



# Dollar General Corp. (DG)

Updated December 10<sup>th</sup>, 2023 by Prakash Kolli

## Key Metrics

|                             |       |  |       |                                  |          |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$127 | <b>5 Year CAGR Estimate:</b>               | 10.4% | <b>Market Cap:</b>               | \$27.92B |
| <b>Fair Value Price:</b>    | \$132 | <b>5 Year Growth Estimate:</b>             | 8.0%  | <b>Ex-Dividend Date:</b>         | 01/08/24 |
| <b>% Fair Value:</b>        | 96%   | <b>5 Year Valuation Multiple Estimate:</b> | 0.8%  | <b>Dividend Payment Date:</b>    | 01/23/24 |
| <b>Dividend Yield:</b>      | 1.9%  | <b>5 Year Price Target</b>                 | \$194 | <b>Years Of Dividend Growth:</b> | 9        |
| <b>Dividend Risk Score:</b> | B     | <b>Retirement Suitability Score:</b>       | C     | <b>Rating:</b>                   | Buy      |

## Overview & Current Events

Dollar General Corporation opened its first dollar store in 1955. The company went public in 1968 and was merged into a privately held company in 2007. The company conducted an initial public offering in November 2009. Today, it is the leading U.S. “dollar store”. About 80% of its items are offered at \$5 or less. Dollar General sells a wide variety of merchandise in four categories: consumables, seasonal, home products, and apparel. About 77% of sales are from consumables. Dollar General operated 19,726 stores as of November 3, 2023. Most stores are located in towns with 20,000 or fewer people and are about 7,400 sq. ft. Total sales were \$37,845M in FY 2022.

Dollar General reported Q3 FY2023 year results on December 7<sup>th</sup>, 2023. The company is experiencing weakness and 2023 will be challenging. But Dollar General is still growing albeit more slowly because of new store openings and higher customer traffic, offset by store closures and lower transaction amounts. But high inflation is affecting input costs.

Net sales increased 2.4% to \$9,694.1M from \$9,464.98M on a year-over-year basis as organic growth fell (-1.3%) because consumers are spending less, offset by new store openings. Diluted earnings per share decreased (-45.9%) to \$1.26 from \$2.33 in the prior year because of higher costs and interest expense. The company experienced growth in consumables (+3.6%) offset by a decline in seasonal (-0.2%), home products (-7.0%), and apparel (-1.5%).

The company started the new pOpshelf store concept. It is also expanding internationally for the first time in Mexico. Additionally, Dollar General is opening new stores in a larger format, resulting in higher sales.

Dollar General lowered guidance again to about 1.5% to 2.5% revenue growth and organic sales growth of (-1.0%) to flat, and diluted EPS decline of (-34%) to (-29%) in fiscal 2023.

## Growth on a Per-Share Basis

| Year <sup>1</sup>         | 2013   | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020    | 2021    | 2022    | 2023          | 2028           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|---------------|----------------|
| <b>EPS</b>                | \$3.17 | \$3.49 | \$3.95 | \$4.43 | \$4.49 | \$5.97 | \$6.64 | \$10.62 | \$10.17 | \$10.68 | <b>\$7.35</b> | <b>\$10.80</b> |
| <b>DPS</b>                | \$0.00 | \$0.00 | \$0.88 | \$1.00 | \$1.04 | \$1.14 | \$1.25 | \$1.40  | \$1.62  | \$2.07  | <b>\$2.36</b> | <b>\$3.16</b>  |
| <b>Shares<sup>2</sup></b> | 317    | 304    | 287    | 275    | 269    | 259    | 252    | 241     | 230     | 219     | <b>215</b>    | <b>190</b>     |

Dollar General’s top line continues to grow due to organic sales increases and new store openings. The company is investing heavily in growth and is expecting capital expenditures up to \$1.6B to \$1.7B in fiscal 2023. The company expects to open 990 new stores, remodel 2,000 stores and relocate 120 stores in fiscal 2023. Dollar General is expanding into Washington, Wyoming, and Mexico, and ramping up the pOpShelf concept. Capital expenditures combined with aggressive share buybacks of \$2.5B in FY 2020, \$2B in FY 2021, and \$2.7B in FY 2022 have increased total debt, leverage, and interest expense. Still, we are forecasting 8% earnings per share growth on average out to fiscal 2028 accounting for inflation, stressed consumers, and higher interest costs. But growth will be volatile and uneven. The company continues to buy back stock aggressively and we anticipate on average a 2% to 3% reduction in share count per year out to fiscal 2028. Dollar General initiated a dividend in FY 2015, and we are forecasting 6% growth rate to FY 2028. The payout ratio is low and there is much room for future dividend growth.

<sup>1</sup> Dollar General’s fiscal year ends on the Friday nearest January 31<sup>st</sup> in following calendar year.

<sup>2</sup> Share count in millions.

Disclosure: This analyst is long DG.



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## Valuation Analysis

| Year      | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Now  | 2028 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 17.1 | 17.4 | 18.4 | 18.1 | 17.5 | 17.2 | 21.1 | 18.0 | 21.2 | 19.3 | 17.3 | 18.0 |
| Avg. Yld. | N/A  | N/A  | 1.2% | 1.2% | 1.3% | 1.1% | 1.2% | 0.8% | 0.8% | 1.0% | 1.9% | 1.6% |

Dollar General's stock price is flat since our last report on better than feared results. The company's growth is slowing because of costs and its core customers are spending less. We reduced our fiscal 2023 earnings estimate to the mid-point of lower guidance. We believe a reasonable long-term earnings multiple is 18X, slightly lower than the trailing 10-year average. Our fair value estimate is \$132. Our 5-year price target is \$194.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2028 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | N/A  | N/A  | 22%  | 23%  | 23%  | 19%  | 19%  | 13%  | 16%  | 19%  | 32%  | 29%  |

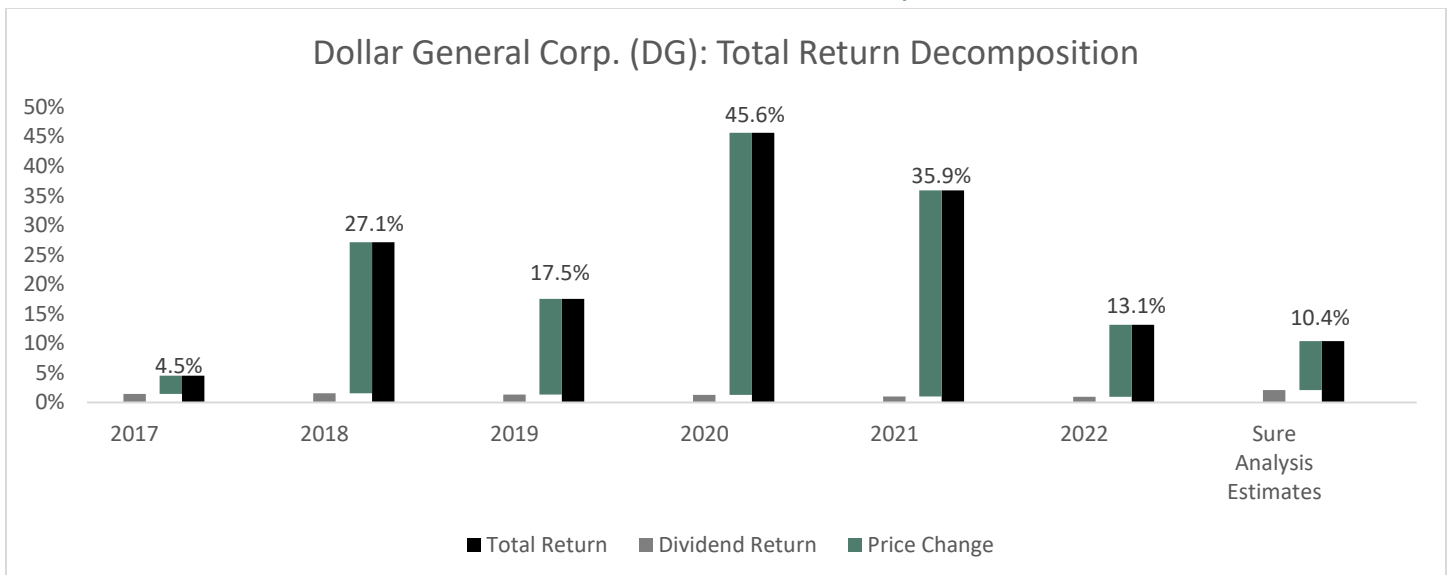
Dollar General's main competitive advantage is its industry positioning, small store formats and location in small towns. Dollar General benefits from lower distribution costs due to the small store format and lower number of stocked items. Furthermore, the lower average transaction cost limits competition from online retailers. As a discount retailer, Dollar General is resistant to recessions since consumers are more likely to trade down their spending to dollar-store chains during economic downturns. In fact, Dollar General grew earnings per share during the Great Recession and the top and bottom lines clearly benefitted during the COVID-19 pandemic. But inflation negatively affects its core customer.

Dollar General's gross debt and leverage are rising. Short-term and current long-term debt is \$750M and long-term debt is \$6,440.9M offset by \$365.4M in cash. The interest coverage ratio is over 8.6X. The leverage ratio is now about 3.1X.

## Final Thoughts & Recommendation

At present we are forecasting a 10.4% annualized total return for the next five years from a dividend yield of 1.9%, 8.0% EPS growth, and 0.8% P/E multiple expansion. Dollar General's growth is slowing because inflation is affecting input costs and margins. Moreover, its core customer is stressed. After less than a year, the Board ousted the CEO in favor of Todd Vasos who retired as CEO at end of 2022 to restart growth. We have maintained our rating at buy.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 16022 | 17504 | 18910 | 20369 | 21987 | 23471 | 25625 | 27754 | 33747 | 34220 |
| <b>Gross Profit</b>     | 5085  | 5436  | 5803  | 6306  | 6783  | 7221  | 7804  | 8489  | 10719 | 10813 |
| <b>Gross Margin</b>     | 31.7% | 31.1% | 30.7% | 31.0% | 30.8% | 30.8% | 30.5% | 30.6% | 31.8% | 31.6% |
| <b>SG&amp;A Exp.</b>    | 3430  | 3700  | 4033  | 4366  | 4719  | 5214  | 5688  | 6187  | 7164  | 7592  |
| <b>D&amp;A Exp.</b>     | 303   | 333   | 342   | 352   | 380   | 404   | 454   | 505   | 574   | 641   |
| <b>Operating Profit</b> | 1655  | 1736  | 1769  | 1940  | 2063  | 2008  | 2116  | 2302  | 3555  | 3221  |
| <b>Op. Margin</b>       | 10.3% | 9.9%  | 9.4%  | 9.5%  | 9.4%  | 8.6%  | 8.3%  | 8.3%  | 10.5% | 9.4%  |
| <b>Net Profit</b>       | 953   | 1025  | 1065  | 1165  | 1251  | 1539  | 1589  | 1713  | 2655  | 2399  |
| <b>Net Margin</b>       | 5.9%  | 5.9%  | 5.6%  | 5.7%  | 5.7%  | 6.6%  | 6.2%  | 6.2%  | 7.9%  | 7.0%  |
| <b>Free Cash Flow</b>   | 560   | 675   | 953   | 887   | 1045  | 1156  | 1409  | 1453  | 2848  | 1795  |
| <b>Income Tax</b>       | 545   | 603   | 616   | 688   | 714   | 368   | 426   | 489   | 749   | 664   |

## Balance Sheet Metrics

| Year                            | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  |
|---------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Total Assets</b>             | 10368 | 10868 | 11209 | 11258 | 11672 | 12517 | 13204 | 22825 | 25863 | 26327 |
| <b>Cash &amp; Equivalents</b>   | 141   | 506   | 580   | 158   | 188   | 267   | 235   | 240   | 1377  | 345   |
| <b>Inventories</b>              | 2397  | 2553  | 2783  | 3074  | 3259  | 3609  | 4097  | 4677  | 5247  | 5614  |
| <b>Goodwill &amp; Int. Ass.</b> | 5558  | 5546  | 5540  | 5540  | 5539  | 5539  | 5539  | 5539  | 5538  | 5538  |
| <b>Total Liabilities</b>        | 5382  | 5465  | 5499  | 5880  | 6266  | 6391  | 6787  | 16123 | 19201 | 20065 |
| <b>Accounts Payable</b>         | 1262  | 1286  | 1388  | 1494  | 1558  | 2010  | 2385  | 2861  | 3614  | 3739  |
| <b>Long-Term Debt</b>           | 2772  | 2819  | 2725  | 2971  | 3212  | 3006  | 2865  | 2912  | 4131  | 4172  |
| <b>Shareholder's Equity</b>     | 4985  | 5402  | 5710  | 5378  | 5406  | 6126  | 6417  | 6703  | 6661  | 6262  |
| <b>D/E Ratio</b>                | 0.56  | 0.52  | 0.48  | 0.55  | 0.59  | 0.49  | 0.45  | 0.43  | 0.62  | 0.67  |

## Profitability & Per Share Metrics

| Year                    | 2013  | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020   | 2021   | 2022   |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| <b>Return on Assets</b> | 9.5%  | 9.7%  | 9.7%  | 10.4% | 10.9% | 12.7% | 12.4% | 9.5%   | 10.9%  | 9.2%   |
| <b>Return on Equity</b> | 19.7% | 19.7% | 19.2% | 21.0% | 23.2% | 26.7% | 25.3% | 26.1%  | 39.7%  | 37.1%  |
| <b>ROIC</b>             | 12.7% | 12.8% | 12.8% | 13.9% | 14.7% | 17.3% | 17.3% | 18.1%  | 26.0%  | 22.6%  |
| <b>Shares Out.</b>      | 327.1 | 317.1 | 303.5 | 286.7 | 268.7 | 259.1 | 251.9 | 246.9  | 242.0  | 235.8  |
| <b>Revenue/Share</b>    | 47.90 | 54.05 | 61.86 | 69.00 | 77.89 | 85.86 | 96.30 | 107.55 | 134.95 | 145.12 |
| <b>FCF/Share</b>        | 1.67  | 2.08  | 3.12  | 3.00  | 3.70  | 4.23  | 5.30  | 5.63   | 11.39  | 7.61   |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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