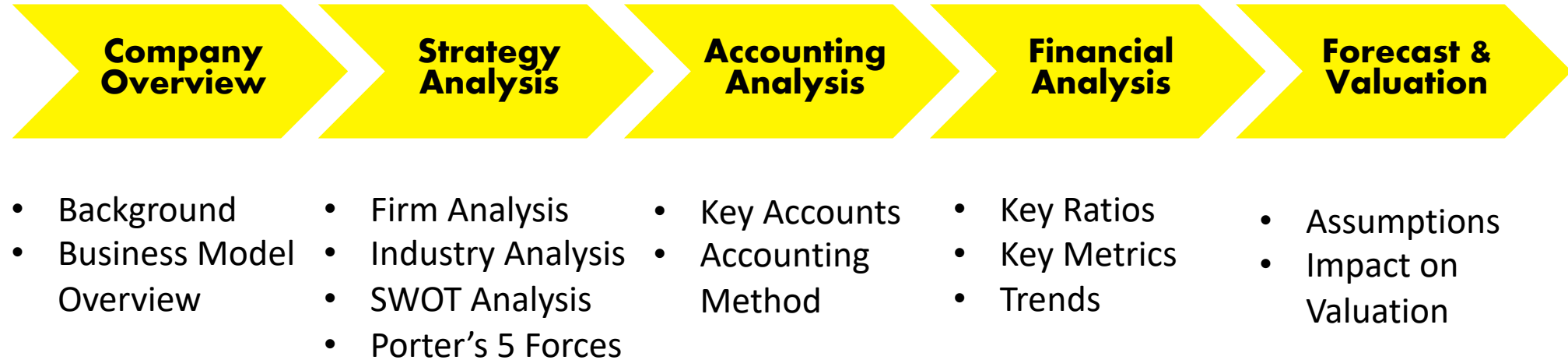


DOLLAR GENERAL®

Stock Pitch Presentation

Agenda



DOLLAR GENERAL®

Strategy Analysis

Company Overview - Background

Founded in 1939, Dollar General Corporation (NYSE: DG) is an American chain of discount retail stores offering frequently used and replenished products



Product Offerings: Revenue & Profits

Dollar General has established itself as a leader in the discount retailer industry with high revenues and consistent profit margins.

Products

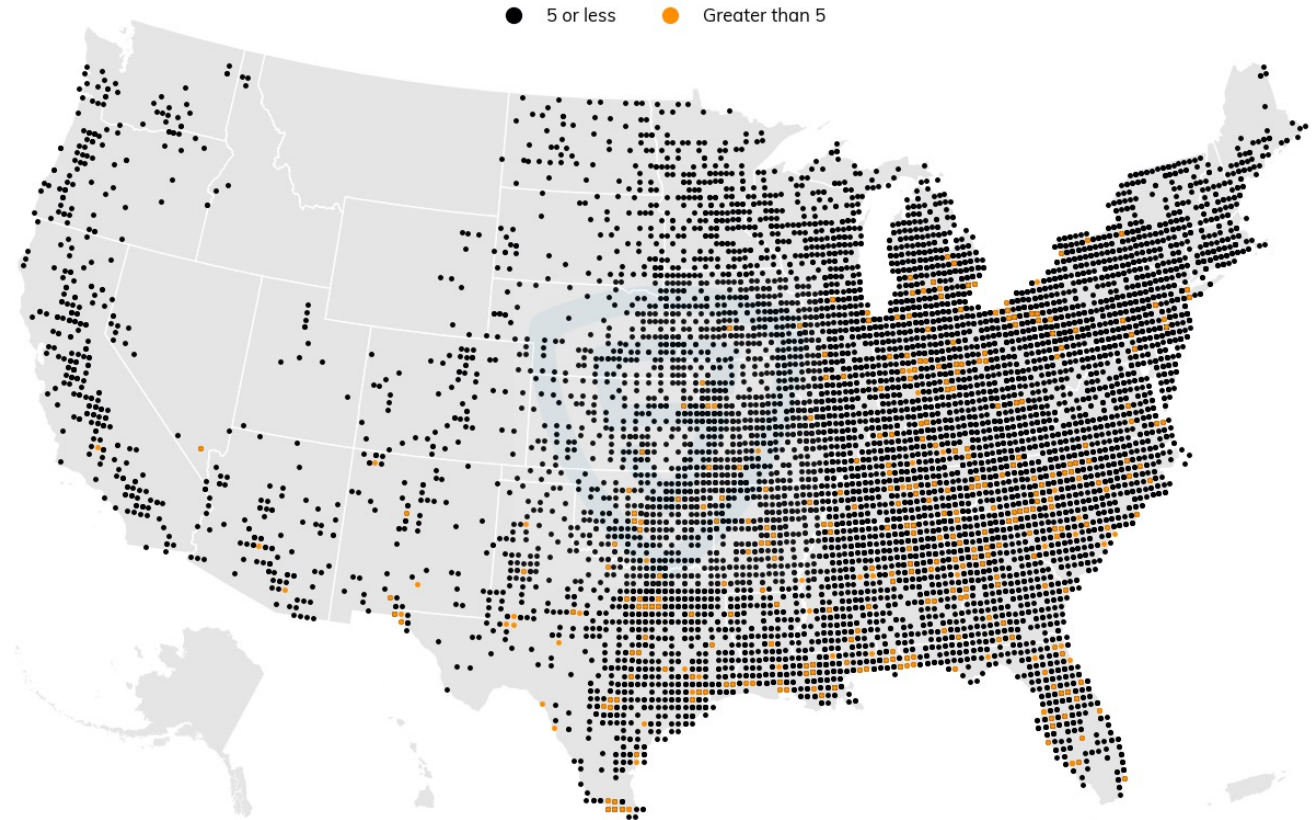
- In fiscal 2021, 76.7% of net sales came from **consumables**, 12.2% from **seasonal merchandise**, 6.8% from **home products**, and 4.3% from **basic apparel**.
- Over 80% over items are sold at a price of \$5 or below
- Partners with high-quality private brands and manufactures
 - Clorox, P&G, Coca-Cola, Unilever, Hanes, Kellogg's, General Mills, Energizer, Pepsi-Co

Annual Revenue

- Roughly \$34 million in 2021 from sales – Highest among competitors
- *Private-label goods* account for DG's *highest profit margins*

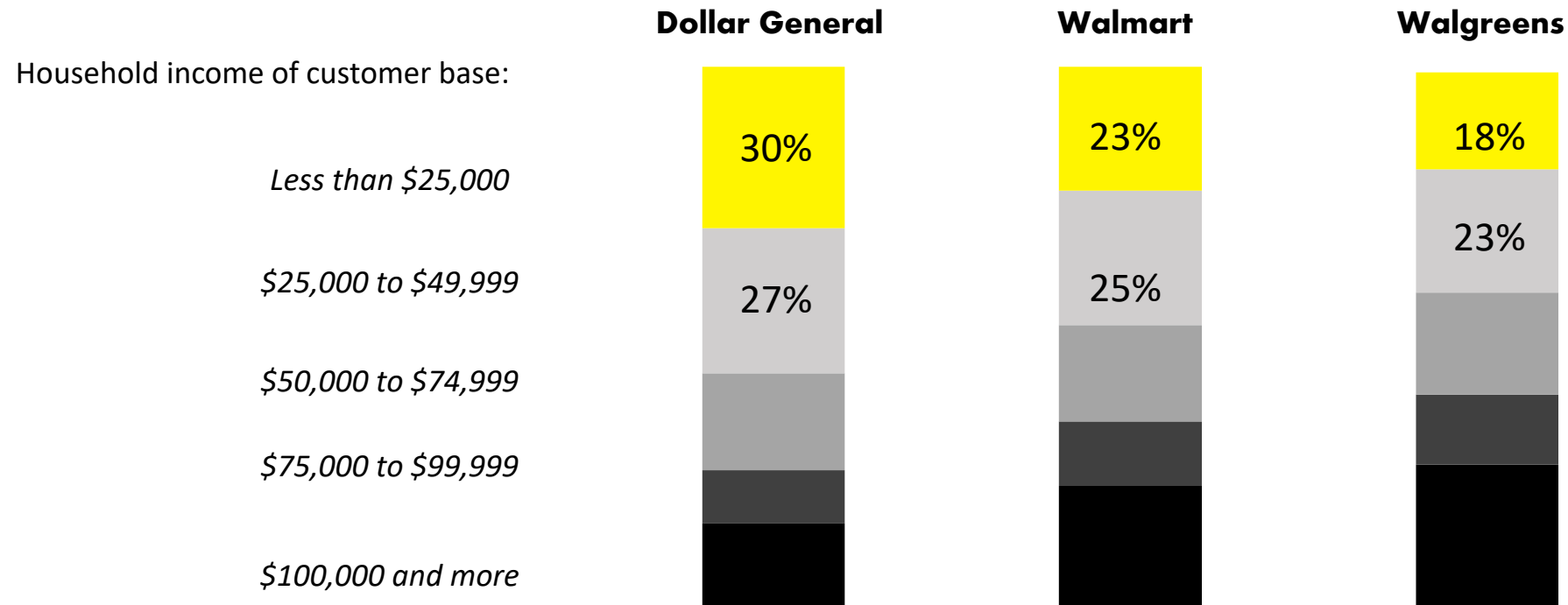
Distribution Channel & Region

- Dollar General currently has locations in **47 states** and is looking to expand its reach internationally.
 - Open 10 stores in Mexico by early 2023
- Intentions to open **1,000 new stores every year**.
- Roughly **75%** of Dollar General stores operate in towns with **populations of 20,000 or less**.



Customers and Industry

DG earns higher returns on lower income as compared to its biggest competitors.



Overall Industry

Dollar General competes with a variety of discount retail stores including major players such as Dollar Tree, Big Lots, and Five Below, Family Dollar, and Walmart.

Industry market share:

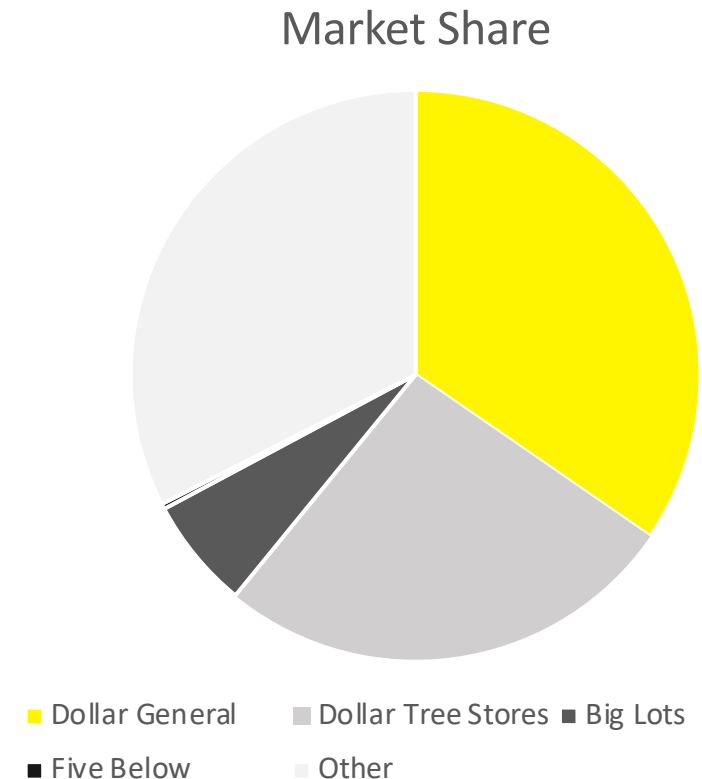
- Dollar General accounts for 34.6% of the overall industry

Industry Growth

- Industry growth is expected to be 4.4% from 2021-2026
- Industry growth has historically been, 3.5% (2018-2022)

Dollar General:

- Historical growth (2018-2022): 10%
- Expected growth (long run): 3%



SWOT Analysis

S

- Ability to effectively manage operations at low costs
- Focuses on a niche target market.
- Keeping product prices low and sales volumes high.

W

- Reputation damages
- Employee lawsuit

O

- Increased product variety – “Popshelf”
- Store expansion – 1,000 store opens a year
- DG branded products
- Adapting their product range to meet consumer needs.

T

- Increasing competition from online retailers
- Supermarkets shifting to online order and delivery

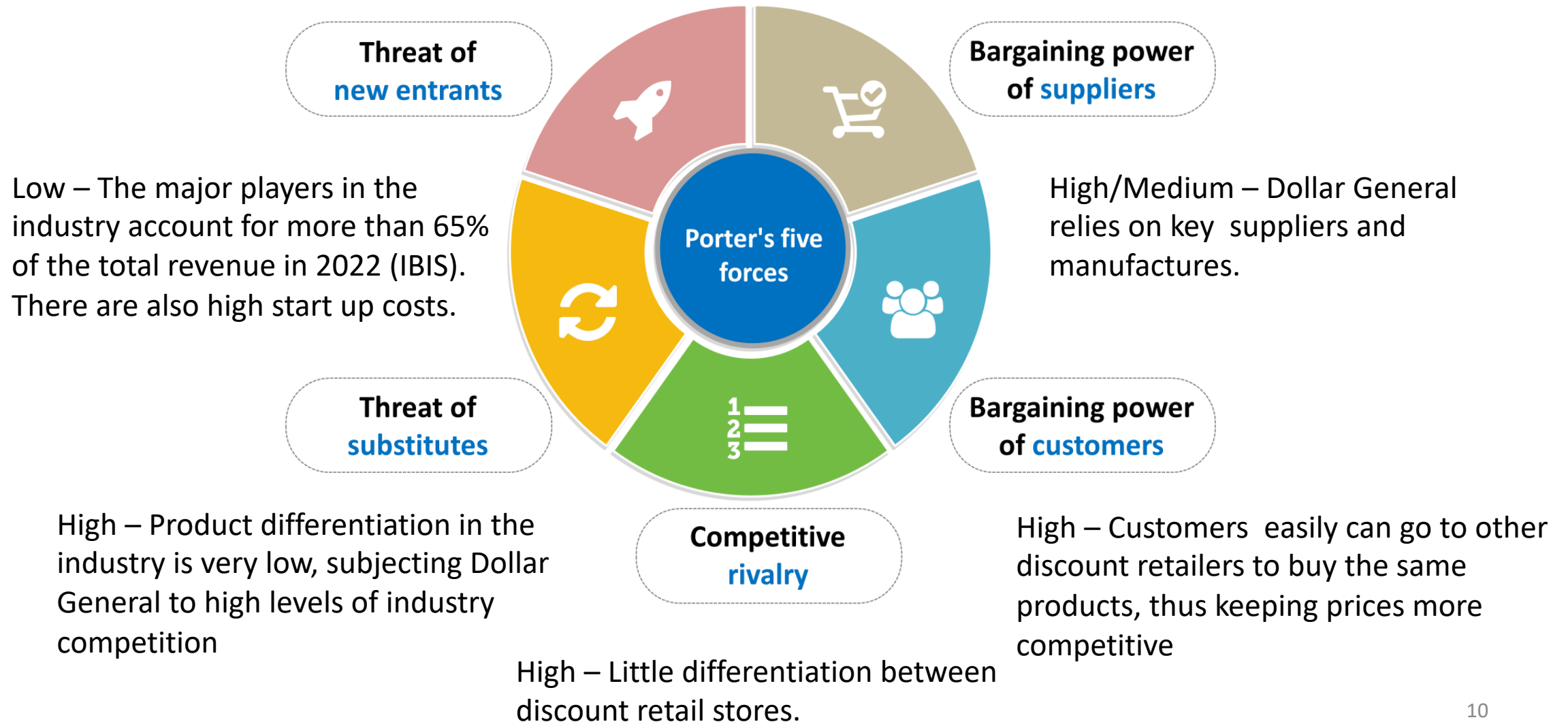
**Driving
profitable sales
growth**

**Leveraging our
position as a
low-cost
operator**

**Capturing growth
opportunities**

**Investing in our
diverse teams
through DEI**

Strategy Analysis – Porter's 5 Forces



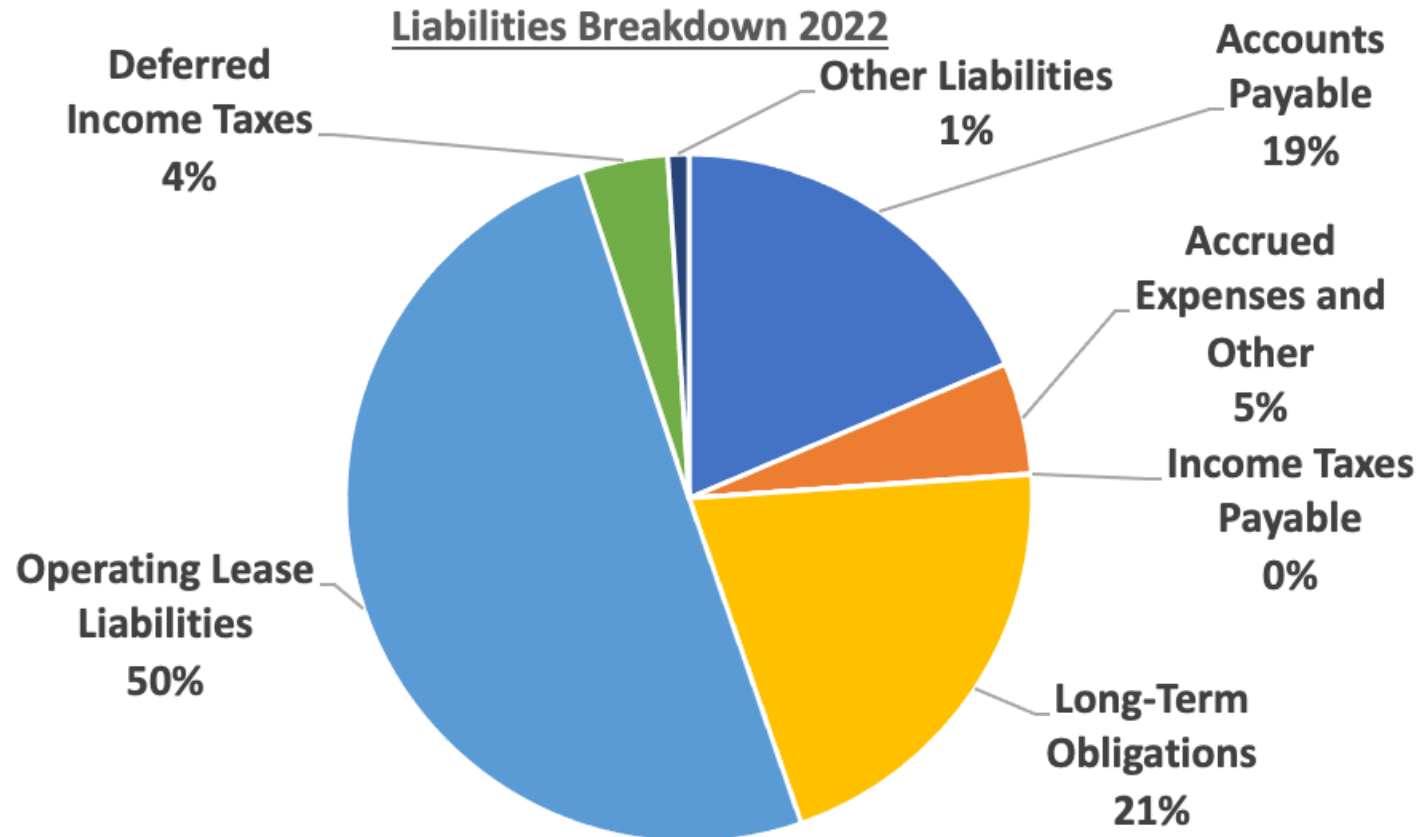
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Accounting Analysis

Accounting Analysis – Key Accounts

Operating Lease Liabilities

- In 2019, ASC842: must list operating leases on BS
- 2019: \$0 → 2020: \$8.8B → Liabilities increased 138%





Accounting Analysis – Key Accounts

Operating Lease Liabilities

	2019	2020	2021	2022
Stores Opened	975	1,000	1,050	1,110





Operating Leases: 7.5% annual increase



- Forecast Impact:  operating lease liabilities (assets) 4% annually
 - Lower than historical growth because: $16k/15k=6.66\%$ increase. $21k/20k=5\%$ increase.

Accounting Analysis – Key Accounts

Operating Lease Liabilities

- Current Ratio = Current Assets / Current Liabilities
 - Current portion of operating lease liabilities  , current ratio. 
 - 2022 CR = 1.05
 - Prepared to pay short-term obligations
- Debt-to-Equity Ratio
 - Higher D:E ratio  riskier  higher interest rates

	2019	Today
Debt-to-Equity Ratio	1.06	3.20

Accounting Analysis – Key Accounts

Interest Expense

- ASC842: Operating Lease Obligations ↑ liabilities, ↑ risk, ↑ interest
- Interest Expense
 - 2019: \$100M → 2021: \$150M
- Impact on valuation: ↑ interest expense 4% annually
 - Correlate interest growth with operating leases (largest liability)
- Interest Coverage Ratio = EBITDA / Interest Expense

	2023	2027
Constant	22.49	29.17
4% Interest Growth	21.62	23.98

Accounting Analysis – Inventory Valuation Method: LIFO

- LIFO: "Last-in-First-out"
- Most retailers / competitors (including Dollar Tree) use FIFO.
- Why LIFO?
 - Reduces tax liability in inflation (Higher net income vs Dollarama / Dollar Tree)
 - IFRS prohibits LIFO – DG only located in US
- Conclusion: LIFO = appropriate inventory valuation method

Accounting Analysis – Revenue Recognition

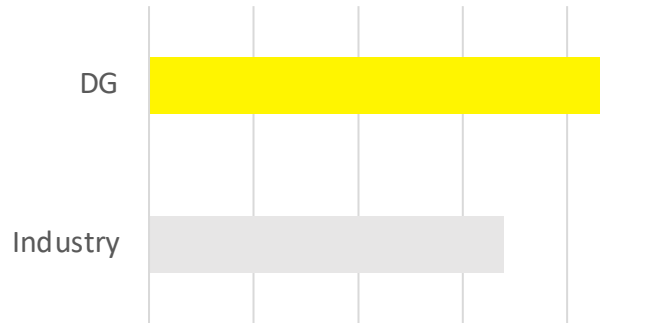
- Only sells products, not services
- Revenue recognized upon sale, net of discounts / sales taxes
- Due to low prices and B2C, no credit extended to customers

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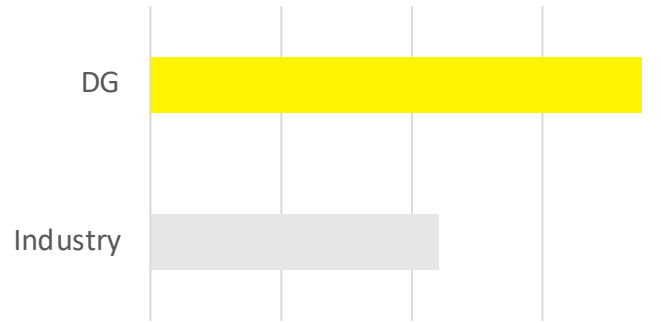
Financial Analysis

Financial Analysis – Profitability Ratios

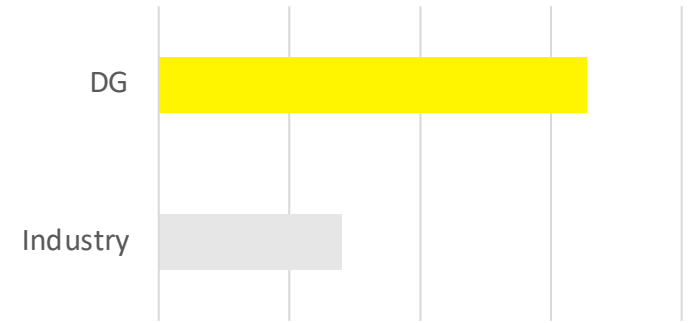
Net Profit Margin 2022 – 6.56%



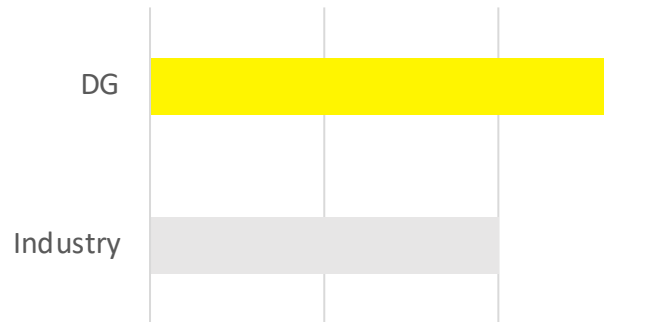
ROE 2022 – 0.38



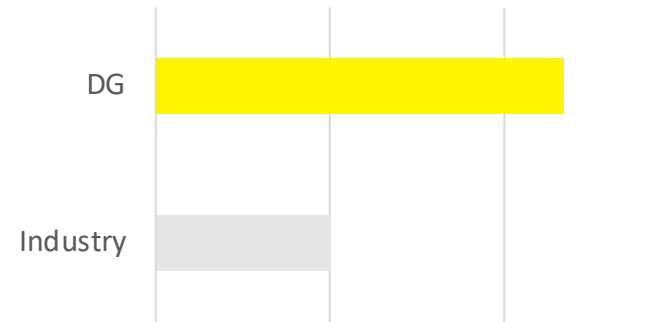
ROA 2022 – 9.1%



Asset Turnover 2022 – 1.30



Inventory Turnover 2022 – 4.17



Financial Analysis – Profit Margin

Year Ended Jan 28th					
(billions)	2018	2019	2020	2021	2022
Sales	\$23.47	\$25.63	\$27.75	\$33.75	\$34.22
Net Income	\$1.54	\$1.59	\$1.71	\$2.66	\$2.40
Profit Margin	6.56%	6.20%	6.17%	7.87%	7.01%
Sales Growth	6.75%	9.18%	8.31%	21.59%	1.40%

- 2012 → 2017 profit margin stable ~ 5%
- 2018+ profit margin trending upwards
- 2020: surge in sales as consumers budget during COVID
- 2022 sales growth =/= poor performance
 - 1.4% growth means DG retained sales

Financial Analysis – ROE and DuPont

ROE = Net Income/Sales x Sales/Average Total Assets x Average Total Assets/Average Common Equity
Profit Margin x Asset Turnover x Financial Leverage

(billions)	2018	2019	2020	2021	2022
Net Income	\$1.54	\$1.59	\$1.71	\$2.66	\$2.40
Sales	\$23.47	\$25.63	\$27.75	\$33.75	\$34.22
Total Assets	\$12.52	\$13.2	\$22.83	\$25.86	\$26.38
Equity	\$6.13	\$6.42	\$6.7	\$6.67	\$6.26
Profit Margin	6.56%	6.2%	6.17%	7.87%	7.01%
Asset T.O.	1.88	1.94	1.22	1.30	1.30
Financial Leverage	2.04	2.06	3.41	3.88	4.20
ROE	0.25	0.25	0.26	0.40	0.38

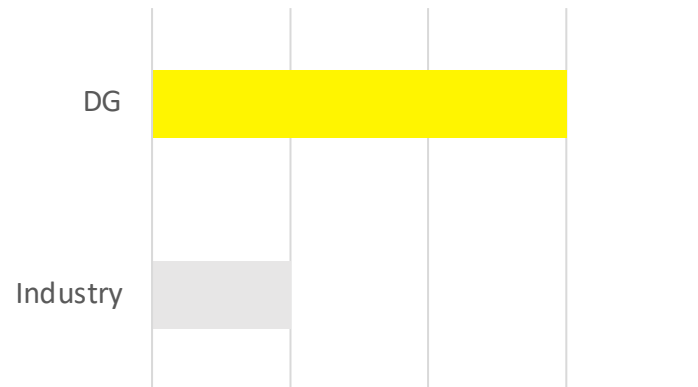
Financial Analysis – Inventory Turnover

	Year Ended Jan 28th				
(billions)	2018	2019	2020	2021	2022
COGS	\$16.25	\$17.82	\$19.26	\$23.03	\$23.41
Inventory	\$3.61	\$4.10	\$4.68	\$5.25	\$5.61
DG Inventory Turnover Ratio	4.50	4.35	4.12	4.39	4.17
Industry Average	3.5	3.5	3.5	3.5	3.5

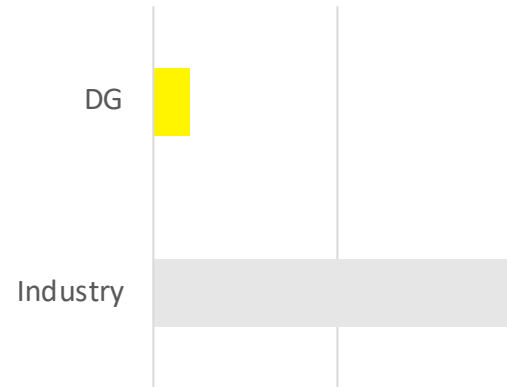
- I.T. = COGS / Inventory
- DG Inventory turnover ratio > industry average
- Effective inventory management
- High volume sales + low prices

Financial Analysis – Liquidity Analysis

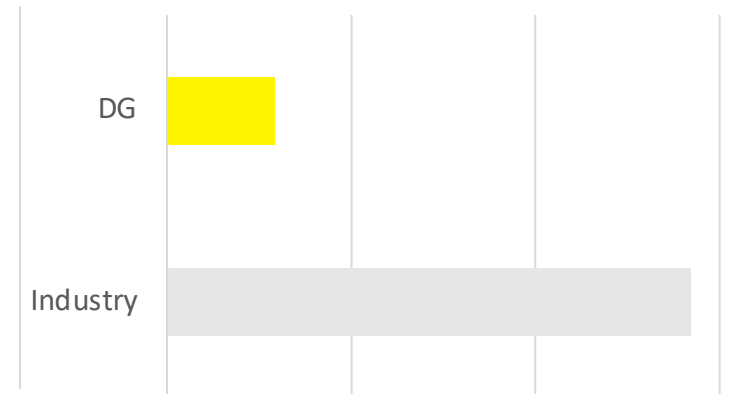
Current ratio 2022 – 1.1



Quick ratio 2022 – 0.1



Days financing needed 2022 – 29.25




Financial Analysis – Current Ratio

	Year Ended Jan 28th				
(billions)	2018	2019	2020	2021	2022
Current Assets	\$4.25	\$4.63	\$5.18	\$6.91	\$6.30
Current Liabilities	\$2.96	\$3.02	\$4.54	\$5.71	\$5.98
Current Ratio	1.43	1.55	1.14	1.21	1.05
Industry Average	1.00	1.00	1.00	1.00	1.00

- CR dips in 2020 (ASC842)
- CR above industry average
 - Lower interest rates
 - Less risk breaking debt covenants
- Increase our estimate of sales growth in valuation

Financial Analysis – Quick Ratio

	Year Ended Jan 28th				
	2018	2019	2020	2021	2022
DG Quick Ratio	0.22	0.19	0.11	0.29	0.12
Industry Average	0.3	0.3	0.3	0.3	0.3

- Quick Ratio = $(\text{Current Assets} - \text{Inventory}) / \text{Current Liabilities}$
- Below industry average
- DG = large competitor  invests cash in more inventory
- Inventory comprises 75-90% of current assets
 - Must effectively move inventory for success

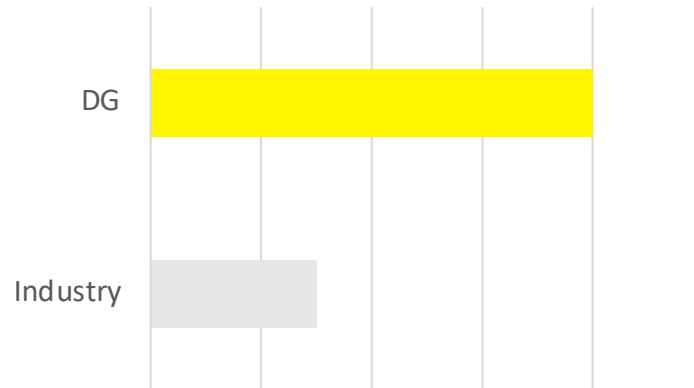
Financial Analysis – Days Financing Needed

	2018	2019	2020	2021	2022
Days Inventory	81.07	83.91	88.61	83.17	87.55
AR Turnover	0	0	0	0	0
AP Turnover	45.14	48.86	54.20	57.28	58.30
DG Days Financing Needed	35.92	35.05	34.41	25.89	29.25
Industry Average Days Financing Needed	142.20	142.20	142.20	142.20	142.20

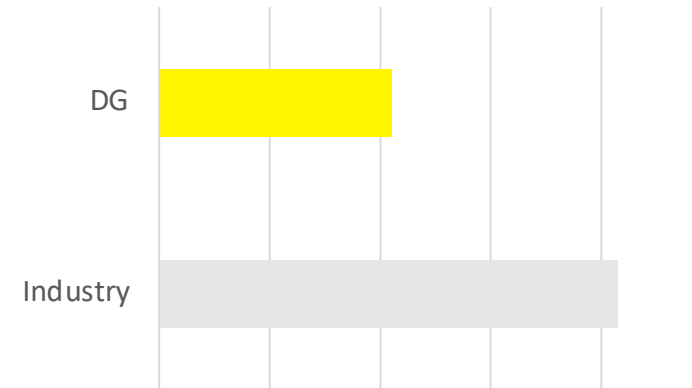
- Days Financing Needed = Days Inventory + AR TO - AP TO
- Most competitors need ~ 5 months financing to stay afloat
- DG needs ~ 1 month financing (trending down)
 - Indication of company maturing

Financial Analysis – Solvency Analysis

Debt to Equity Ratio – 3.2




Financial Leverage Ratio – 4.2



Financial Analysis – Debt-to-Equity Ratio

(billions)	2018	2019	2020	2021	2022
Debt	\$6.39	\$6.79	\$16.12	\$19.20	\$20.07
Equity	\$6.13	\$6.42	\$6.70	\$6.66	\$6.26
DG D:E Ratio	1.04	1.06	2.41	2.88	3.2
Industry Average D:E Ratio	2.7	2.7	2.7	2.7	2.7

- After ASC842, near industry average
- Currently above average
 - Debt  to invest in store openings (operating leases)

Financial Analysis – DG in the Industry

According to IBISWorld, the most important Key Success Factors for a business in this industry are:

1. Ability to control stock on hand.
2. Effective product promotion.
3. Use of high volume/low margin strategy.
4. Having a wide and expanding product range.
5. Ensuring pricing policy is appropriate.

Dollar General stands out from its competitors due to...

- Its ability to effectively manage operations at low costs.
- Focusing on a specific target market.
- Keeping product prices low and sales volumes high.
- Adapting their product range to meet consumer needs.

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Forecast and Valuation

Forecast

Main assumptions used to forecast Dollar General's performance:

- Over the five years to 2027, the Dollar and Variety Stores industry is expected to complete its transition into a mature industry (IBISWorld).
 - Growth rate 2023-2024: 10%
 - Growth rate 2025-2026: 7%
 - Long Term growth rate 2027: 3%

Forecast – Key Assumptions

- The cost of equity for Dollar General is 7% based on our CAPM model (WACC)
 - Risk free rate of 4% – based on the 10-year treasury yield
 - Beta of Dollar General is .39
 - Long Term growth rate of 3% -- mature industry growth
- Dividend Payout Ratio of 18%
 - Consistent with previous years payout ratios.
- Increase Operating Lease Liabilities by 4% annually
 - Cash and debt are affected

Dividend Discount Model

- Dividends are calculated by the difference between payments of cash dividends and issuances of common stock
- Dividend Payout ratio is 18%
- WACC is 7% || Long term growth rate is 3%
- **Value per share: \$265.27**

DDM	2023	2024	2025	2026	2027	2028 (perpetuity)
Dividend	\$ 496,506.98	\$ 547,543.51	\$ 579,950.45	\$ 621,296.45	\$ 629,252.42	\$ 2,981,308.20
						\$ 79,790,927.08
Discount Rate	1.067364	1.139265908	1.216011417	1.29792681	1.385360352	1.385360352
PV Dividend	\$ 465,171.18	\$ 480,610.81	\$ 476,928.46	\$ 478,683.73	\$ 454,215.70	\$ 57,595,792.29
Value of Equity	\$ 59,951,402.17					
Shares outstanding	226000					
Value per share	\$ 265.27					

Residual Income Model

- Beginning Equity and Forecasted income pulled from the balance sheet and income statements
- Required income is based on the WACC being 7% (CAPM)
- Long term growth rate of 3%
- Residual income = forecasted income – required income

RIM	2023	2024	2025	2026	2027	2028
Beginning Equity	\$ 6,261,986.00	\$ 8,452,290.22	\$ 10,867,938.14	\$ 13,449,322.58	\$ 16,214,818.14	\$ 19,051,671.86
Forecasted Income	\$ 2,646,558.20	\$ 2,918,913.14	\$ 3,127,240.60	\$ 3,350,311.12	\$ 3,449,377.04	\$ 3,552,858.36
Required Income	\$ 421,832.42	\$ 569,380.08	\$ 732,107.79	\$ 906,000.17	\$ 1,092,295.01	\$ 1,283,396.82
Residual Income	\$ 2,224,725.77	\$ 2,349,533.06	\$ 2,395,132.81	\$ 2,444,310.95	\$ 2,357,082.03	\$ 2,269,461.53
						\$ 60,739,255.21 P
Discount Rate	1.067364000	1.139265908	1.216011417	1.297926810	1.385360352	1.385360352
PV Residual Income	\$ 2,084,317.79	\$ 2,062,321.92	\$ 1,969,663.09	\$ 1,883,242.52	\$ 1,701,421.61	\$ 43,843,650.59
Value of Equity	\$ 59,806,603.52					
Shares Outstanding	226000					
Value per share	\$ 264.63					

Future Cash Flows Model

- Increased debt (operating lease liabilities) increases free cash flow available to invest in inventory / elsewhere

FCF	2023	2024	2025	2026	2027	2028 (perpetuity)	
CFO	\$ 3,352,169.17	\$ 3,695,085.21	\$ 3,984,321.09	\$ 4,267,387.24	\$ 4,435,672.64	\$ 2,981,308.20	
CFI	\$ (1,149,290.37)	\$ (1,264,219.41)	\$ (1,232,876.94)	\$ (1,319,178.33)	\$ (1,170,688.18)	\$ 79,790,927.08	Perpetuity
Debt	\$ 355,628.36	\$ 369,853.49	\$ 384,647.63	\$ 400,033.54	\$ 416,034.88		
Change in Cash	\$ 2,102,253.18	\$ 2,297,454.08	\$ 2,590,235.62	\$ 2,763,426.90	\$ 3,068,496.02		
Free Cash Flow	\$ 456,253.98	\$ 503,265.21	\$ 545,856.16	\$ 584,815.56	\$ 612,523.32		
Discount Rate	1.067364	1.139265908	1.216011417	1.29792681	1.385360352	1.385360352	
PV Cash Flow	\$ 427,458.65	\$ 441,745.17	\$ 448,890.66	\$ 450,576.68	\$ 442,140.07	\$ 57,595,792.29	
Value of Equity	\$ 59,806,603.52						
Shares outstanding	226000						
Value per share	\$ 264.63						

Recommendation

- Our Valuation: \$264.63
- Current market price: \$255.68
- Dollar General is at a fair market value and is a good investment for the long run as they show steady growth and profits.
 - Above average Inventory turnover ratio
 - Maturing company and industry leader



Thank You!

DOLLAR GENERAL®