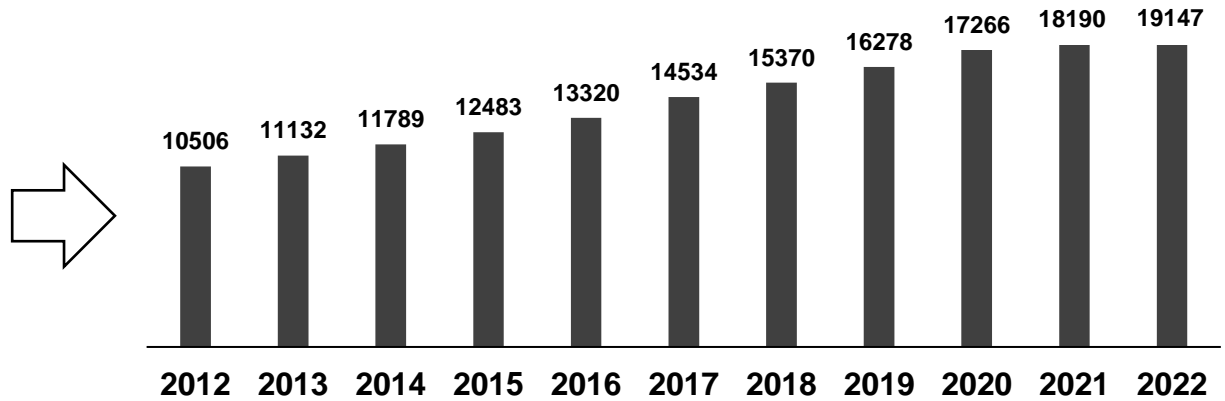
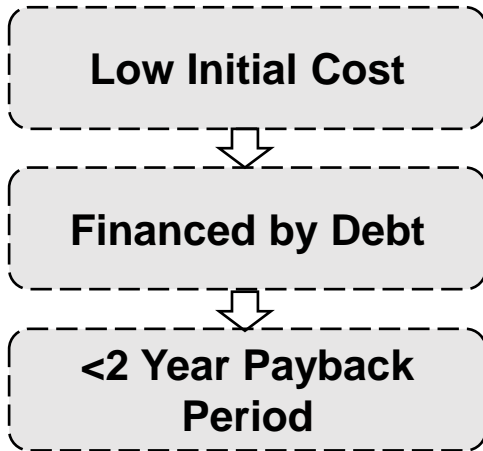
**190 Pop-Shelf Stores**





# New Store Buildout – DG’s Bread and Butter

**A Cheaper Store Buildout Model Allows for Explosive Store Count Growth Over the Past Decade<sup>1</sup>**



■ Stores Across the US

## Extending Reach Through Pop-Shelf Stores<sup>2</sup>



2021: DG added the Pop-Shelf concept as a store within a store to existing locations.

Late 2020: DG introduced the Pop-Shelf store concept into the market.

2023: There are currently 190 standalone Pop-Shelf stores over 20 states, with an expectation of 230 stores at the end of 2023.

## And the Ramp Up of DG Fresh

**DG Fresh Footprint:** More than 3,000 stores have transitioned into DG Markets to bring more goods to customers.<sup>2</sup>

**In-Store Layout:** 19,000 cooler doors have been added just this past quarter, and 65,000 more before the year is over.<sup>2</sup>

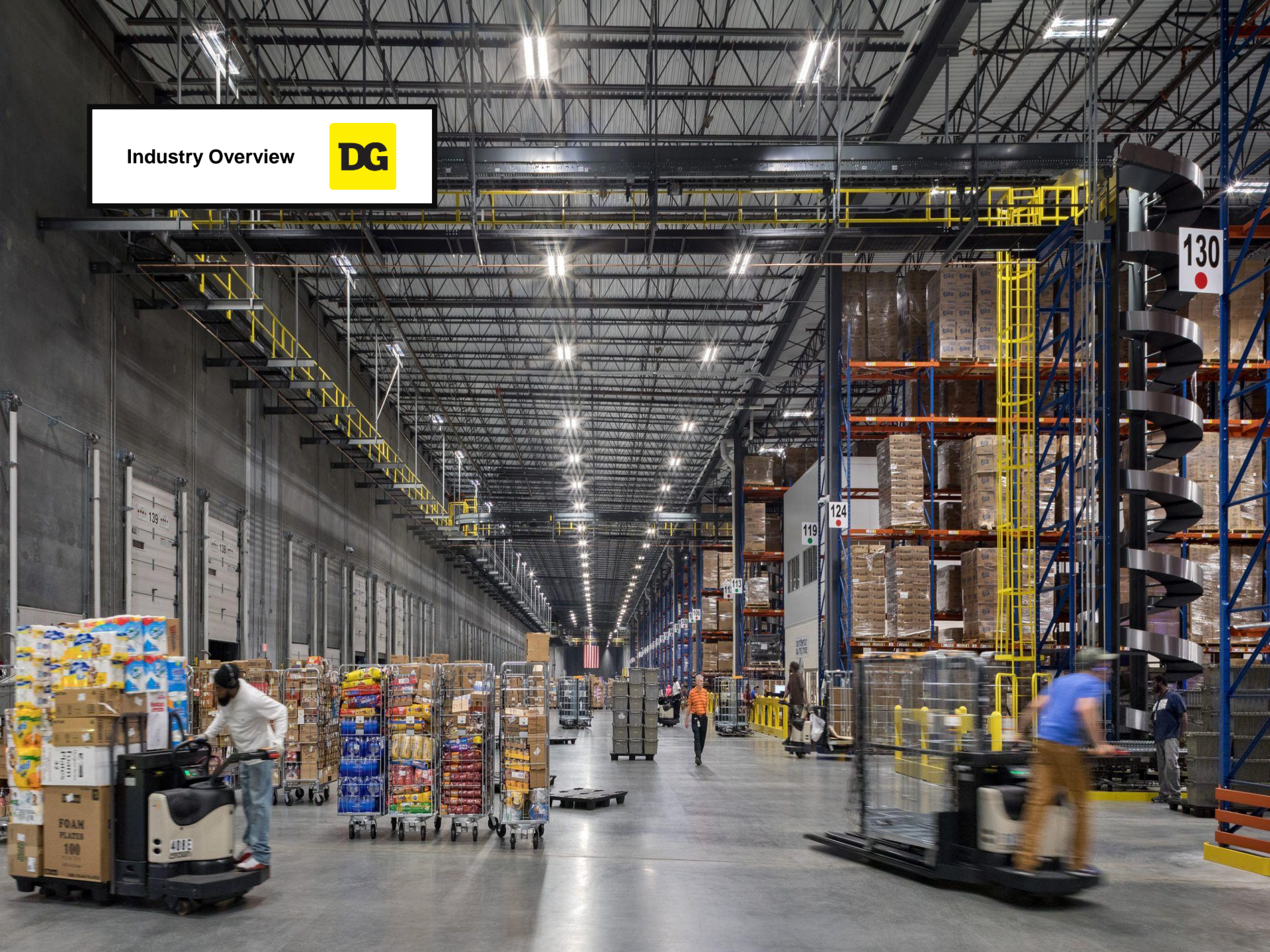
**Increased Sales per Store:** Same Store Sales have grown at a 4% CAGR in the past three years. DG's gained traction in the food and consumables category.<sup>3</sup>

**Door Dash Partnership:** With the increase of consumable products, DG has seen success through Door Dash to get these goods to customers faster.<sup>2</sup>

(1) Statista, (2) DG Q2 2023 Earnings Call, (3) Visible Alpha  
Culverhouse Investment Management Group – Consumer Staples



# Industry Overview



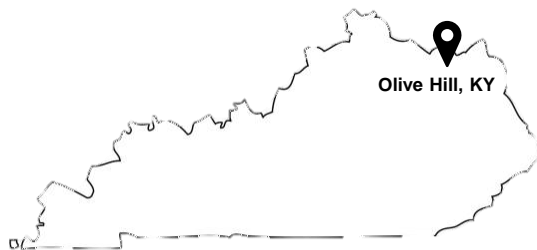




# Why We Like Low-Cost Retailers

Super Markets	Wholesalers	Dollar Retailers
~\$20 million start up	~\$30 million start up	~\$250,000 start up
Target for example saw 23 new stores in 2023	In 2023 Costco plans to open 23 stores, 15 domestically	1640 Dollar General/Dollar Trees opened in 2023
On Average a customer spends ~ \$54 per trip	On average customers spend ~ \$100 per trip at wholesale stores	On average a Dollar General customer spends ~ \$20 per trip
On average supermarkets customers earn about \$80,000 annually	On average wholesale shoppers make about \$125,000 annually	On average the customers of dollar retailers earn <\$40,000 annually

## The Only Retail Option Available



Median Income ~ \$21,735

~ 1,573 Residents

4 Dollar general Store fronts within <10 Mi of each other

>20 Mi to the nearest Walmart  
 >40 Mi to the nearest Target  
 >60 Mi to the nearest Costco or Sam's Club

“Often, Dollar General is the only retail option in town. Our marketing strategy ladders up to our broader purpose: to serve the financially and geographically underserved.”

— Chad Fox, CMO, Dollar General

OH YEAH, HERE'S THE DEAL

  
**SMART  
PRICES**  


Investment Thesis

**DG**

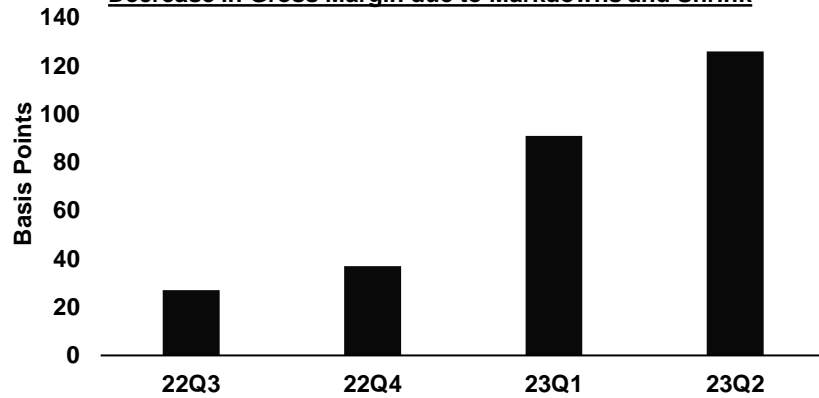




# A Perfect Storm has Caused Low Margins and a Decreased Stock Price

## Inventory Issues and Shrink...

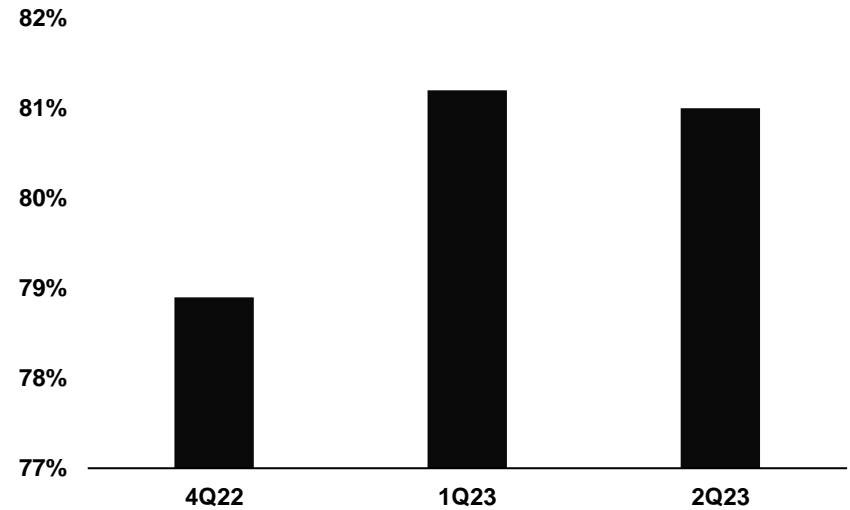
Decrease in Gross Margin due to Markdowns and Shrink



“We expect these additional markdowns and associated costs will result in an incremental headwind of approximately \$95 million to operating profit for the back half of the year”

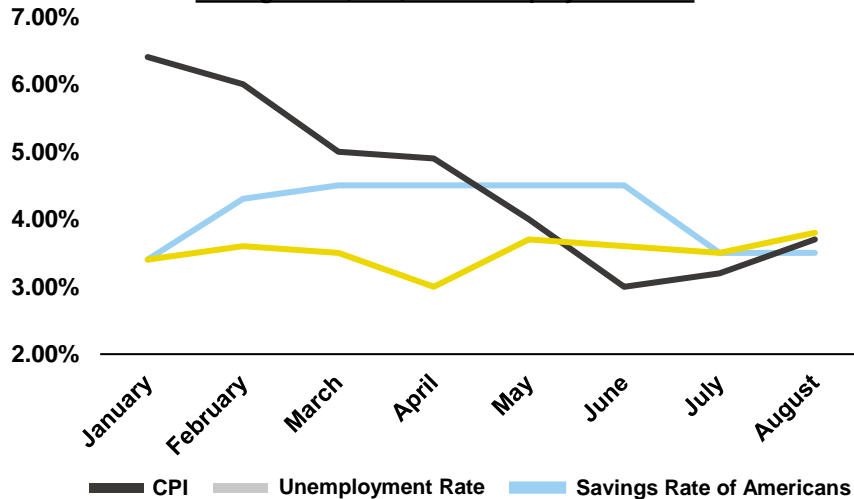
## Shift in Sales Mix...

Consumables as a Percent of Revenue



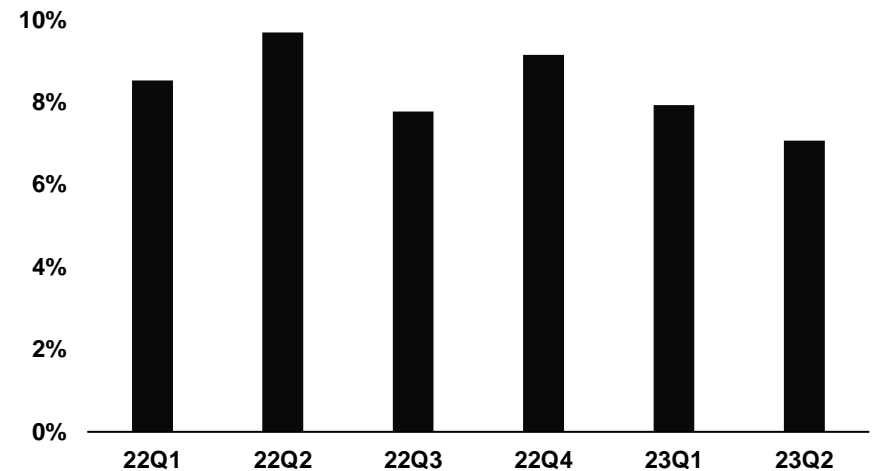
## Unfavorable Macro Environment...

Savings Rate, CPI, and Unemployment Rate



## Have Compressed Margins

Operating Margin



# Investing in Supply Chain Efficiencies



## Massive Investment in Labor Hours<sup>1</sup>

Increasing planned investment in incremental retail labor from approximately \$100 million this year to approximately \$150 million.

- Greater in-stock and on-shelf **availability**
- Consistent **DG store standards**
- Capture more **market share**



Investment includes the creation of **Smart Teams** - dedicated teams that are at the disposal of a district manager to **deploy where a store has fallen off-track.**

## First Dist. Center to Feature Large-Scale Automation

**Autonomous Distribution Centers:** DG's first autonomous distribution center is being built out in South Carolina. Once fully operational, it will process half of SKUs automatically to 1,000 stores while improving its storage and lowering overall costs.

**Further Expansion:** Once operational, DG will measure the success of the autonomous distribution center and will start on plans to bring automation to current distribution centers.

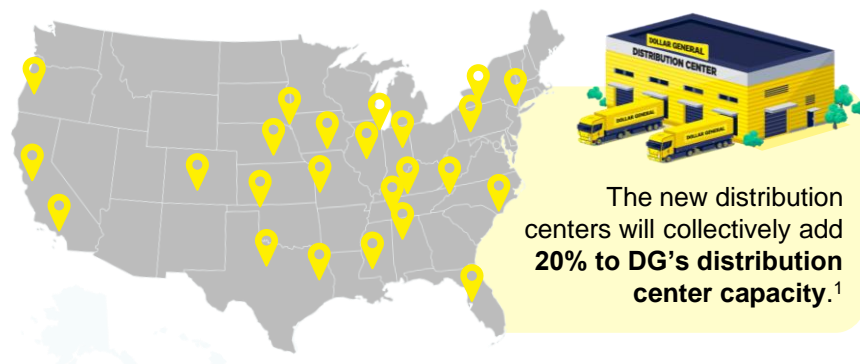


**Dual Distribution Centers:** In Aug., DG opened its first dual distribution center focused on its DG Fresh supply chain models, a multi-phased shift to self-distribution of frozen and refrigerated products.

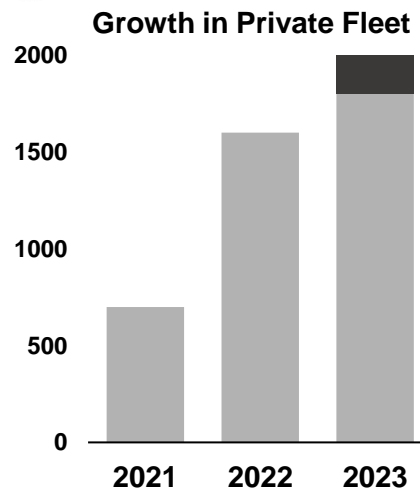


## 3 Additional Distribution Centers Under Construction<sup>1</sup>

DG has a strong network of 19 distribution centers, 10 cold storage distribution centers, and two combination facilities.<sup>2</sup>



## Expansion of Private Tractor Fleet<sup>1</sup>



**20%** of associated costs saved for every third-party truck replaced w/ one from fleet.

**50%** of outbound transport needs met by Dollar General's private truck fleet of over 1,800.

■ Trucks in DG Private Fleet  
 ■ Expected Additions by FY2023 End



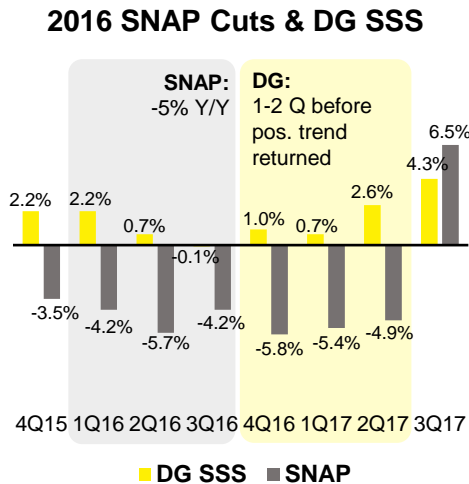
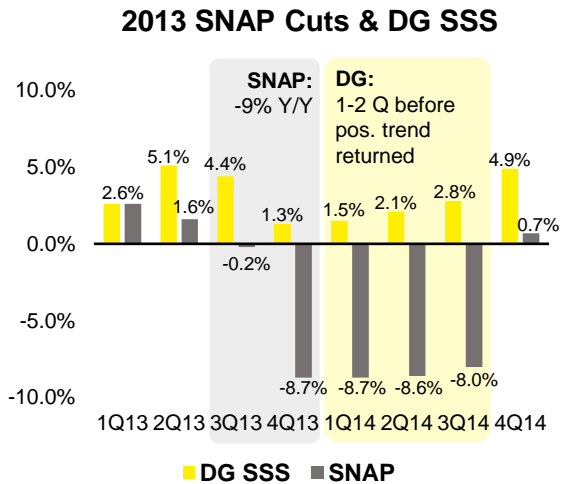
(1) DG Q2 2024 Earnings (2) DG Distribution Center Careers  
 Culverhouse Investment Management Group – Consumer Staples





# Cost Cuts Increase Same Store Sales

## Price Investments Post Cuts to SNAP Benefits in 2013 & 2016<sup>1</sup>



### 3-Step Timeline of DG Price Investments

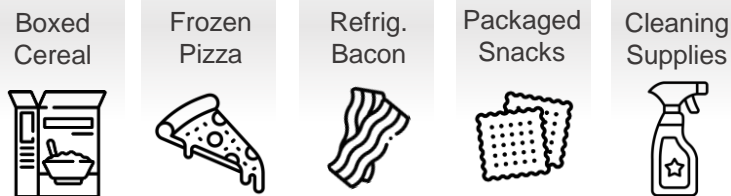
Two examples of past DG pricing investments both followed SNAP benefit reductions in 2016 and 2013 with a 3-step timeline of events:

- 1 Government SNAP reduction and immediate store traffic deceleration
- 2 Pricing investment on select key items in consumables to drive traffic/units
- 3 Sequential improvement in same-store-sales performance on lag of 2 quarters

### Surgical Approach to Cost Cuts in Q2 2023

7% price reduction encompassing <1% of the total store 10K+ SKU count, mostly in national-brand consumables.

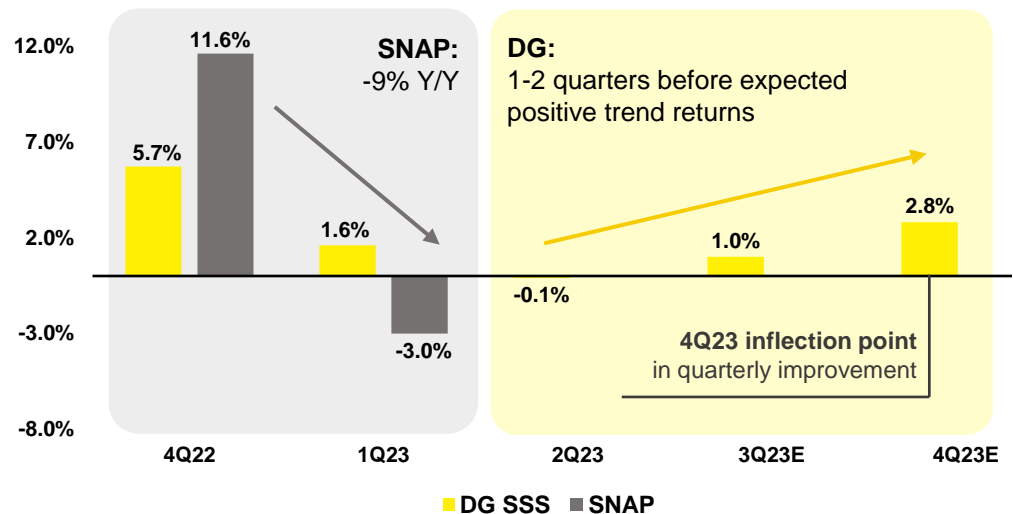
#### Cost Cuts in 5 Different Consumable Categories



Management cited a data-driven approach to SKU selection comprising the items that matter most to their core consumer, noting historical roadmaps following price investments in 2013 and 2016.

### Historical Precedent Points to 4Q23 Potential SSS Inflection<sup>1</sup>

#### 2023 SNAP Cuts & Expected DG SSS Expected Growth



(1) JPM ER Report, Dollar General Incorporated - 30 June 2023  
Culverhouse Investment Management Group – Consumer Staples

# Dollar General vs. Dollar Tree

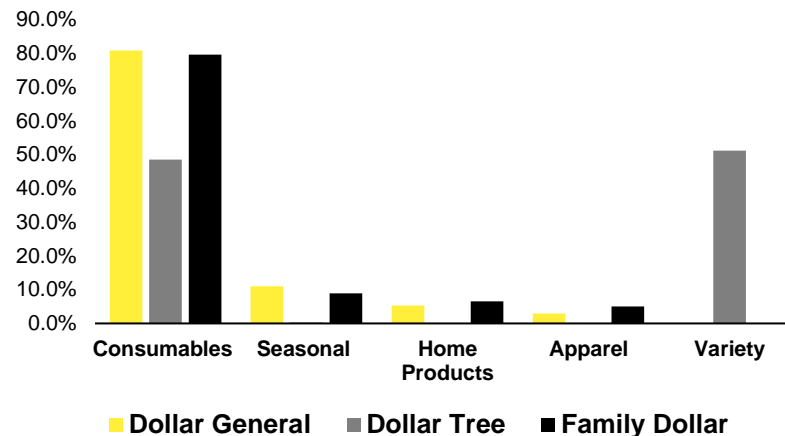


## Valuation

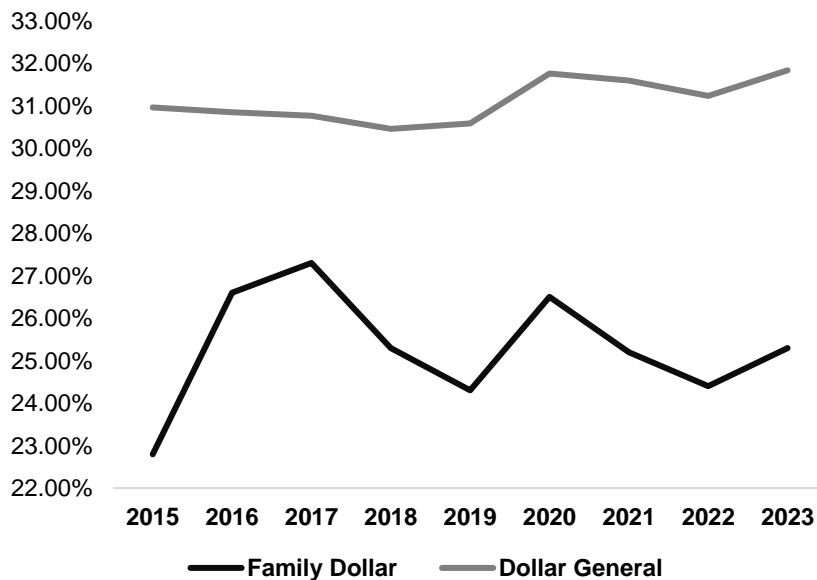
**DOLLAR TREE** **DOLLAR GENERAL**

<b>P/E</b>	20.12	11.08
<b>EPS (Q2)</b>	.91	2.14
<b>EBITDA (Q2)</b>	\$287.8	\$608M
<b>Net Income (Q2)</b>	\$200.4M	\$468.8M

## Revenue by Segment



## The Margin Difference



## Dollar General Winning the Consumables Fight

*“If you carry produce and you're in a rural area without a grocery store per se, and there's a competitor that doesn't have produce, you're going to come out on top.”<sup>1</sup>*

- Former Vice President of Leasing at Dollar Tree

**80%** of stores are in communities of 20,000 or less, many of which do not have access to a grocery store in the area

**3,900** stores currently have produce offerings, 5,000 will have access by the end of the year with goals of reaching 10,000 in coming years



(1) Tegus - Former Vice President of Leasing at Dollar Tree, Inc. (2023, September 20)  
Culverhouse Investment Management Group – Consumer Staples

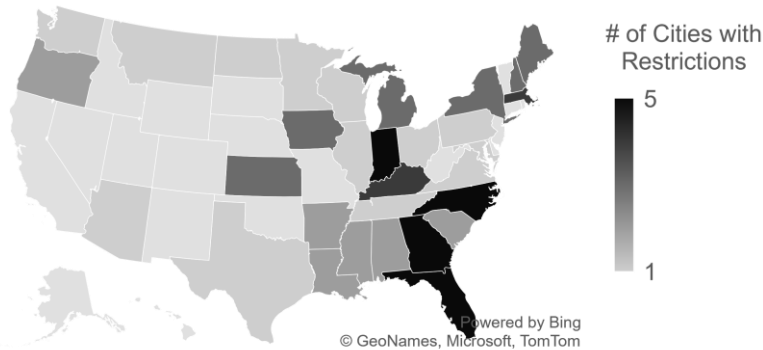




# Regulatory Issues and Why We Are Not Concerned

## Regulatory Issues

“There’s growing evidence that these stores are not merely a byproduct of economic distress. They’re a cause of it.” – Institute for Self-Reliance



## DG Fresh Addresses Food Desert Concerns

**DG Fresh Footprint:** More than 3,000 stores have transitioned into DG Markets to bring more goods to customers.

“We are aiming to provide communities with closer access to fresh foods”



“We believe DG Fresh provides a potential path to accelerating our produce offering in up to 10,000 stores over time”

## The Only Business That Can Operate

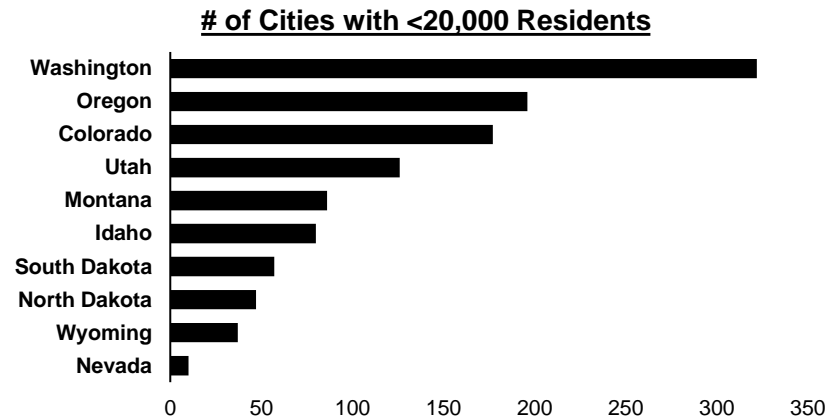
**Walmart Express**, 12,000-15,000 sq. ft. stores aimed at opening in rural towns and taking share from dollar stores, got completely shutdown in 2016. After 5 years and 102 stores in operation, the initiative was scrapped due to losing money.

**Government Tax Benefits:** Dollar General has received local tax benefits of almost \$50mm in the past two decades<sup>1</sup>. DG will receive tax benefits from many rural towns for opening stores.

**Walmart Food Deserts:** In 2016, Walmart had to shutdown 206 stores across the United States. Many of these shutdowns led to a creation of food deserts in the communities they operated in. In April of 2023, Walmart had a series of store shutdowns, again causing food deserts in those communities.

## How Will This Effect New Store Building?

In the 10 states with <100 Dollar General locations, only 5 cities total have any regulation against dollar stores. 75% of stores are in cities with 20,000 residents or less.

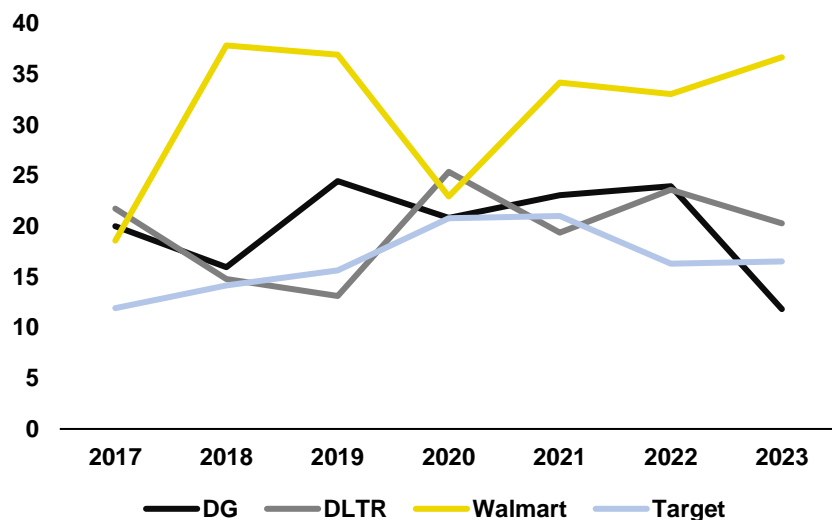


(1) Subsidytracker.org

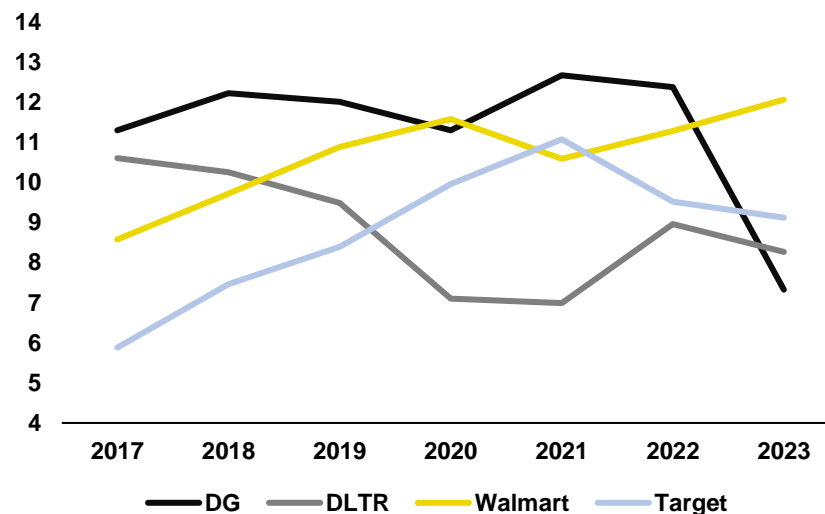
# A Great Business at a Cheap Price



## P/E Ratio



## EV/EBITDA Multiple



## Catalysts

### Short Term Problems Resolved Quickly

**Margin Turnaround:** Investments in inventory management should turnaround margins in the long term. Two more quarters of investments in labor hours should decrease markdowns, driving margins up.

**Same Store Sales Growth:** The historical lag of 1-2 quarters after price decreases should increase Same Store Sales growth by Q1 of 2024.

**New Store Buildout:** Dollar General should continue its historical record of opening new stores. We model out a decrease in new store buildouts over our projection period but are mostly in line with street. Management and Street believe DG has ~10 more years of new store buildouts.

## Risks

### Short Term Problems Become Long Term Problems

**Cash Flow:** Inventory investments take longer to turn around margins than expected. 6%-7% operating margins become the new average. This decreases cash flow, causing new store build out to decrease, and stopping any future stock buybacks.

**Same Store Sales Growth:** History does not repeat itself, and price decreases do not cause Same Store Sales growth to increase. DG historically gets 2%-4% increases in SSS, which is one of the two main drivers of top line growth.

**Macro Environment Stays Troubling:** Unemployment stays low, stopping middle class consumers from trading down, while inflation and costs remain high, stopping DG's core consumer from having more buying power.



Valuation

**DG**

**DOLLAR GENERAL**



## DCF Cover

Terminal Multiple EV/EBITDA - 10 Yr. DCF	
Terminal Value	\$ 66,986,378
PV of Terminal Value	\$ 27,654,872
PV of Free Cash Flow	\$ 16,967,319
<b>Enterprise Value</b>	<b>\$ 44,622,191</b>
Less: Debt	\$ 7,295,215
Less: Preferred / Other	\$ -
Plus: Cash	\$ 353,018
<b>Implied Equity Value</b>	<b>\$ 37,679,994</b>
Diluted Shares Outstanding	219,952
<b>Implied Share Price</b>	<b>\$ 171.31</b>
<i>Upside / (Downside)</i>	58.42%
<i>PV TV as a % of the Enterprise Value</i>	61.98%
Implied Long Term Growth Rate	2.88%

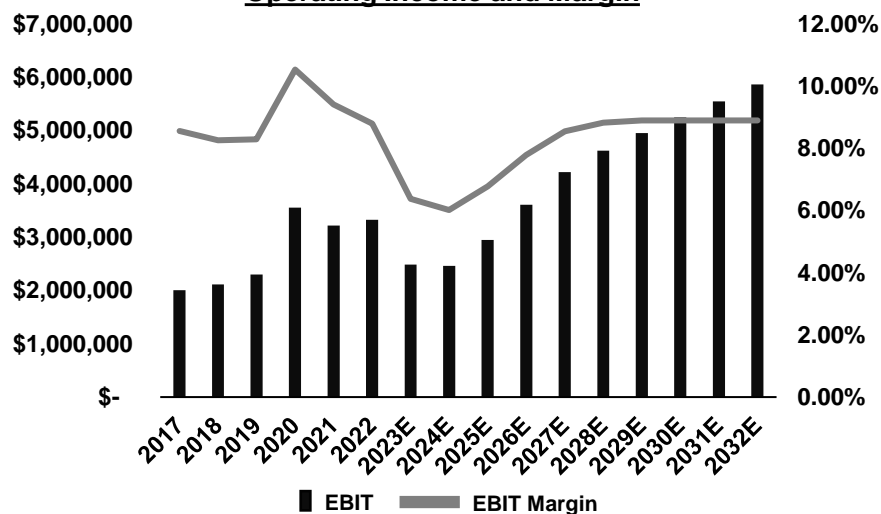
**Recommend a BUY at 7.5%  
Weight**

Blended Upside	
Multiple Valuation	\$ 171.31
LTGR Valuation	\$ 156.52
Multiple Weight	50%
LTGR Weight	50%
Implied Share Price	\$ 163.91
Current Share Price	\$ 108.14
<i>Upside / (Downside)</i>	52%

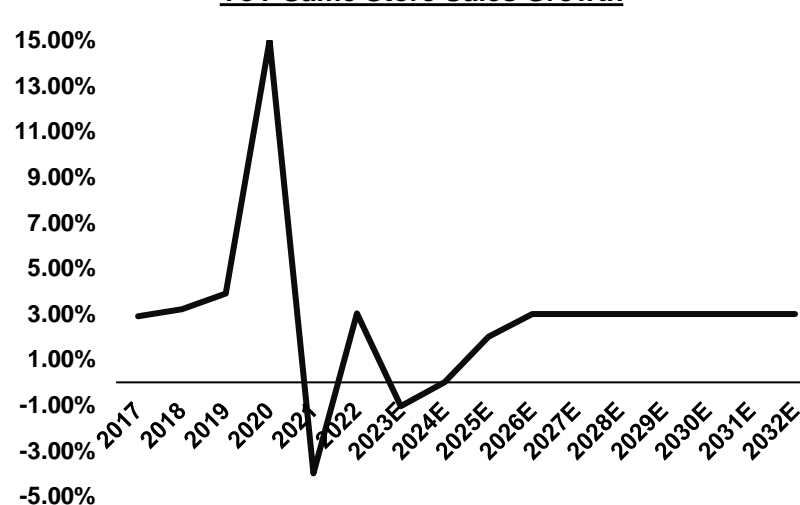
Long Term Growth Rate Method - 10 Yr. DCF	
Terminal Value	\$ 59,104,435
PV of Terminal Value	\$ 24,400,865
PV of Free Cash Flow	\$ 16,967,319
<b>Enterprise Value</b>	<b>\$ 41,368,185</b>
Less: Debt	\$ 7,295,215
Less: Preferred / Other	\$ -
Plus: Cash	\$ 353,018
<b>Implied Equity Value</b>	<b>\$ 34,425,988</b>
Diluted Shares Outstanding	219,952
<b>Implied Share Price</b>	<b>\$ 156.52</b>
<i>Upside / (Downside)</i>	44.73%
<i>PV TV as a % of the Enterprise Value</i>	58.98%
Implied Terminal Multiple	7.06x

## Our Thesis in the Model

## Operating Income and Margin



## YoY Same Store Sales Growth





**DOLLAR  
GENERAL®**

Appendix







Discounted Cash Flow Analysis											
	2022A	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
<b>Revenue</b>	37,844,863	38,964,214	40,973,658	43,466,765	46,401,743	49,380,072	52,377,777	55,653,476	58,941,814	62,364,421	65,931,475
<i>YoY Growth %</i>		3.0%	5.2%	6.1%	6.8%	6.4%	6.1%	6.3%	5.9%	5.8%	5.7%
<b>EBIT</b>	3,328,302	2,483,352	2,464,679	2,948,433	3,611,603	4,223,627	4,623,385	4,953,159	5,245,821	5,550,433	5,867,901
<i>YoY Growth %</i>		-25.4%	-0.8%	19.6%	22.5%	16.9%	9.5%	7.1%	5.9%	5.8%	5.7%
<i>Margin %</i>	8.8%	6.4%	6.0%	6.8%	7.8%	8.6%	8.8%	8.9%	8.9%	8.9%	8.9%
Taxes	700,625	521,504	517,583	619,171	758,437	886,962	970,911	1,040,163	1,101,623	1,165,591	1,232,259
<b>NOPAT</b>	2,627,677	1,961,848	1,947,096	2,329,262	2,853,166	3,336,666	3,652,474	3,912,996	4,144,199	4,384,842	4,635,642
<b>D&amp;A (+)</b>	724,877	862,302	934,199	991,042	1,234,286	1,313,510	1,592,284	1,691,866	2,015,810	2,132,863	2,505,396
<i>% of revenue</i>	1.9%	2.2%	2.3%	2.3%	2.7%	2.7%	3.0%	3.0%	3.4%	3.4%	3.8%
<b>Capex (-)</b>	1,560,582	1,521,293	1,556,999	1,651,737	1,763,266	1,876,443	1,990,356	2,114,832	2,239,789	2,369,848	2,505,396
<i>% of revenue</i>	4.1%	3.9%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
<b>FCF</b>	1,791,972	1,302,857	1,324,297	1,668,568	2,324,186	2,773,733	3,254,403	3,490,029	3,920,220	4,147,858	4,635,642
<i>YoY Growth %</i>		-27.3%	1.6%	26.0%	39.3%	19.3%	17.3%	7.2%	12.3%	5.8%	11.8%
<i>Margin %</i>	4.7%	3.3%	3.2%	3.8%	5.0%	5.6%	6.2%	6.3%	6.7%	6.7%	7.0%
Period		0.28	1.28	2.28	3.28	4.28	5.28	6.28	7.28	8.28	9.28
Discount Factor		0.97	0.88	0.80	0.73	0.66	0.60	0.55	0.50	0.45	0.41
<b>PV of FCF</b>		1,268,283	1,171,958	1,342,387	1,699,856	1,844,222	1,967,104	1,917,751	1,958,308	1,883,656	1,913,793
<b>EBITDA</b>	4,053,179	3,345,654	3,398,878	3,939,476	4,845,889	5,537,137	6,215,670	6,645,025	7,261,632	7,683,297	8,373,297
<i>YoY Growth %</i>		-17.5%	1.6%	15.9%	23.0%	14.3%	12.3%	6.9%	9.3%	5.8%	9.0%
<i>Margin %</i>	10.7%	8.6%	8.3%	9.1%	10.4%	11.2%	11.9%	11.9%	12.3%	12.3%	12.7%

## Sensitivity Table



Implied Share Price - Terminal Multiple EV/EBITDA						
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		Discount Rate						
		8.00%	9.00%	10.00%	11.00%	12.00%		
Terminal Multiple	6.00x	\$ 165.24	\$ 152.01	\$ 139.88	\$ 128.75	\$ 118.52	Mid DR:	10.00%
	8.00x	\$ 202.51	\$ 186.22	\$ 171.31	\$ 157.65	\$ 145.12	Mid TM:	10.00x
	10.00x	\$ 239.78	\$ 220.43	\$ 202.74	\$ 186.55	\$ 171.71	Step DR:	1.00%
	12.00x	\$ 277.05	\$ 254.65	\$ 234.18	\$ 215.45	\$ 198.30	Step TM:	2.00x
	14.00x	\$ 314.32	\$ 288.86	\$ 265.61	\$ 244.35	\$ 224.89		

Implied Share Price - Discount Rate/Long Term Growth Rate						
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		Discount Rate						
		8.00%	9.00%	10.00%	11.00%	12.00%		
Long Term Growth Rate	0.50%	\$ 191.67	\$ 161.34	\$ 137.63	\$ 118.62	\$ 103.08	Mid DR:	10.00%
	1.50%	\$ 214.53	\$ 177.54	\$ 149.48	\$ 127.52	\$ 109.90	Mid LTGR:	2.00%
	2.00%	\$ 228.81	\$ 187.37	\$ 156.52	\$ 132.71	\$ 113.83	Step DR:	1.00%
	2.50%	\$ 245.69	\$ 198.71	\$ 164.49	\$ 138.52	\$ 118.17	Step LTGR:	0.50%
	3.00%	\$ 265.95	\$ 211.95	\$ 173.61	\$ 145.05	\$ 122.99		

t

# Is Walmart a Threat



## Store Metrics

### Dollar General

Stores on average are 7,400 square feet

Average basket size ~\$20

75% of their 19,000 stores are in rural areas

### Walmart

Stores on average are 182,000 square feet

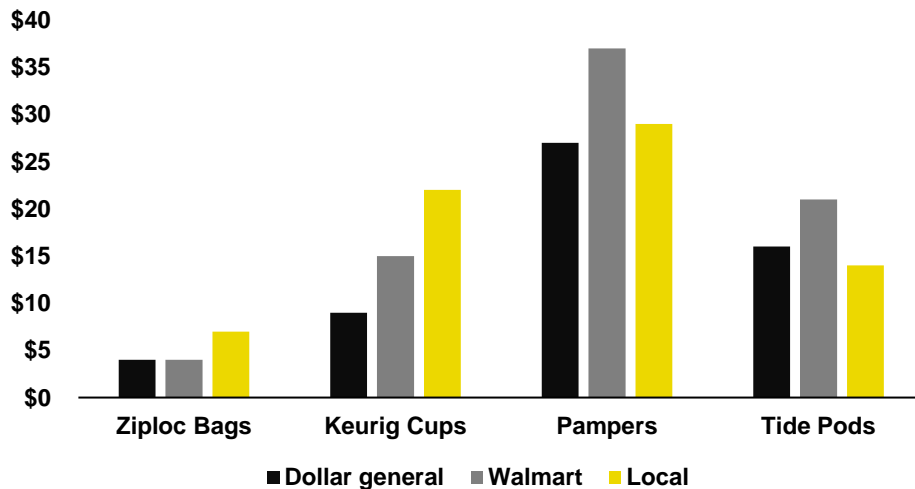
Average basket size ~\$54

~30%-40% of their 10,500 stores are in rural areas

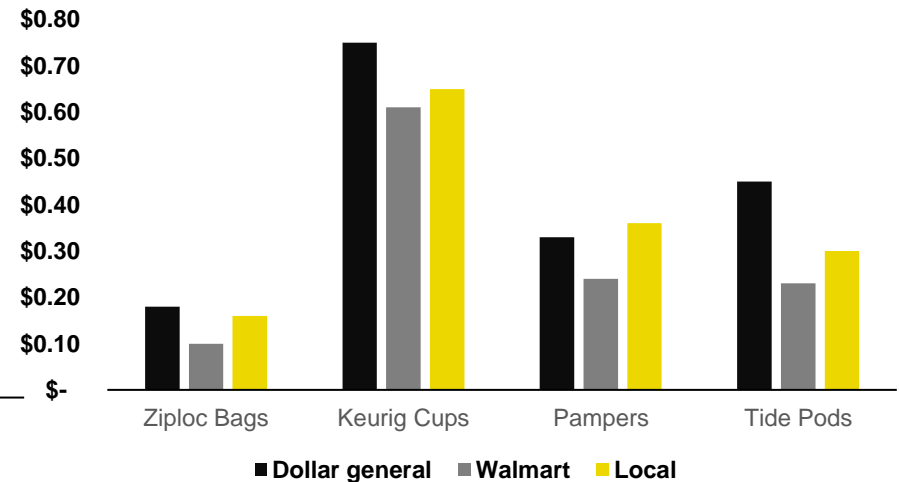
## Customer Demographic

DG customers cannot afford the larger size of goods offered at Walmart and other grocery stores. Price per unit has little effect on them. Furthermore, 80% of Americans live within 5 miles of a DG. Poor consumers cannot afford to travel 10+ miles to a Walmart/grocery store.

### Absolute Price of Goods



### Price per Unit of Goods







## Services Offered

### Preventative Care

Physicals and routine checkups

Vaccinations and Immunizations

Recommend Screenings

Lab Testing

Diagnostics

Children's Sports Physicals

Medical Clearance Letters

### Urgent Care Services

Cold, flu, and COVID-19

Skin issues and rashes

Urinary Tract Infections

Non-severe abdominal pain

Gastrointestinal concerns

Migraines

Wound care

## Product Mix



Digestive



Nutrition



Vitamins



Dental Care



Pain Relief



Cold & Flu



CEO Jeff Owen



Jeff has served as CEO and a member of the board since November of 2022. Before serving as CEO, he served as COO from August 2019 to November 2022. And even before these positions, he has been employed by DG for 21 years in various other areas.

Mr. Owens also served as a director for Kirkland's Inc. from March 2015 to September 2022.

CFO Kelly Dilts



Kelly has served as CFO for DG since May 1, 2023. Although, she has been with the company since July 2019 as the Senior VP of Finance.

Before DG, she served as an Executive VP and CFO of Francesca's, a specialty chain retailer. Before Francesca's, she held various positions with Tailored Brands, Inc. which include Senior VP, and Finance and Investor Relations.

CIO Carman Wenkoff



Carman has served as Executive VP and Chief Information Officer since July 2017.

Mr. Wenkoff, before DG, served as CIO for 5 years at Franchise World Headquarters where he gained experience in global technology and digital strategy, execution and operations for the Subway brand and its restaurants.

(1) Dollar General Investment Relations



### Current DG Stores in Mexico



Each store will include financial services, a bakery and a tortilleria. Products are sourced primarily from Mexico and include fresh produce, health and beauty products, home cleaning supplies, pet care, housewares, stationery, and other household essentials.

**10 more stores expected to open in Mexico by end of FY 2023**

#### Mexico

Rural area accounts for 80% of land mass. Rural population is 34 million people, which is 35% of the Mexican Population

Average income for a Mexican Citizen is \$1295/month, which is \$20,340/year

43.5% of the Mexican population lives below the country's poverty line.

#### United States

Rural area accounts for 97% of land mass. Rural population is 60 million people, which is 18% of the American Population

Average income for an American Citizen is \$2594/month, which is \$31,133/year

11.6% of the United States population lives below the country's poverty line.