



# Dollar General Corp. (DG)

Updated September 7<sup>th</sup>, 2024 by Prakash Kolli

## Key Metrics

<b>Current Price:</b>	\$83	<b>5 Year CAGR Estimate:</b>	11.2%	<b>Market Cap:</b>	\$18.16B
<b>Fair Value Price:</b>	\$105	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	10/08/24
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.0%	<b>Dividend Payment Date:</b>	10/22/24
<b>Dividend Yield:</b>	2.9%	<b>5 Year Price Target</b>	\$128	<b>Years Of Dividend Growth:</b>	9
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	B	<b>Rating:</b>	Hold

## 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 20,345 stores as of August 2, 2024. Most stores are located in towns with 20,000 or fewer people and are about 7,400 sq. ft. Total sales were \$38.7B in FY 2023.

Dollar General reported Q2 FY2024 results on August 29<sup>th</sup>, 2024. After excellent performance during and immediately after the COVID-19 pandemic, the company is experiencing significant weakness. However, Dollar General is still growing albeit more slowly because of new store openings, offset by lower organic sales and store closures. But high inflation is affecting input costs, especially compensation, pressuring margins and earnings per share.

Net sales increased 4.2% to \$10,210.4M from \$9,796.2M on a year-over-year basis as organic sales fell 0.5% and new stores opened offset by store closures and lower average transactions. Diluted earnings per share decreased (-20.2%) to \$1.70 from \$2.13 in the prior year mainly because of higher SG&A, increased shrink and inventory markdowns. Three of the four categories declined: consumables (+7.1%), seasonal (-1.0%), home products (-8.5%), and apparel (-1.6%).

Dollar General lowered guidance to about 4.7% to 5.3% sales growth and organic sales growth of 1.0% to 1.6%, and diluted EPS of \$5.50 to \$6.20 in fiscal 2024.

## Growth on a Per-Share Basis

Year <sup>1</sup>	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$3.49	\$3.95	\$4.43	\$4.49	\$5.97	\$6.64	\$10.62	\$10.17	\$10.68	\$7.55	<b>\$5.85</b>	<b>\$7.12</b>
<b>DPS</b>	\$0.00	\$0.88	\$1.00	\$1.04	\$1.14	\$1.25	\$1.40	\$1.62	\$2.07	\$2.32	<b>\$2.36</b>	<b>\$2.61</b>
<b>Shares<sup>2</sup></b>	304	287	275	269	259	252	241	230	219	220	<b>217</b>	<b>205</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 \$1.3B to \$1.4B in fiscal 2024. The company expects to open 730 new stores, remodel 1,620 stores and relocate 85 stores in fiscal 2024. 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. The company did not buy back shares in 2023, and it is unlikely they will do so in 2024.

We have again lowered our earnings per share growth estimate to 4% out to fiscal 2029 accounting for inflation, stressed consumers, labor expense, and higher interest costs. But growth will be volatile and uneven. Dollar General initiated a dividend in FY 2015. The company has not raised the dividend in six quarters and thus we have lowered our estimated growth rate to 2% to FY 2029. Risk exists for a dividend cut based on current results. Also, the payout ratio has increased because of the cut in estimated EPS.

<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.



# Dollar General Corp. (DG)

Updated September 7<sup>th</sup>, 2024 by Prakash Kolli

## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.4	18.4	18.1	17.5	17.2	21.1	18.0	21.2	19.3	17.9	14.1	18.0
Avg. Yld.	N/A	1.2%	1.2%	1.3%	1.1%	1.2%	0.8%	0.8%	1.0%	1.7%	2.9%	2.0%

Dollar General's stock price plummeted since our last report because of poor results and weak guidance. The company's growth is slowing because of costs and its core customers are spending less, pressuring earnings. We lowered our fiscal 2024 earnings estimate to the mid-point of guidance. We believe a reasonable long-term earnings multiple is 18X, lower than the trailing 10-year average. Our fair value estimate is \$105. Our 5-year price target is \$128.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	N/A	22%	23%	23%	19%	19%	13%	16%	19%	31%	40%	37%

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.

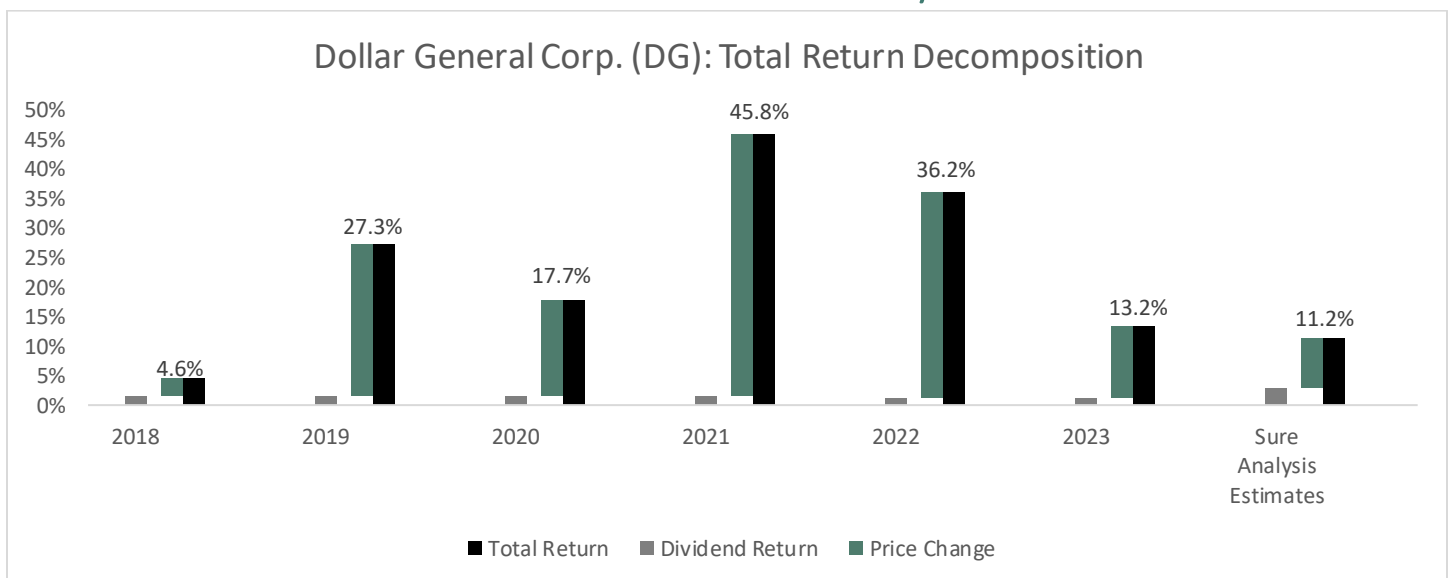
As a discount retailer, Dollar General is resistant to recessions since consumers are more likely to trade down their spending to dollar-store chains during economic downturns. In fact, Dollar General grew earnings per share during the Great Recession and the top and bottom lines clearly benefitted during the COVID-19 pandemic. However, inflation negatively affects its core customer's spending ability.

Dollar General's gross debt and leverage are rising. Short-term and current long-term debt is \$769M and long-term debt is \$6,235M offset by \$1,223M in cash. The interest coverage ratio is over 7.1X. The leverage ratio is now about 3.3X.

## Final Thoughts & Recommendation

At present we are forecasting an 11.2% annualized total return for the next five years from a dividend yield of 2.9%, 4.0% EPS growth, and 5.0% P/E multiple expansion. Inflation is affecting input costs and margins, and its core customer is constrained and spending less. Hence, margins and earnings are falling for Dollar General and the category in general. Despite the large drop in share price and increase in estimated total return, we have maintained our hold rating.

## Total Return Breakdown by Year



Disclosure: This analyst is long DG.



# Dollar General Corp. (DG)

Updated September 7<sup>th</sup>, 2024 by Prakash Kolli

## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	17504	18910	20369	21987	23471	25625	27754	33747	34220	37845
<b>Gross Profit</b>	5436	5803	6306	6783	7221	7804	8489	10719	10813	11820
<b>Gross Margin</b>	31.1%	30.7%	31.0%	30.8%	30.8%	30.5%	30.6%	31.8%	31.6%	31.2%
<b>SG&amp;A Exp.</b>	3700	4033	4366	4719	5214	5688	6187	7164	7592	8492
<b>D&amp;A Exp.</b>	333	342	352	380	404	454	505	574	641	725
<b>Operating Profit</b>	1736	1769	1940	2063	2008	2116	2302	3555	3221	3328
<b>Op. Margin</b>	9.9%	9.4%	9.5%	9.4%	8.6%	8.3%	8.3%	10.5%	9.4%	8.8%
<b>Net Profit</b>	1025	1065	1165	1251	1539	1589	1713	2655	2399	2416
<b>Net Margin</b>	5.9%	5.6%	5.7%	5.7%	6.6%	6.2%	6.2%	7.9%	7.0%	6.4%
<b>Free Cash Flow</b>	675	953	887	1045	1156	1409	1453	2848	1795	424
<b>Income Tax</b>	603	616	688	714	368	426	489	749	664	701

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	10868	11209	11258	11672	12517	13204	22825	25863	26327	29083
<b>Cash &amp; Equivalents</b>	506	580	158	188	267	235	240	1377	345	382
<b>Inventories</b>	2553	2783	3074	3259	3609	4097	4677	5247	5614	6761
<b>Goodwill &amp; Int. Ass.</b>	5546	5540	5540	5539	5539	5539	5539	5538	5538	5538
<b>Total Liabilities</b>	5465	5499	5880	6266	6391	6787	16123	19201	20065	23542
<b>Accounts Payable</b>	1286	1388	1494	1558	2010	2385	2861	3614	3739	3553
<b>Long-Term Debt</b>	2819	2725	2971	3212	3006	2865	2912	4131	4172	7009
<b>Shareholder's Equity</b>	5402	5710	5378	5406	6126	6417	6703	6661	6262	5542
<b>D/E Ratio</b>	0.52	0.48	0.55	0.59	0.49	0.45	0.43	0.62	0.67	1.26

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	9.7%	9.7%	10.4%	10.9%	12.7%	12.4%	9.5%	10.9%	9.2%	8.7%
<b>Return on Equity</b>	19.7%	19.2%	21.0%	23.2%	26.7%	25.3%	26.1%	39.7%	37.1%	40.9%
<b>ROIC</b>	12.8%	12.8%	13.9%	14.7%	17.3%	17.3%	18.1%	26.0%	22.6%	21.0%
<b>Shares Out.</b>	317.1	303.5	286.7	268.7	259.1	251.9	246.9	242.0	235.8	226.3
<b>Revenue/Share</b>	54.05	61.86	69.00	77.89	85.86	96.30	107.55	134.95	145.12	167.24
<b>FCF/Share</b>	2.08	3.12	3.00	3.70	4.23	5.30	5.63	11.39	7.61	1.87

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

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.