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# Isenberg School of Management Stock Pitch Competition



Dollar General  
NYSE: DG  
Recommendation: BUY



**DOLLAR GENERAL**

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April 8<sup>th</sup>, 2021

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Recommendation:

We are recommending a 'buy' on Dollar General stock (NYSE: DG)

Price Target:

Bear:

Base:

Bull:

14.1%/\$230.53

21.9%/\$246.29

32.5%/\$267.80

Margin Enhancements through Aggressive Initiatives

Increasingly Diverse Consumer Base

Agility during Shifting Conditions Creates Optimal Entry Point

# Business Overview

## Business Overview



One of the largest discount retailers in the US

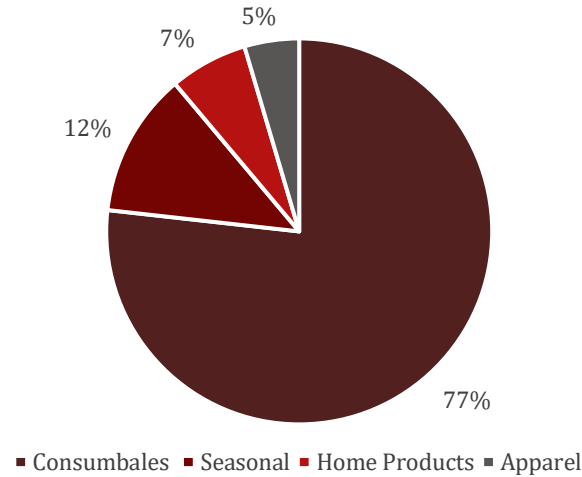


Basic everyday and household items typically below \$10



Concentrated in southern and midwestern US with a notable presence in rural America

## Revenue By Segment



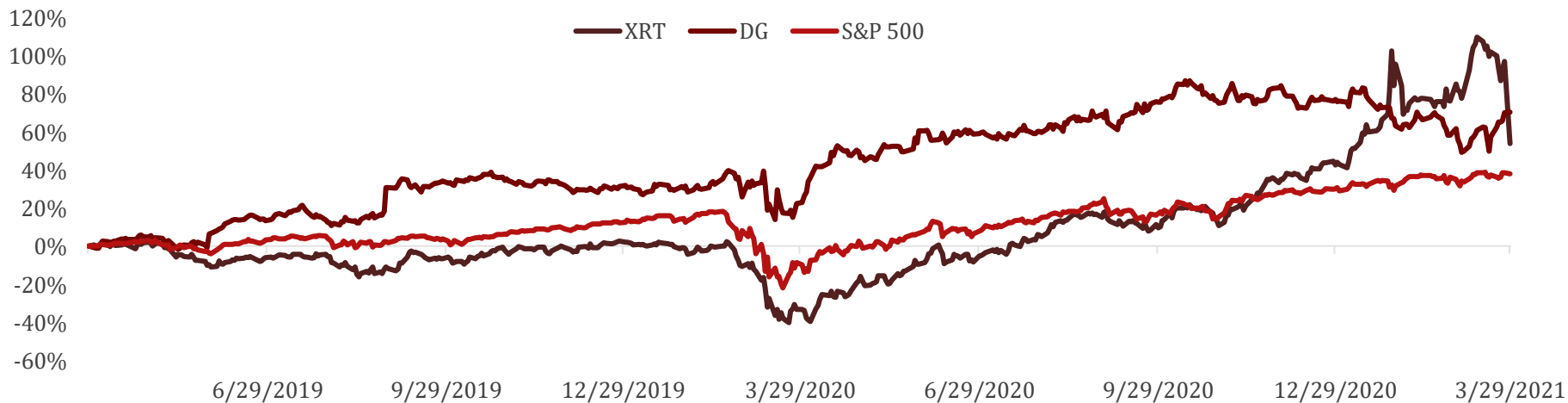
## Recent Developments

Joined the Beyond the Bag Initiative

Opened a new distribution center in Nebraska

Unveiled new retail store: pOpshelf

## Relative Performance Chart



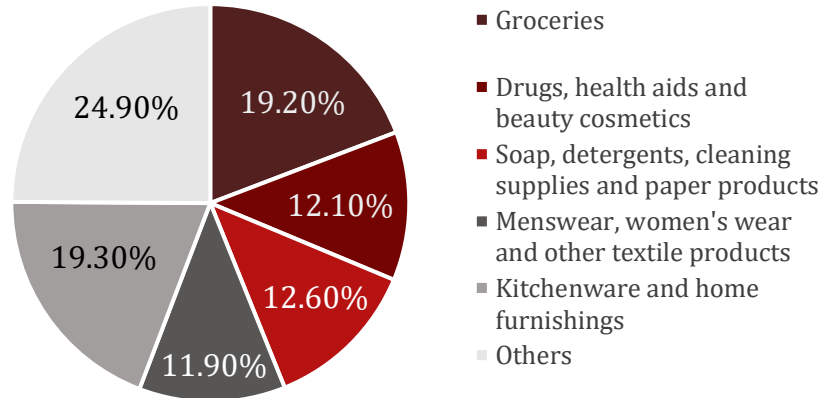
## Metrics

Price	\$197.78
Market Cap	\$47.52B
P/E	18.57x
EV/EBITDA	12.45x
ROE	34.84%

# End Market Overview

**DOLLAR GENERAL**

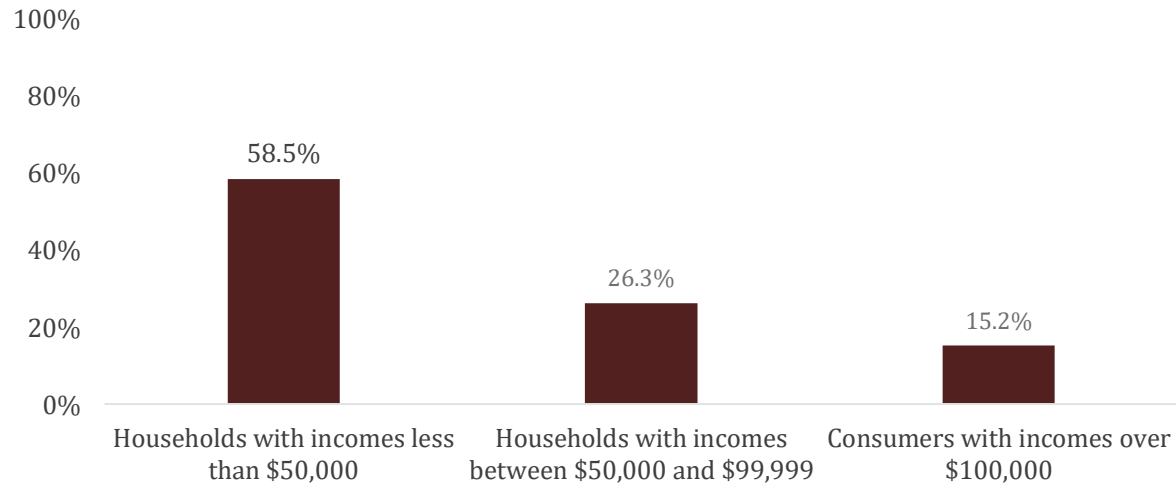
## Product Segmentation in Industry



## Industry Trends

- Discounted goods seeing amplified demand due to COVID-19 Pandemic
- Many operators have expanded product offerings to include grocery and healthcare products
- General Migration to southern states increases consumer base

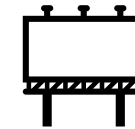
## Demographic Breakdown



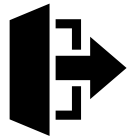
## Future Outlook



Investment in technology and overall efficiency is expected to drive profits



Investment in marketing initiatives



Smaller scaled operators are expected to exit the industry

# Margin Enhancements through Aggressive Initiatives

## Improving Efficiency

### Fast Track

- Self-checkout lanes
- Available in more than 1,600 stores with plans to expand to all ~17,000 by 2022

### DG Go

- Allows customer to scan items with their phone and pay in app
- Eliminates need to wait in a checkout line

### Vertical Integration

- In-house distribution
- Expansion of private fleet, 20% is owned by DG as of FY20-end

### Other

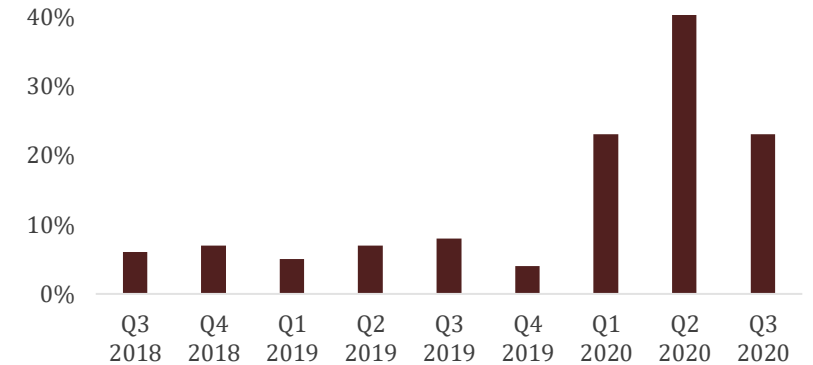
- Inventory shrink through implementation of EAS units
- Expanding overseas sourcing

## Non-Consumables Implementation

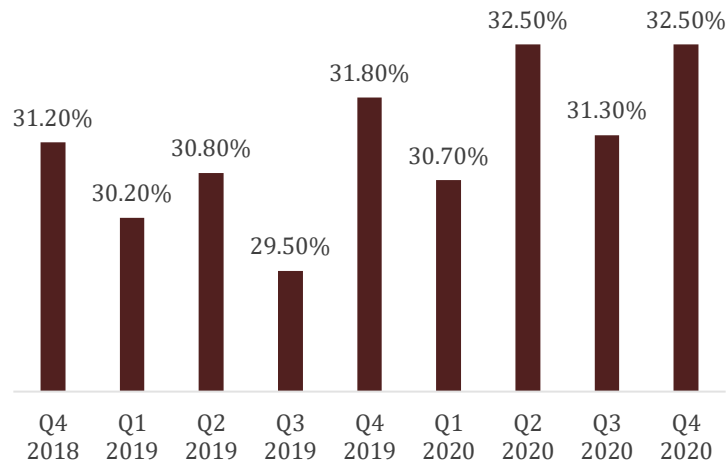
Implemented at ~5,200 stores where comp sales increased 8%

Expanding to 5,700 stores in FY 2021

YoY change in Non-Consumables Sales



## Gross Margin



## DG Fresh

Cuts out ~25% 3<sup>rd</sup> party mark-up driving substantial increase in IMU

High-capacity coolers that hold 45% more product

40k cooler doors across its stores, and this year it will add 50K

## Private Brands

Shift sales mix to higher margin products

Clover Valley generated over \$1 billion in sales in 2019



# Increasingly Diverse Consumer Base

## Post-Pandemic Customer Retention Plan

Pandemic-Fueled Increase in Foot Traffic in 2020, Expanding Customer Base to Middle-Income Households and Younger Buyers



Targeted Marketing, Private Label Quality Improvement, and Aggressive Rollout of Initiatives such as DG Fresh to Upgrade Dollar General's Destination Status



Larger Stores, Increasingly Diversified Product Offering, and Better Customer Experience to Retain "Pandemic and Recession Customers" in the Long Run

## Attracting First-Time Customers

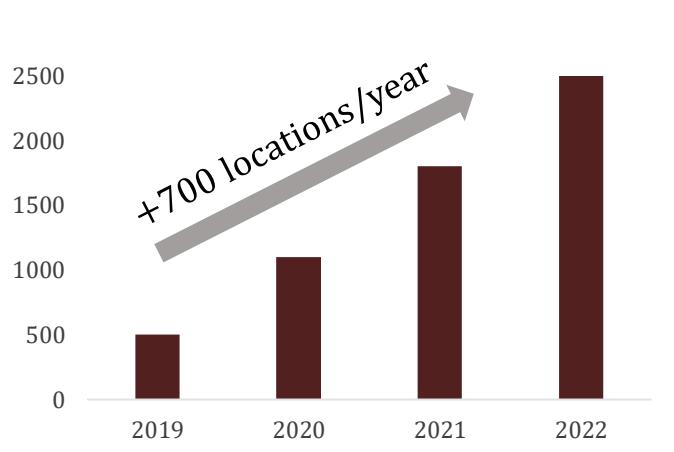
 FedEx partnership and DG Pickup at 8,500 stores

 Frozen Food and Produce via DG Fresh

 16% Larger Store Format Expanding Offerings

 DG Go! App, for Digital Budgeting and Checkout

## Stores with Produce

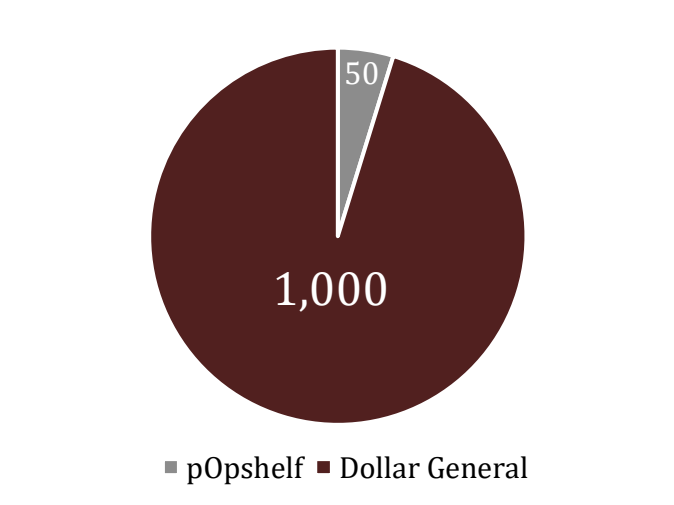


## Launch of New Sub-Brand

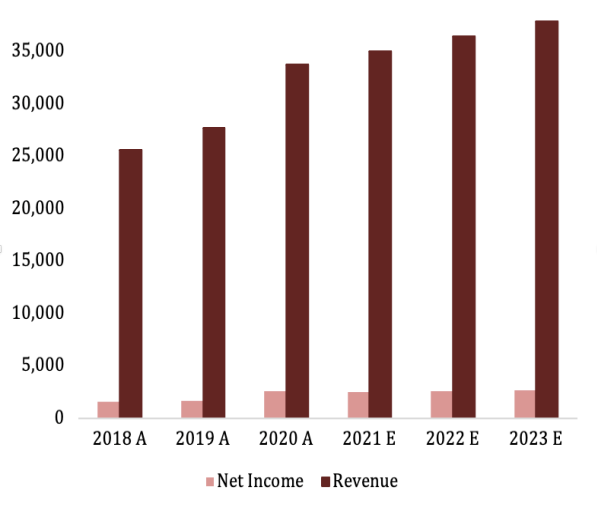
DG plans to open 50 pOpshelf locations in 2021, up from the originally planned 30, after better-than-expected performance at pilot locations. Higher sales per sq. ft. thanks to a non-consumable-focused product mix easily offsets the higher rent in metro and urban areas.



## 2021 Planned Store Openings



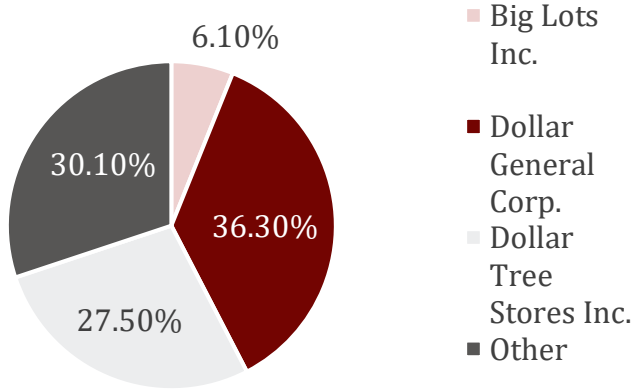
## Revenue and Net Income



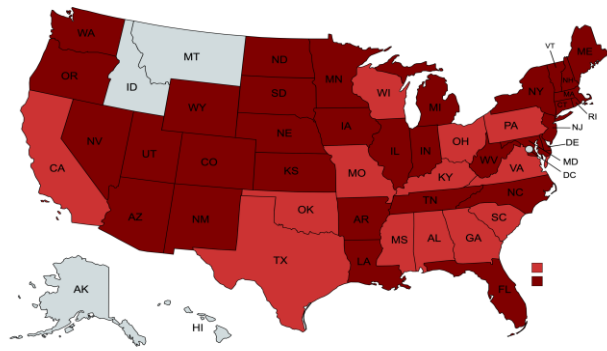
# Agility during Shifting Conditions Creates Optimal Entry Point

**DOLLAR GENERAL**

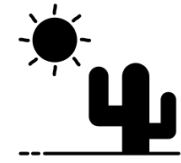
## Market Share



## Locations



## Adaptability

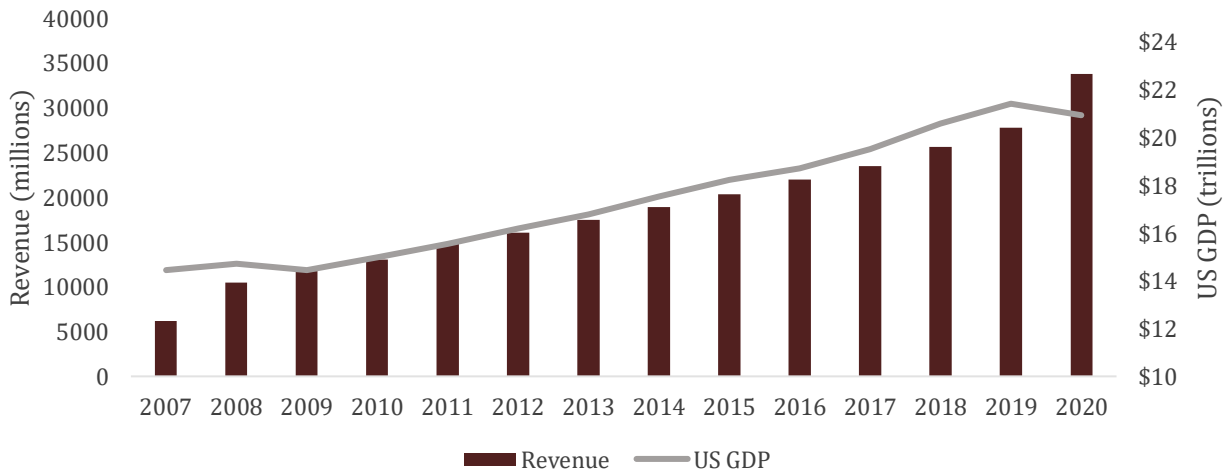


Ability to operate in food deserts across rural America, unlocking growth opportunities where others cannot



Average store payback period of 1.7 years, significantly shorter than big box retailers with similar core customer

## Revenue vs GDP



Two-year stack of 14.4% in 2010 and 10.9% in 2011

Consistent Revenue Growth, Regardless of Underlying Macroeconomics Conditions

## Growth Opportunities

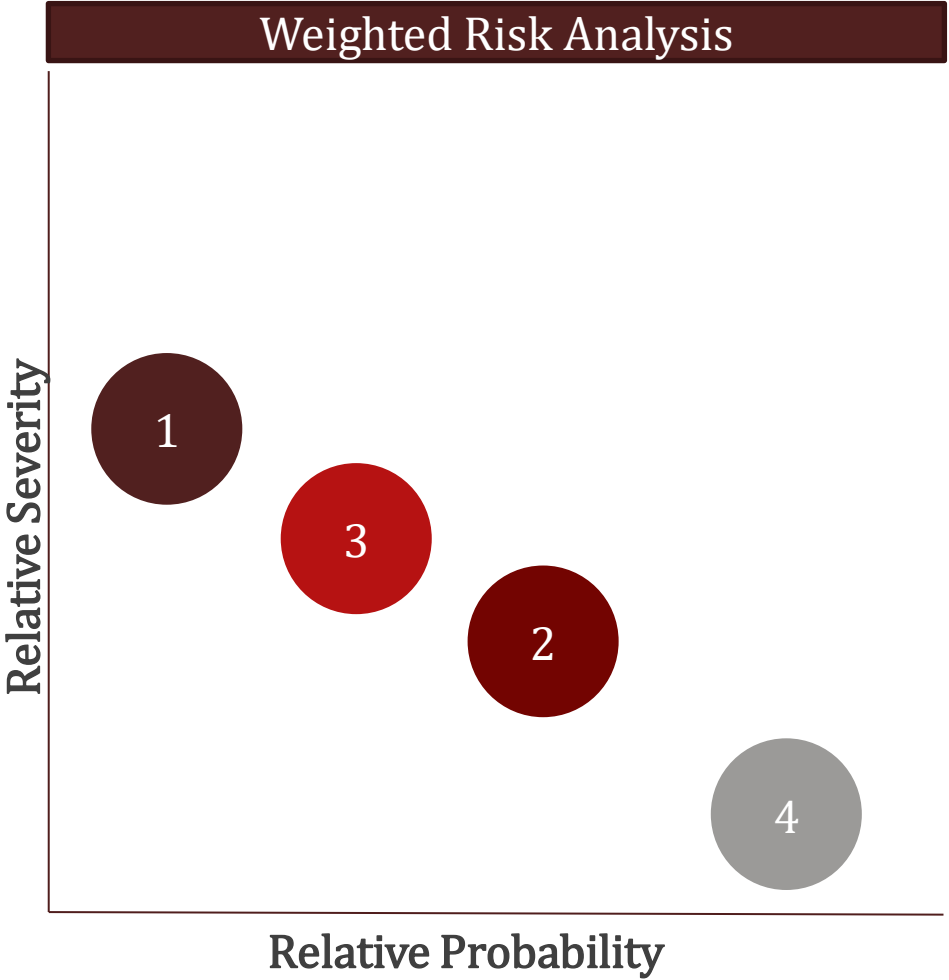
Rise in suburban and rural vacancy rates due to pandemic

Management sees opportunity to add 17,000 stores without saturating the market

Approximately 1,000 new store openings per year

Sources: Company Filings, World Bank, IBISWorld

- Downward Price Pressure from Competitors
- Rapid Increase in Minimum Wage
- Elevated Costs from Investments in New Initiatives
- Limited Product Offerings at pOpshelf Locations





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Shift to higher-margin non consumables

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Better than expected comp sales figures in 2021

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Rapid expansion of pOpshelf brand

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4

Economic stimulus boosting near-term revenue

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# Valuation

**DOLLAR GENERAL**

Free Cash Flow Buildup	2016 A	2017 A	2018 A	2019 A	2020 A	2021 P	2022 P	2023 P	2024 P	2025 P
EBIT	2,063.4	2,007.8	2,116.3	2,302.3	3,554.8	3,179.2	3,255.5	3,333.7	3,413.7	3,495.6
Income Tax Expense (benefit)	714.5	368.3	425.9	489.2	749.3	667.6	683.7	700.1	716.9	734.1
EBIAT	1,349.0	1,639.5	1,690.4	1,813.1	2,805.4	2,511.6	2,571.9	2,633.6	2,696.8	2,761.5
Add: Depreciation & Amortization	379.9	404.2	454.1	504.8	574.2	633.8	675.2	718.6	764.2	811.9
Less: Changes in Working Capital		(182.8)	32.7	40.0	40.9	41.9	42.9	-	-	-
Less: Capital Expenditures	(560.3)	(646.5)	(734.4)	(784.8)	(1,028.0)	(1,036.7)	(1,061.6)	(1,087.1)	(1,113.2)	(1,139.9)
Unlevered Free Cash Flow	1,168.6	1,214.5	1,442.8	1,573.1	2,392.7	2,150.6	2,228.4	2,265.1	2,347.8	2,433.5
Time Until Cash Flow						1.0	2.0	3.0	4.0	5.0
Present Value of FCF						2,039.2	2,003.5	1,931.0	1,897.7	1,865.1

Exit Multiple Approach	
Terminal Year EBITDA	4,178
Terminal Value EBITDA Multiple	17.0x
Terminal Value	71,023
Present Value of Terminal Value	57,408
Present Value of Stage 1 Cash Flows	7,871
Enterprise Value	65,280

Exit Multiple Valuation	
Enterprise Value	65,280
Less: Net Debt	(4,158)
Equity Value	61,122
Diluted Shares Outstanding	248
Equity Value per Share	<b>\$ 246.29</b>
<i>Implied Upside/Downside</i>	<b>21.9%</b>

WACC	
Beta	0.55
Risk Free Rate	1.7%
ERM	9.0%
Market Value of Equity	48,331
Weight of Equity	92.1%
Cost of Equity	5.7%
WA Interest Rate	3.6%
Tax Rate	21.0%
Value of Debt	4,158
Weight of Debt	7.9%
Cost of Debt	2.8%
Calculated WACC	5.5%

Perpetuity Growth Approach	
Present Value of Projection Period	9,737
Terminal Year UFCF	2,434
Perpetuity Growth Rate	2.1%
Terminal Value	73,850
Years	5
Present Value of Terminal Value	56,600
Enterprise Value	66,337

Perpetuity Growth Valuation	
Enterprise Value	66,337
Less: Net Debt	(4,158)
Equity Value	62,179
Diluted Shares Outstanding	248
Equity Value per Share	<b>\$ 250.55</b>
<i>Implied Upside/Downside</i>	<b>24.0%</b>

**Q & A**

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