

Dollar Tree, Inc.

Path to \$10 in EPS becomes less clear; reiterate Underperform

Reiterate Rating: UNDERPERFORM | PO: 120.00 USD | Price: 127.42 USD

DLTR F4Q adj. EPS \$2.55; comp sales +3%

F4Q adj. EPS of \$2.55 was slightly below our \$2.60 estimate and the Street at \$2.66. Comp sales increased 3% y/y, including a +6.3% increase at DT partially offset by a (1.2%) decline at FDO. Both DT and FDO saw traffic increases (+7.1% at DT and +0.7% at FDO) offset by declines in average ticket – (0.7%) at DT and (2%) at FDO. Adjusted GM increased 220bps y/y as lower freight costs, occupancy cost leverage from the extra week, and higher vendor allowances were partially offset by product cost inflation, unfavorable sales mix, and elevated shrink.

Adjust estimates given incremental shrink & mix pressure

We lower our calendar 2024 (F2025) EPS estimate to \$6.80 (from \$7.00). We expect shrink and mix headwinds to negatively impact 1H EPS by (\$0.30) to (\$0.35) but expect y/y improvement in 2H from easing comparisons and a \$0.15 benefit from the closing of 600 underperforming FDO stores in 1H. DLTR also expects a slightly lower benefit from freight (+\$0.80-0.90 versus +\$1.00 previously) given adverse conditions in the Panama Canal and Red Sea. We expect SG&A to remain elevated in 2024 given continued transformation expenses and incremental costs for DT to reconfigure ~3k stores to its expanded multi-price format.

Path to \$10 in EPS becomes less clear

We estimate EPS of \$8.75 in calendar 2026 (F2027), below DLTR's \$10 2026 EPS target first laid out at its 2023 Analyst Day, as the company faces elevated pressure from shrink and mix. We expect these headwinds to be partially offset by continued progress on several strategic initiatives, including 1) planogram resets (completed in 4Q23) and private brand expansion at FDO, 2) DT's multi-price point expansion, with plans to expand the multi-price assortment by over 300 items across 3k stores at price points ranging from \$1.50 to \$7.00 at DT, 3) supply chain improvements, and 4) IT improvements. We believe that success at the Dollar Tree banner has become increasingly important to achieving the company's long-term targets, but we see continued risks associated with its multi-price point rollout, including competitive and operational challenges.

See continued risks; reiterate Underperform

We reiterate our Underperform rating and expect risks associated with DLTR's transformation initiatives and multi-price rollout to outweigh the potential longer-term benefits. We raise our PO to \$120 (from \$105), based on 15x (unchanged) our C25/F26 (was C24/F25) EPS estimate of \$8.00.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	7.21	5.89	6.80	8.00	8.75
GAAP EPS	7.21	(4.55)	6.80	8.00	8.75
EPS Change (YoY)	24.3%	-18.3%	15.4%	17.6%	9.4%
Consensus EPS (Bloomberg)			7.02	8.26	NA
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	17.7x	21.6x	18.7x	15.9x	14.6x
GAAP P/E	17.7x	NM	18.7x	15.9x	14.6x
EV / EBITDA*	10.5x	12.0x	11.0x	9.7x	9.1x
Free Cash Flow Yield*	0.1%	2.6%	0.4%	0.6%	2.4%

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Refer to important disclosures on page 7 to 9. Analyst Certification on page 5. Price Objective Basis/Risk on page 5.

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Timestamp: 18 March 2024 10:10AM EDT

18 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	105.00	120.00
2025E Rev (m)	31,612.8	31,320.8
2026E Rev (m)	33,457.1	33,142.8
2027E Rev (m)	NA	34,965.7
2025E EPS	7.00	6.80
2027E EPS	NA	8.75

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Stock Data

Price	127.42 USD
Price Objective	120.00 USD
Date Established	18-Mar-2024
Investment Opinion	B-3-9
52-Week Range	102.77 USD - 161.10 USD
Mrkt Val (mn) / Shares Out (mn)	27,761 USD / 217.9
Free Float	94.2%
Average Daily Value (mn)	377.46 USD
BofA Ticker / Exchange	DLTR / NAS
Bloomberg / Reuters	DLTR US / DLTR.OQ
ROE (2025E)	18.2%
Net Dbt to Eqty (Jan-2024A)	37.5%

C = calendar

DT = Dollar Tree banner

F = fiscal

FDO = Family Dollar banner

GM = Gross Margin

k = thousand

* For full definitions of *IQmethod*SM measures, see page 6.



iQprofileSM Dollar Tree, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	8.7%	7.0%	7.9%	8.5%	8.3%
Return on Equity	19.6%	16.1%	18.2%	17.7%	16.2%
Operating Margin	7.9%	5.8%	6.4%	7.1%	75.4%
Free Cash Flow	41	718	125	179	671

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	0.8x	2.2x	1.6x	1.5x	1.4x
Asset Replacement Ratio	1.6x	2.5x	2.6x	2.5x	2.1x
Tax Rate	23.5%	23.1%	23.5%	23.5%	23.5%
Net Debt-to-Equity Ratio	31.8%	37.5%	30.4%	23.8%	14.7%
Interest Cover	17.8x	16.7x	21.1x	21.2x	27.7x

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	28,332	30,604	31,321	33,143	34,966
% Change	7.6%	8.0%	2.3%	5.8%	5.5%
Gross Profit	8,935	9,418	9,821	10,506	11,108
% Change	15.5%	5.4%	4.3%	7.0%	5.7%
EBITDA	3,004	2,629	2,869	3,248	3,463
% Change	18.9%	-12.5%	9.1%	13.2%	6.6%
Net Interest & Other Income	(126)	(107)	(95)	(110)	(90)
Net Income (Adjusted)	1,616	1,293	1,464	1,703	1,845
% Change	21.7%	-20.0%	13.2%	16.4%	8.3%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	1,616	(998)	1,464	1,703	1,845
Depreciation & Amortization	768	841	861	911	961
Change in Working Capital	(1,093)	685	0	(135)	(135)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	2,292	0	0	0
Capital Expenditure	(1,249)	(2,101)	(2,200)	(2,300)	(2,000)
Free Cash Flow	41	718	125	179	671
% Change	-90.3%	NM	-82.6%	43.9%	274.2%
Share / Issue Repurchase	(583)	(2,732)	0	0	1
Cost of Dividends Paid	0	0	0	0	(1)
Change in Debt	5	5	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	643	685	756	936	1,609
Trade Receivables	0	0	0	0	0
Other Current Assets	5,724	5,448	5,575	5,900	6,224
Property, Plant & Equipment	4,972	6,144	7,483	8,873	9,912
Other Non-Current Assets	11,683	9,747	9,747	9,747	9,747
Total Assets	23,022	22,024	23,562	25,455	27,492
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,776	3,184	3,258	3,448	3,637
Long-Term Debt	3,422	3,426	3,426	3,426	3,426
Other Non-Current Liabilities	1,369	1,140	1,140	1,140	1,140
Total Liabilities	14,271	14,710	14,785	14,975	15,164
Total Equity	8,752	7,313	8,777	10,480	12,327
Total Equity & Liabilities	23,022	22,024	23,562	25,455	27,492

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Supermarkets/Food Retailers

Company Description

Dollar Tree is one of the largest dollar store chains in the United States, with over \$25bn in revenues in 2020. The company operates 15,685 stores in 48 US states and five provinces in Canada under the Dollar Tree, Family Dollar, and Dollar Tree Canada banners, and stores carry an assortment of consumables, general merchandise, and seasonal products.

Investment Rationale

We rate DLTR shares Underperform. We expect continued profitability challenges to offset recent traffic improvements, as strategic initiatives at both banners could pressure mix and elevate SG&A expenses. We also see increasing competitive risks at the Dollar Tree banner as it competes at higher price points.

Stock Data

Average Daily Volume 2,962,310

Quarterly Earnings Estimates

	2024	2025
Q1	1.47A	1.49E
Q2	0.91A	1.30E
Q3	0.97A	1.42E
Q4	2.55A	2.59E



Exhibit 1: DLTR quarterly earnings analysis

\$ millions, except per-share data

	Net Sales	Cost of Sales	Operating Expenses	Op Profit	Interest Expense	Other, net	Pre-Tax Inc.	Inc. Tax	bef. Extra	Gain (Loss)	Net Inc.	Operating EPS	Rep. EPS	Out (MM)
Apr-Q1	\$6,902.6	\$4,559.6	\$1,611.5	\$731.5	\$34.0	\$0.0	\$697.5	\$161.1	\$536.4	\$0.0	\$536.4	\$2.37	\$2.37	226.4
Jul-Q2	\$6,768.5	\$4,640.9	\$1,622.2	\$505.4	\$30.6	\$0.0	\$474.8	\$114.8	\$360.0	\$0.0	\$360.0	\$1.60	\$1.60	225.0
Oct-Q3	\$6,939.9	\$4,865.1	\$1,693.5	\$381.3	\$32.7	\$0.2	\$348.4	\$81.5	\$266.9	\$0.0	\$266.9	\$1.20	\$1.20	223.0
Jan-Q4	\$7,720.7	\$5,330.7	\$1,771.9	\$618.1	\$28.0	\$0.1	\$590.0	\$137.8	\$452.2	\$0.0	\$452.2	\$2.04	\$2.04	221.9
F2023	\$28,331.7	\$19,396.3	\$6,699.1	\$2,236.3	\$125.3	\$0.3	\$2,110.7	\$495.2	\$1,615.5	\$0.0	\$1,615.5	\$7.21	\$7.21	224.1
Apr-Q1	\$7,323.8	\$5,089.1	\$1,785.0	\$449.7	\$25.9	\$0.1	\$423.7	\$98.6	\$325.1	-\$26.1	\$299.0	\$1.47	\$1.35	221.7
Jul-Q2	\$7,325.3	\$5,185.4	\$1,852.1	\$287.8	\$24.2	-\$0.1	\$263.7	\$63.3	\$200.4	\$0.0	\$200.4	\$0.91	\$0.91	220.5
Oct-Q3	\$7,314.8	\$5,136.1	\$1,877.0	\$301.7	\$30.4	\$0.2	\$271.1	\$59.1	\$212.0	\$0.0	\$212.0	\$0.97	\$0.97	219.2
Jan-Q4	\$8,639.9	\$5,775.2	\$2,115.6	\$749.1	\$26.3	-\$0.1	\$722.9	\$167.2	\$555.7	-\$2,265.5	-\$1,709.8	\$2.55	-\$7.85	217.9
F2024	\$30,603.8	\$21,185.8	\$7,629.7	\$1,788.3	\$106.8	\$0.1	\$1,681.4	\$388.2	\$1,293.2	-\$2,291.6	-\$998.4	\$5.89	-\$4.55	219.5
Apr-Q1E	\$7,629.0	\$5,302.2	\$1,881.4	\$445.5	\$23.8	\$0.0	\$421.7	\$99.1	\$322.6	\$0.0	\$322.6	\$1.49	\$1.49	216.9
Jul-Q2E	\$7,581.1	\$5,268.9	\$1,920.6	\$391.6	\$23.8	\$0.0	\$367.8	\$86.4	\$281.4	\$0.0	\$281.4	\$1.30	\$1.30	215.9
Oct-Q3E	\$7,657.5	\$5,299.0	\$1,935.2	\$423.3	\$23.8	\$0.0	\$399.5	\$93.9	\$305.6	\$0.0	\$305.6	\$1.42	\$1.42	214.9
Jan-Q4E	\$8,453.1	\$5,629.8	\$2,075.1	\$748.3	\$23.8	\$0.0	\$724.5	\$170.3	\$554.2	\$0.0	\$554.2	\$2.59	\$2.59	213.9
F2025E	\$31,320.8	\$21,499.8	\$7,812.3	\$2,008.7	\$95.2	\$0.0	\$1,913.5	\$449.7	\$1,463.8	\$0.0	\$1,463.8	\$6.80	\$6.80	215.4
F2026E	\$33,142.8	\$22,636.6	\$8,169.4	\$2,336.8	\$110.2	\$0.0	\$2,226.6	\$523.3	\$1,703.4	\$0.0	\$1,703.4	\$8.00	\$8.00	212.9
PERCENTAGE CHANGE %				MARGIN ANALYSIS (% OF NET SALES)										
		Dollar Tree Comps	Family Dollar Comps	Total Same-Store Sales	Total Operating Expense	Op Profit	Op EPS		Gross Margin	Exp Ratio	EBITDA Margin	Op. Margin	Tax Rate	Net Margin
Apr-Q1	6.5%	11.2%	-2.8%	4.4%	11.4%	40.7%	48.3%		33.94%	23.35%	13.33%	10.60%	23.1%	10.10%
Jul-Q2	6.7%	7.5%	2.0%	4.9%	11.0%	25.7%	30.0%		31.43%	23.97%	10.33%	7.47%	24.2%	7.01%
Oct-Q3	8.1%	8.6%	4.1%	6.5%	16.4%	22.8%	24.7%		29.90%	24.40%	8.21%	5.49%	23.4%	5.02%
Jan-Q4	9.0%	8.7%	5.8%	7.4%	13.5%	6.8%	1.5%	-	30.96%	22.95%	10.55%	8.01%	23.4%	7.64%
F2023	7.6%	9.0%	2.4%	5.9%	13.0%	23.5%	24.3%		31.54%	23.65%	10.60%	7.89%	23.5%	7.45%
Apr-Q1	6.1%	3.4%	6.6%	4.8%	10.8%	-38.5%	-38.1%		30.51%	24.37%	8.82%	6.14%	23.3%	5.79%
Jul-Q2	8.2%	7.8%	5.8%	6.9%	14.2%	-43.1%	-43.2%		29.21%	25.28%	6.70%	3.93%	24.0%	3.60%
Oct-Q3	5.4%	5.4%	2.0%	3.9%	10.8%	-20.9%	-19.2%		29.78%	25.66%	7.07%	4.12%	21.8%	3.71%
Jan-Q4	11.9%	6.3%	-1.2%	3.0%	19.4%	21.2%	25.1%	-	33.16%	24.49%	11.29%	8.67%	23.1%	8.37%
F2024	8.0%	5.8%	3.2%	4.6%	13.9%	-20.0%	-18.3%		30.77%	24.93%	8.59%	5.84%	23.1%	5.49%
Apr-Q1E	4.2%	5.0%	0.0%	2.8%	5.4%	-0.9%	1.4%		30.50%	24.66%	8.61%	5.84%	23.5%	5.53%
Jul-Q2E	3.5%	4.0%	1.0%	2.7%	3.7%	36.1%	43.4%		30.50%	25.33%	7.97%	5.17%	23.5%	4.85%
Oct-Q3E	4.7%	5.0%	2.0%	3.7%	3.1%	40.3%	47.1%		30.80%	25.27%	8.54%	5.53%	23.5%	5.22%
Jan-Q4E	-2.2%	5.0%	3.0%	4.2%	-1.9%	-0.1%	1.6%	-	33.40%	24.55%	11.76%	8.85%	23.5%	8.57%
F2025E	2.3%	4.8%	1.5%	3.4%	2.4%	12.3%	15.3%		31.36%	24.94%	9.29%	6.41%	23.5%	6.11%
F2026E	5.8%	4.0%	3.0%	3.6%	4.6%	16.3%	17.7%		31.70%	24.65%	9.89%	7.05%	23.5%	6.72%

Source: Company filings, BofA Global Research estimates

BofA GLOBAL RESEARCH



Price objective basis & risk

Dollar Tree, Inc. (DLTR)

Our \$120 PO is based on 15x (at the lower end of the company's historical average) our F26E EPS estimate of \$8.00. Our PO assumes that DLTR multiples could compress given unknown headwinds associated with its accelerated multi-price point rollout.

Downside risks to our PO are increased price competition given the highly competitive food retail industry, pressures from a macroeconomic slowdown or lower consumer confidence, SNAP benefit cuts, volatility in food product costs, and increased wage pressures.

Upside risks to our PO are a same-store sales acceleration, improved margins supported by discretionary category growth, accelerated store growth, and a rollback of tariffs.

Analyst Certification

I, Robert F. Ohmes, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	Arhaus, Inc	ARHS	ARHS US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Mattel	MAT	MAT US	Alexander Perry
	Mister Car Wash	MCW	MCW US	Robert F. Ohmes, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Robert F. Ohmes, CFA
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Upbound Group Inc.	UPBD	UPBD US	Vicky Liu
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
NEUTRAL				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOXF	FOXF US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Williams-Sonoma	WSM	WSM US	Robert F. Ohmes, CFA
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Robert F. Ohmes, CFA
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA
	Tractor Supply Company	TSCO	TSCO US	Robert F. Ohmes, CFA



US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

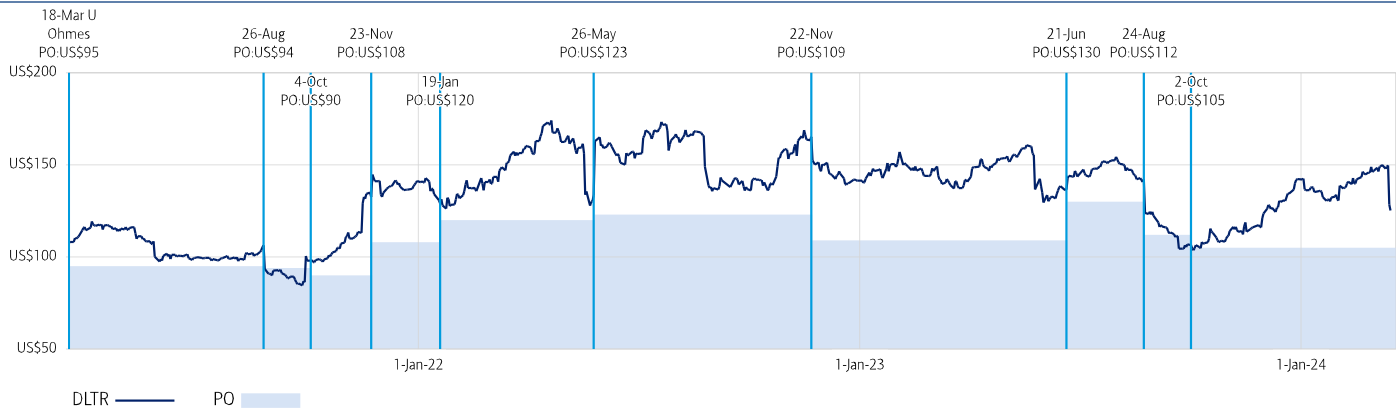
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Disclosures

Important Disclosures

Dollar Tree (DLTR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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