

Dollar General

MALARKEY CAPITAL MANAGEMENT

History

Founded : 1939 “J.L. Turner and Son, Wholesale.”

Incorporated: 1955 in Kentucky, “J.L Turner & Son, Inc.

Changed name to “Dollar General Corporation” in 1968

Became Public: 1968 until July 2007 after KKR merger.

Became Public (again): November 2009

Buy Back: December 2013

Business Model

“In and out” shopping experience

Convenient locations

Everyday necessities



Product Types

Food

Snacks

Health and Beauty aids

Cleaning Supplies

Clothing

Housewares and seasonal
items

Brands

Procter & Gamble Nabisco

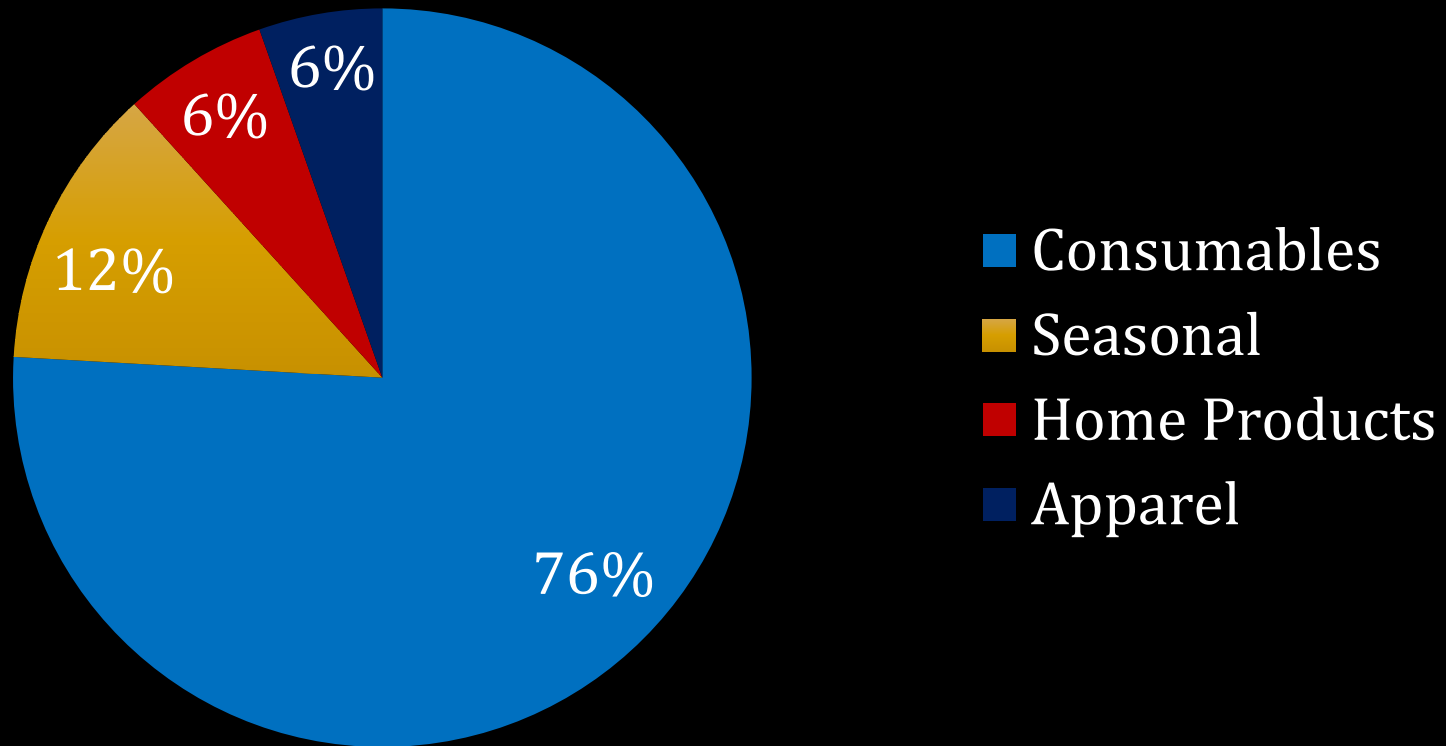
Kimberly-Clark Hanes

Unilever PepsiCo

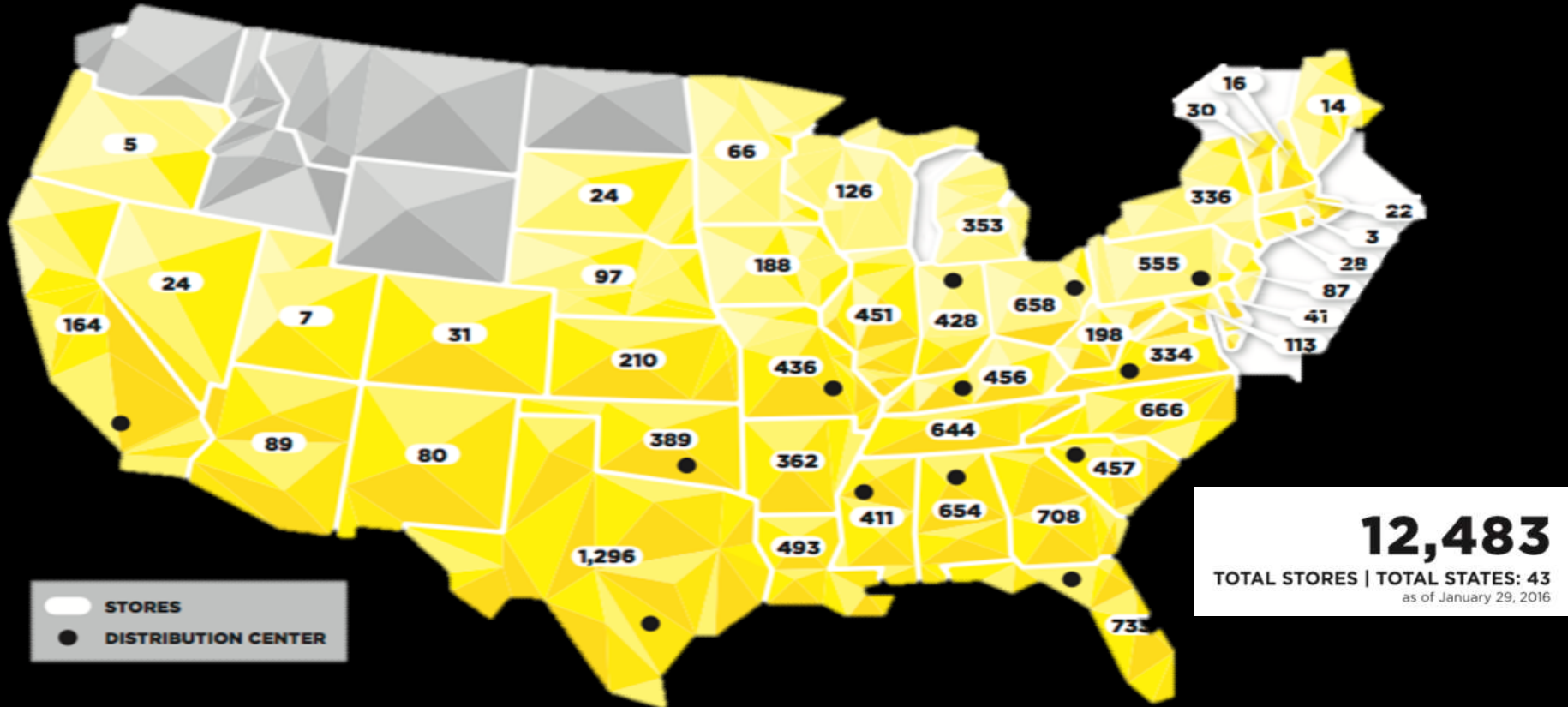
Kellogg's Coca-Cola

General Mills

Revenues by Segment



Geographic Footprint



Recent News

\$597 Million of Capital Returned to Shareholders Year to Date Through the Second Quarter

Board of Directors Approves Incremental \$1.0 Billion Share Repurchase Authorization

CEO and Chairman of the Board Richard W. Dreiling resumed plans to retire after bid to acquire Family Dollar was rejected

COO Todd Vasos stepped in as replacement after seven years with the company

Has served in multiple executive positions

Has years of experience with store development, supply chain management, procurement, and marketing

Recent News cont.

Dollar General had plans to hire 10,000 new employees over the month of October
Will have enough human capital to open over 1,000 stores

Dollar General signed the White House First Job Recruiting and Hiring Compact to help connect out-of-school, out-of-work youth (Opportunity Youth) to their first jobs

Plan to enhance partnerships with high school and workforce development centers with the goal of hiring approximately 1,000 Opportunity Youth candidates over the next 12 months

Risk

E-commerce

Close competitors: Dollar Tree & Family Dollar Merger

Large Low Cost Retailer: Wal-Mart

Food cost deflation (eggs, milk, cereal, etc.)

Reduced Supplemental Nutrition Assistance Programs

Growth

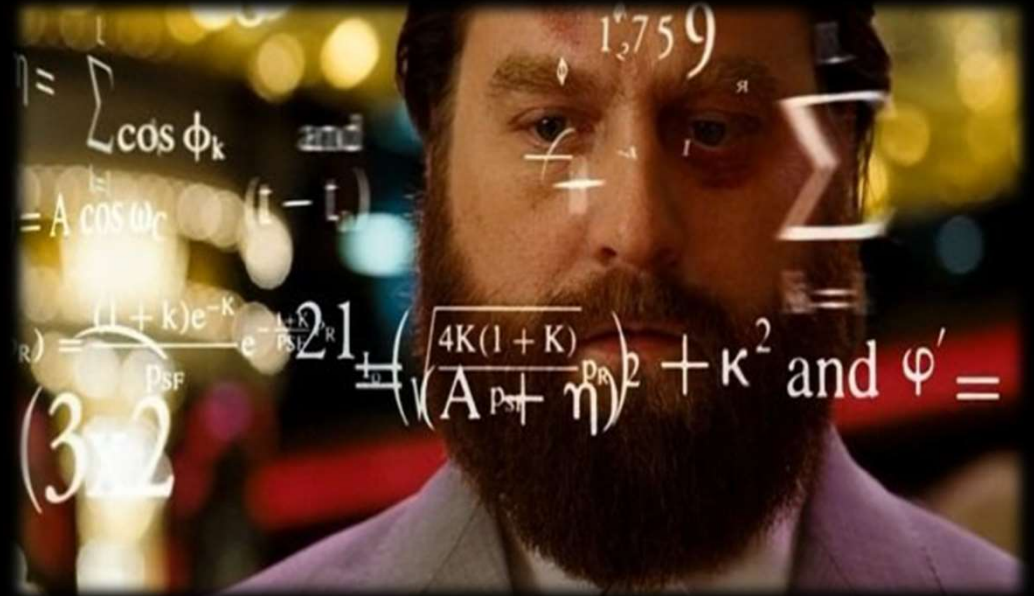
13,000 new stores in the US market

Private-label

Global sourcing

Expense-reduction efforts

Increasing Income Inequality



Economic Moat



Competitive Cost Structure

Premium per-unit prices for convenience

Convenience

Proximity to consumers

Price architecture

Efficient Labor Costs

Growth Potential

Qualitative Analysis

Sales per Share	Increasing
Cashflows per Share	Increasing
Dividends Declared per Share	Increasing
Book Value per Share	Increasing
Revenues (Sales)	Increasing
Gross Profit Margin	Increasing
Operating Profit Margin	Consistent
Number of Stores	Increasing
Net Profit	Increasing
Net Profit Margin	Consistent
Working Capital	Increasing
Shareholder's Equity	Increasing
Return on Capital	Consistent
Return on Equity	Increasing
Common Shares Outstanding	Decreasing
Long-Term Debt	Increasing
LT Debt Payable in 5 Years	Yes
All Dividends to Net Profit under 60%	Yes

Interpretation of Financial Statements			
<u>TTM</u>	Value	Low Threshold	Pass?
Gross Profit Margin	41.92%	$\geq 20\%$	YES
% SGA	69.00%	$\leq 80\%$	YES
% R&D	NA	$\leq 10\%$	YES
% Depreciation	5.60%	$\leq 10\%$	YES
Interest % of OP	7.00%	$\leq 15\%$	YES
Net Profit Margin	6%	$\geq 10\%$	NO
Current Ratio	1.63	≥ 1	YES
Obligation Ratio	6.30	< 5 years	NO
Adj. Debt to Shareholder Equity	1.14	< 0.8	NO
Return on Equity	22.85%	$\geq 15\%$	YES
Return on Capital	87.53%	$\geq 15\%$	YES
Dividend Payout Ratio	23.00%	$\leq 60\%$	YES
Preferred Stock	None	None	YES
Capital Expenditures	42.72%	$\leq 25\%$	NO
Net Earning Trend	Increasing	Increasing	YES
Retained Earnings Trend	Increasing	Increasing	YES

Qualitative Analysis

Commodity or Sustained Competitive Advantage?	Sustained Competitive Advantage
Easily Explainable?	Yes
Unionized?	No
Heavy Capital Infusion and R&D?	No
Obsolete Inventory?	Yes
Chronic One-Time Write Offs?	No
Make a Competitor With a Billion Dollars?	No

IOFS Graphs

DG Revenue (TTM)

21.01B

19.00B
17.00B
15.00B
13.00B
11.00B
9.000B

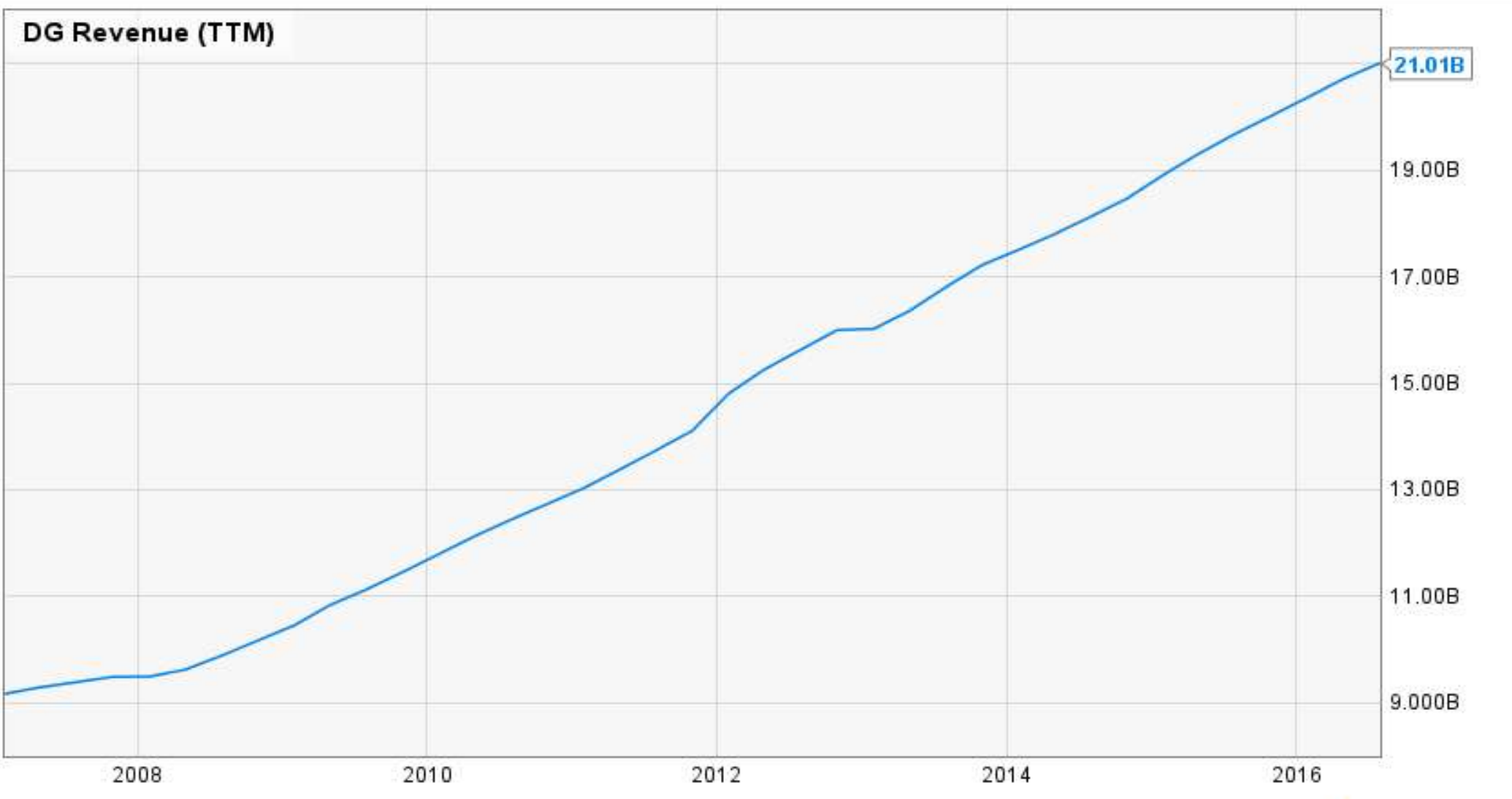
2008

2010

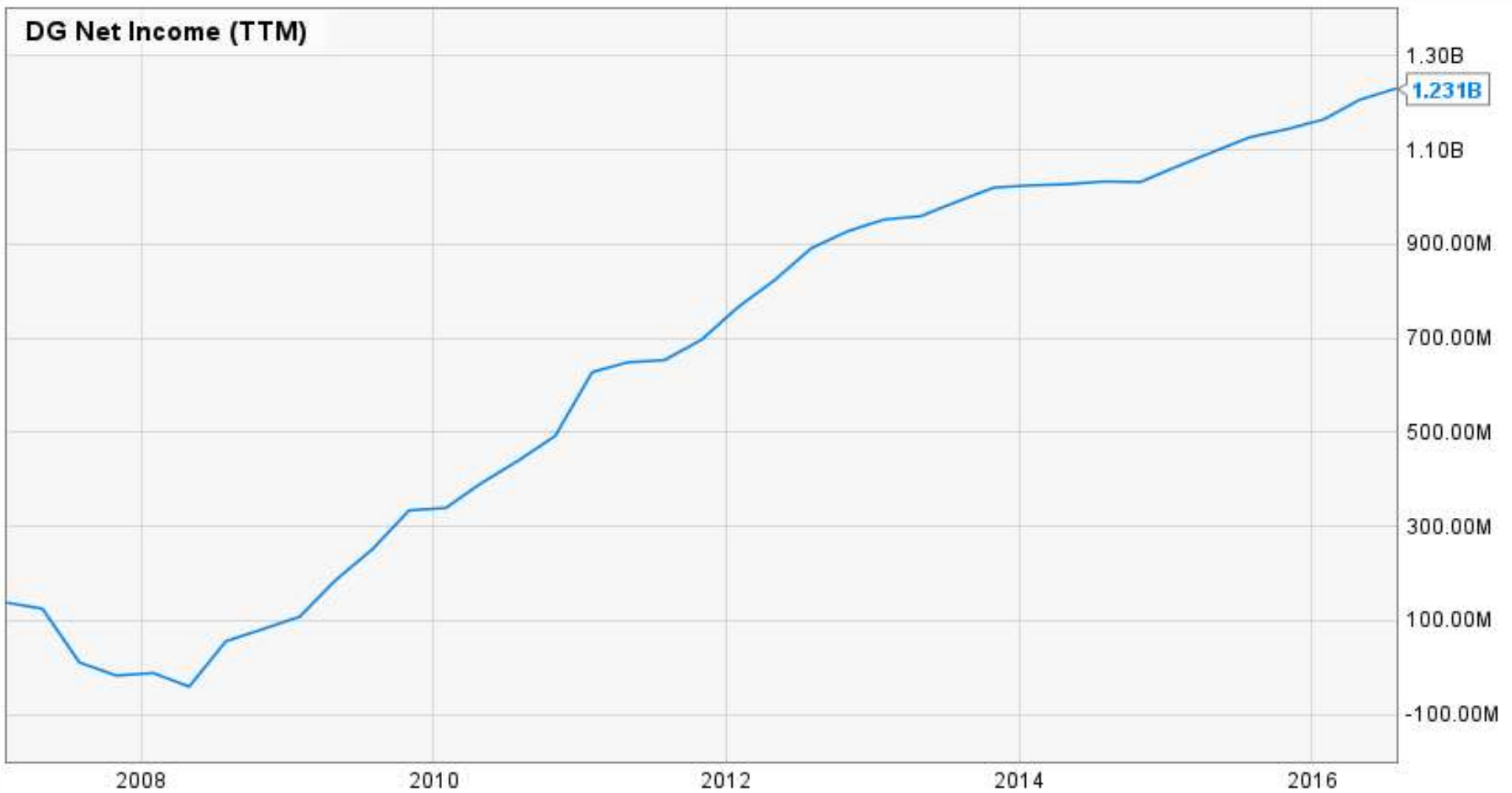
2012

2014

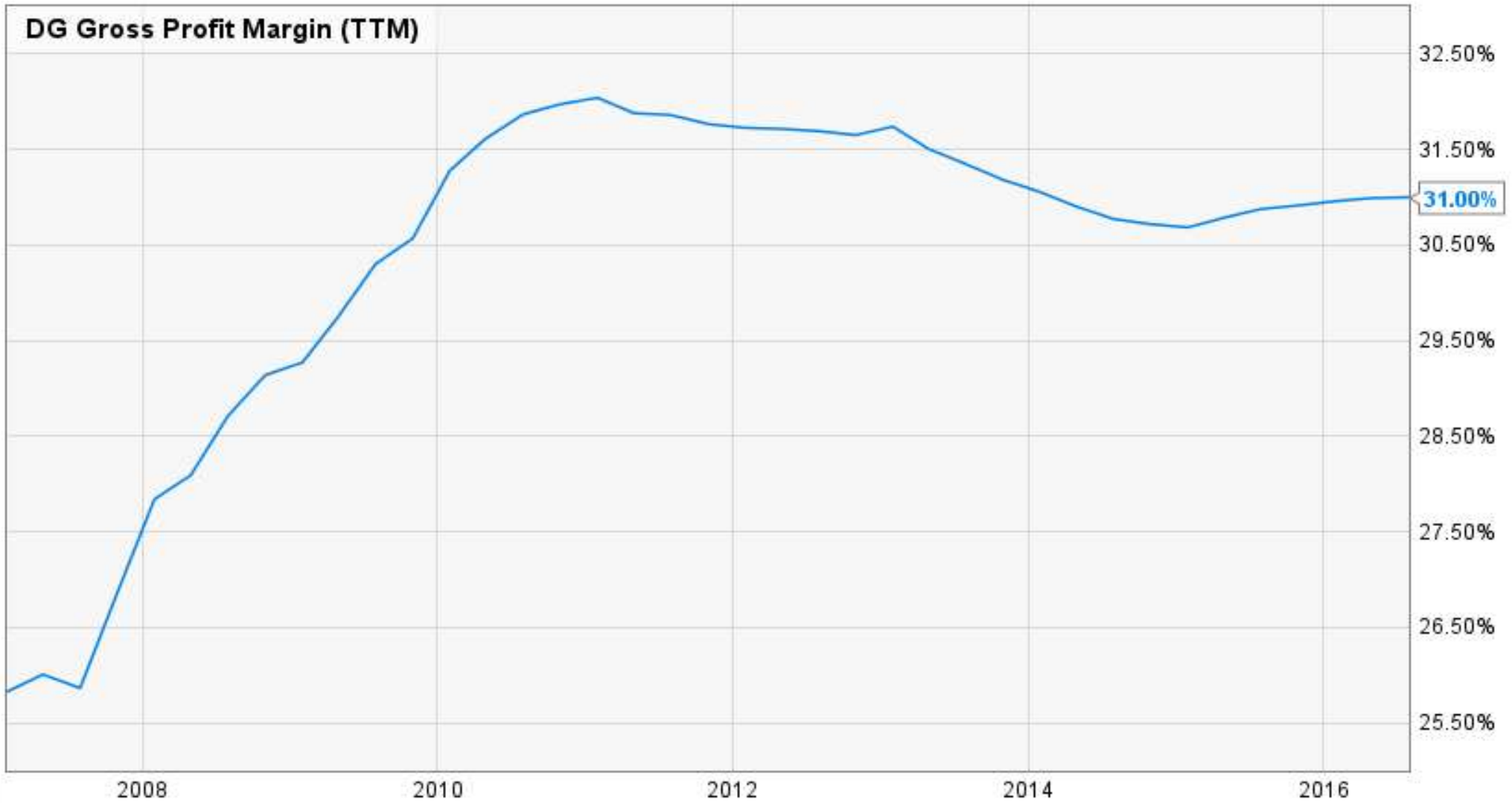
2016



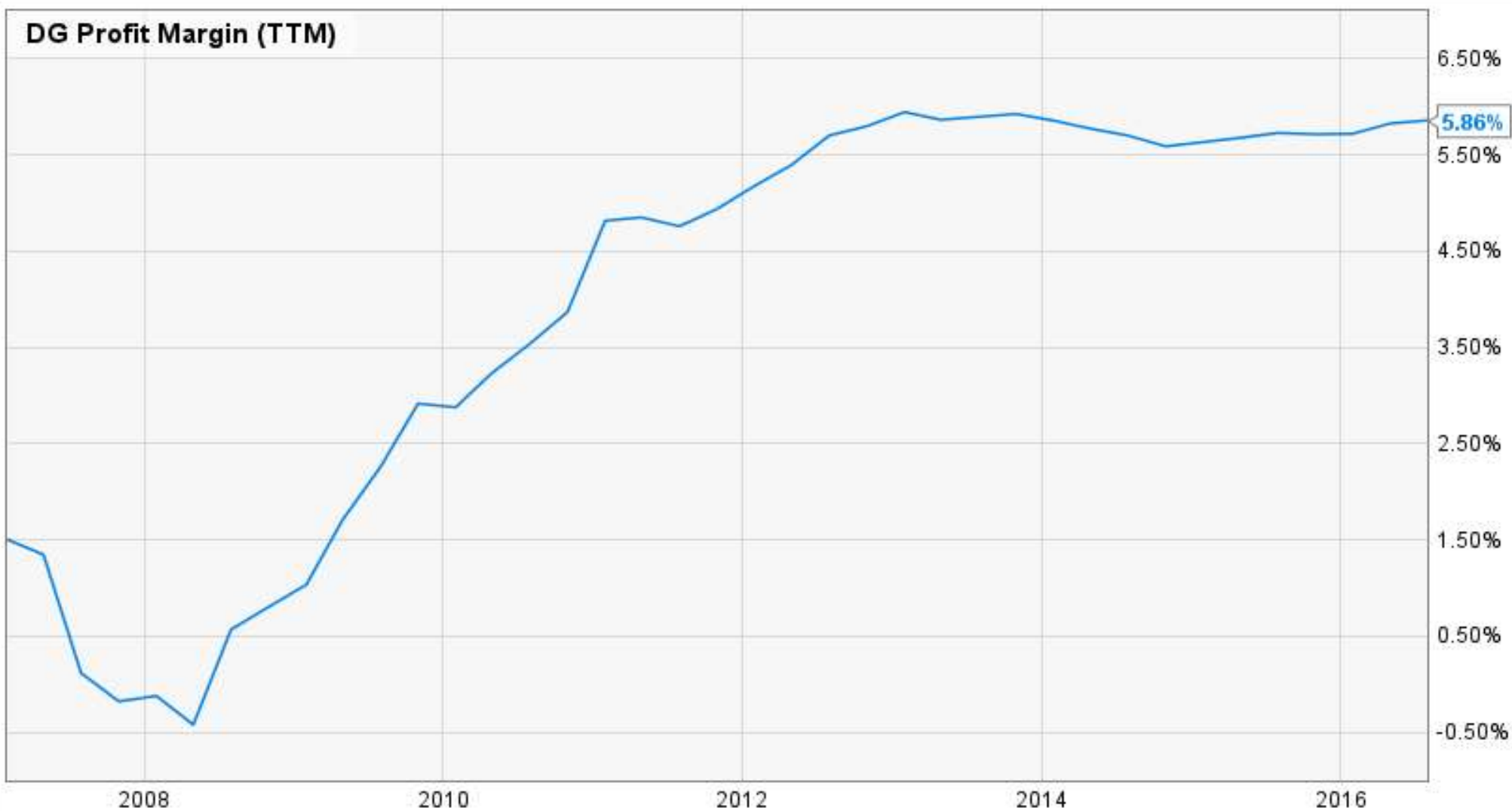
DG Net Income (TTM)



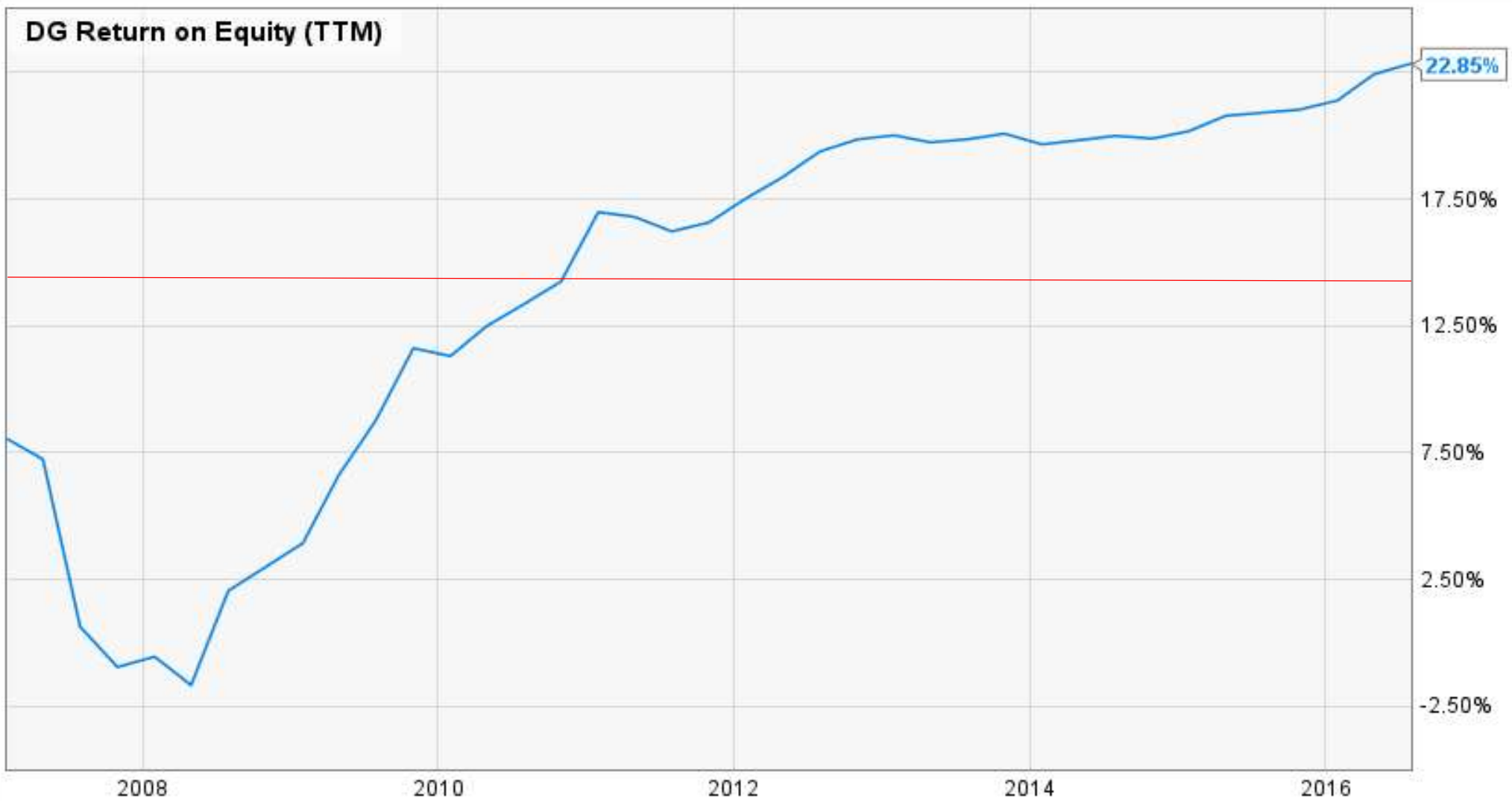
DG Gross Profit Margin (TTM)



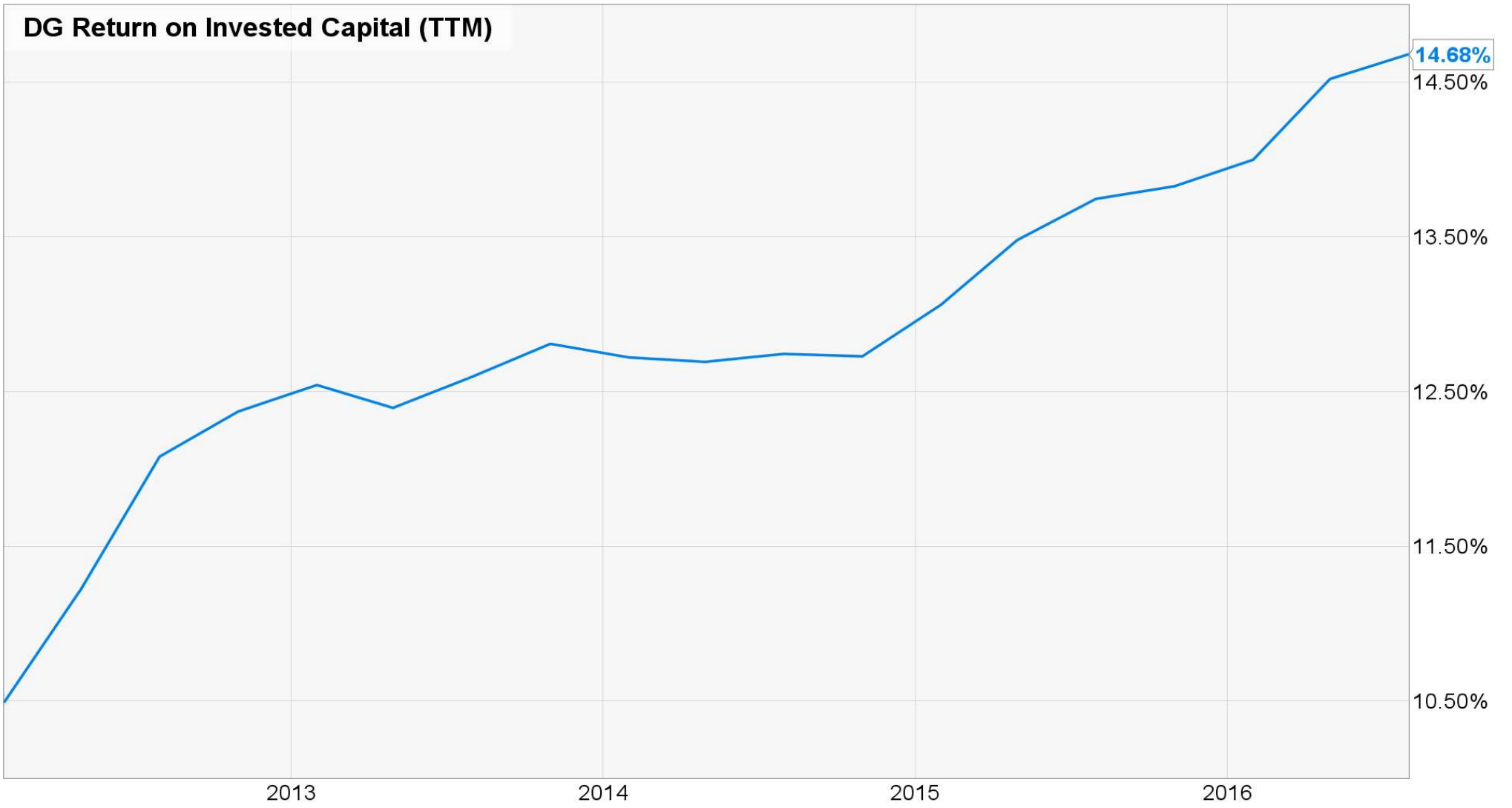
DG Profit Margin (TTM)



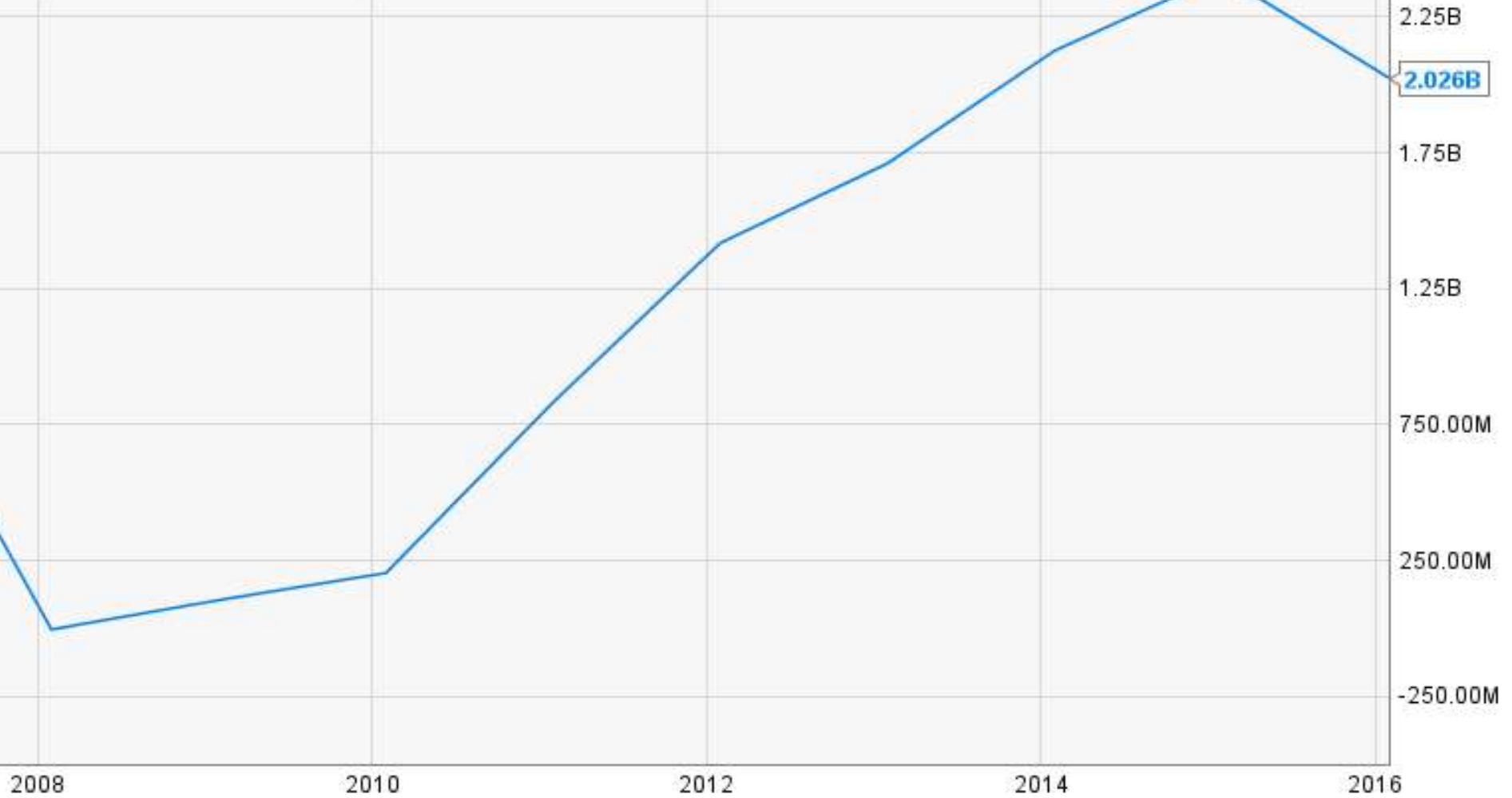
DG Return on Equity (TTM)



DG Return on Invested Capital (TTM)



DG Retained Earnings (Annual)



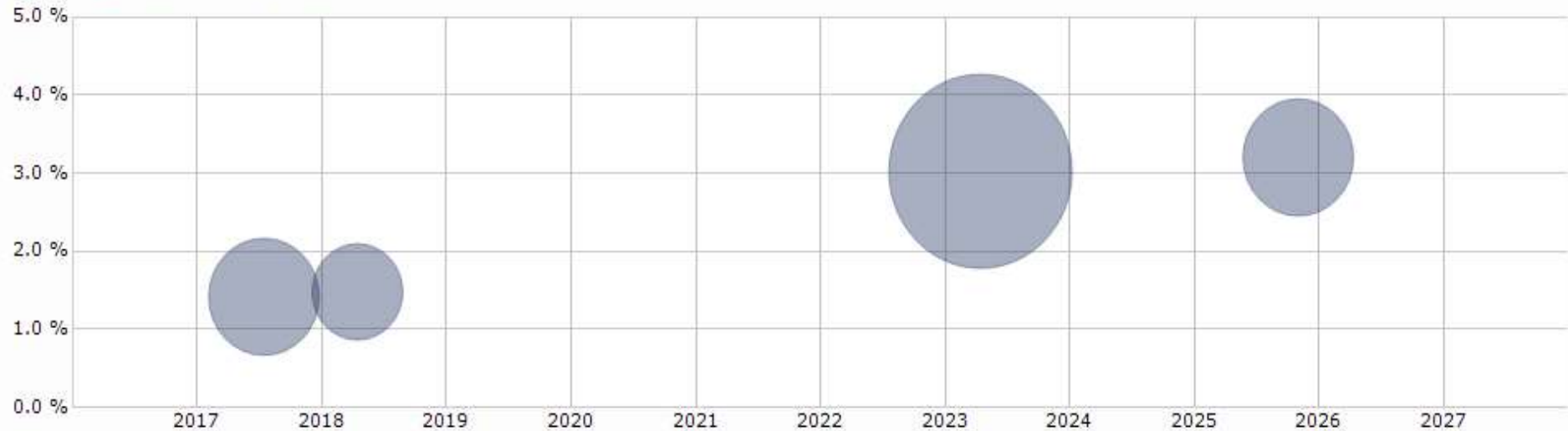
DG Shares Outstanding



Yield to Maturity

● Debt ● Preferred ● Convertible

● ● ● Circle size determined by issue amount

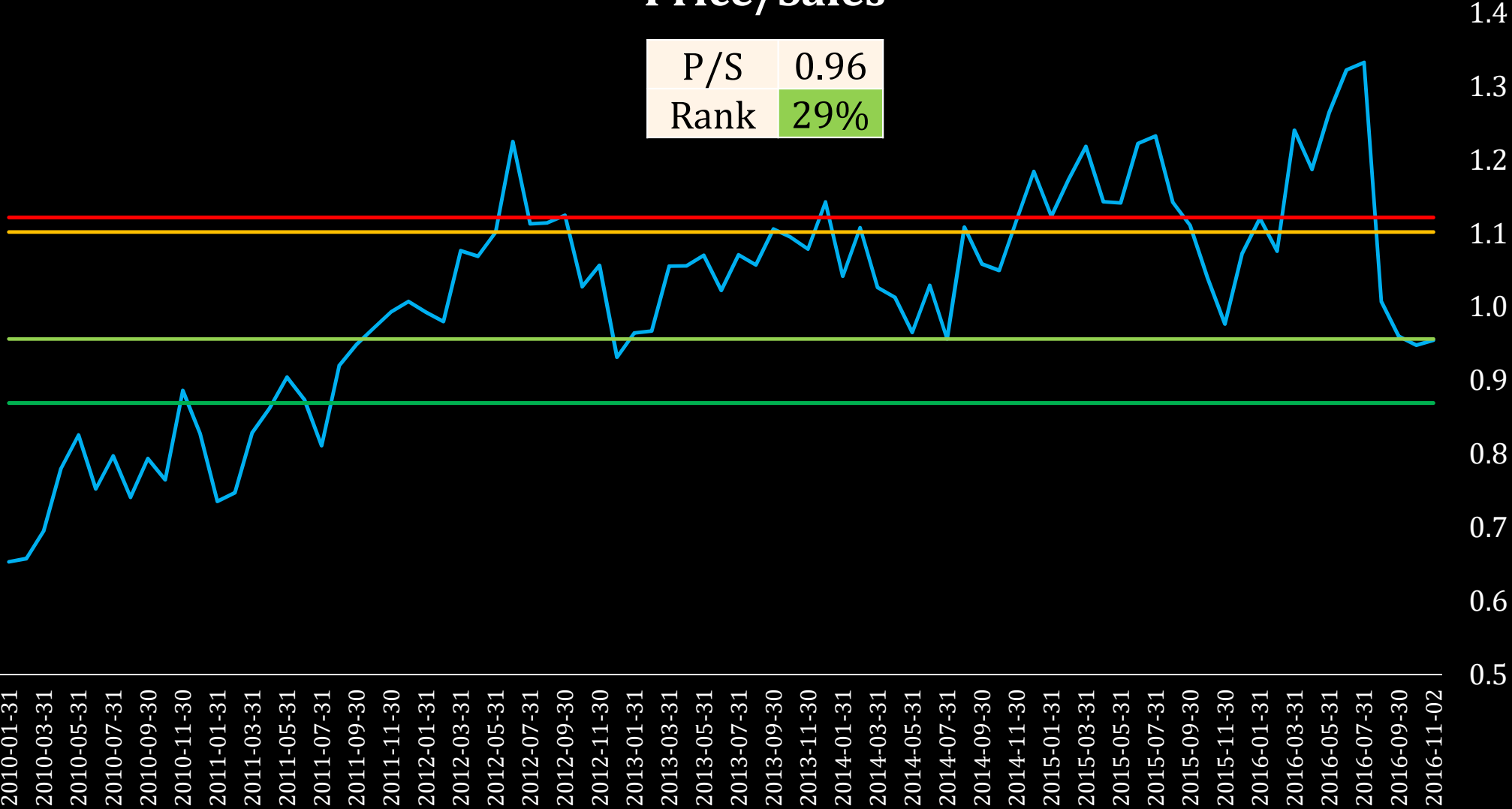


Name	Maturity Date	Amount \$(Mil)	Credit Quality	Price	Coupon %	Coupon Type (Fixed/Floating)	Callable	Rule 144A	Yield to Maturity %
Dollar Gen Corp New 3.25%	04/15/2023	900.0	---	101.3	3.250	Fixed	No	No	3.02
Dollar Gen Corp New 4.15%	11/01/2025	500.0	---	107.4	4.150	Fixed	No	No	3.20
Dollar Gen Corp New 4.125%	07/15/2017	500.0	---	101.9	4.125	Fixed	No	No	1.42
Dollar Gen Corp New 1.875%	04/15/2018	400.0	---	100.6	1.875	Fixed	No	No	1.48
Dollar General Cp 11.875%	07/15/2017	---	---	---	---	---	No	---	---

Value Bands

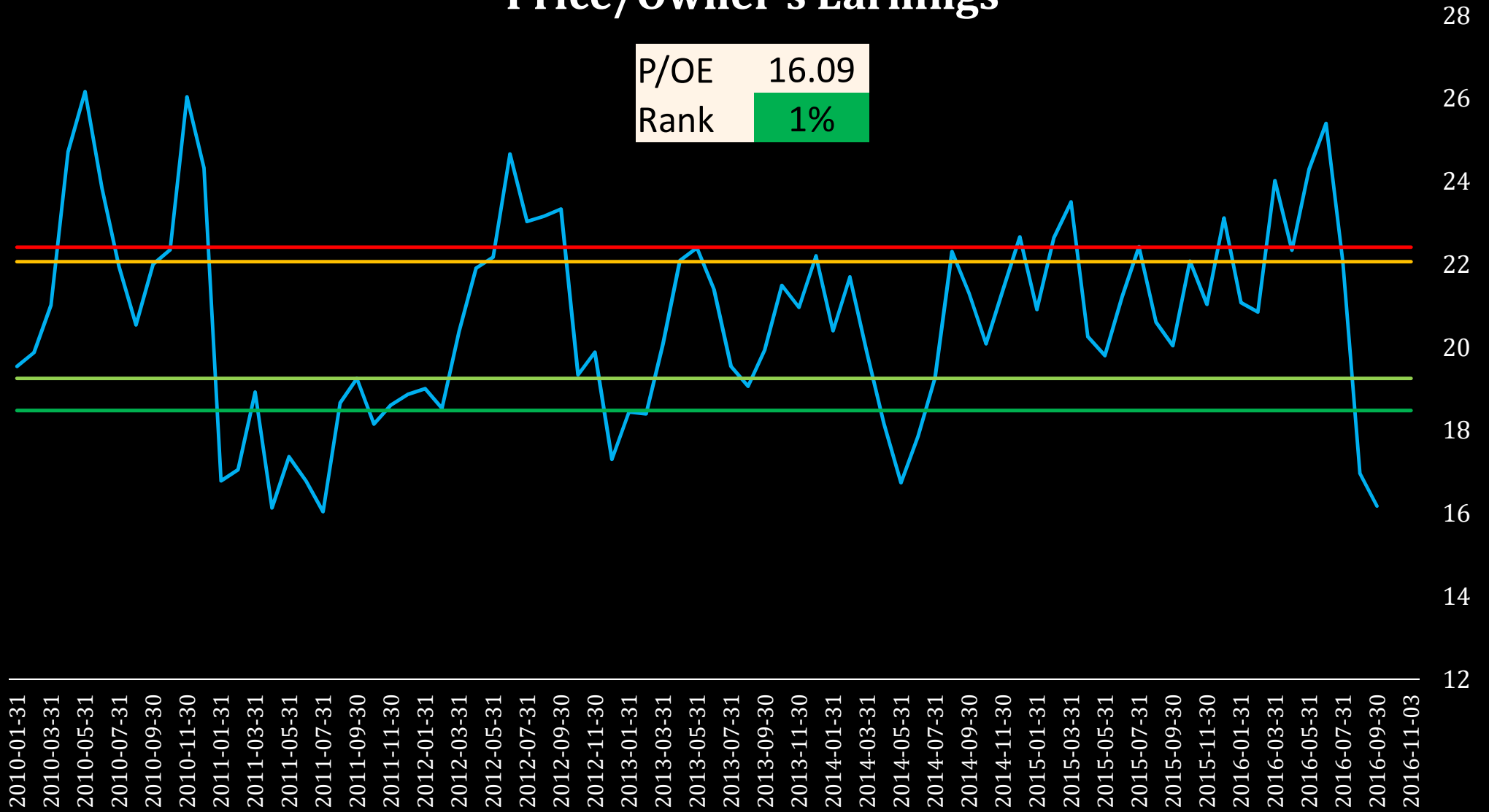
Price/Sales

P/S	0.96
Rank	29%



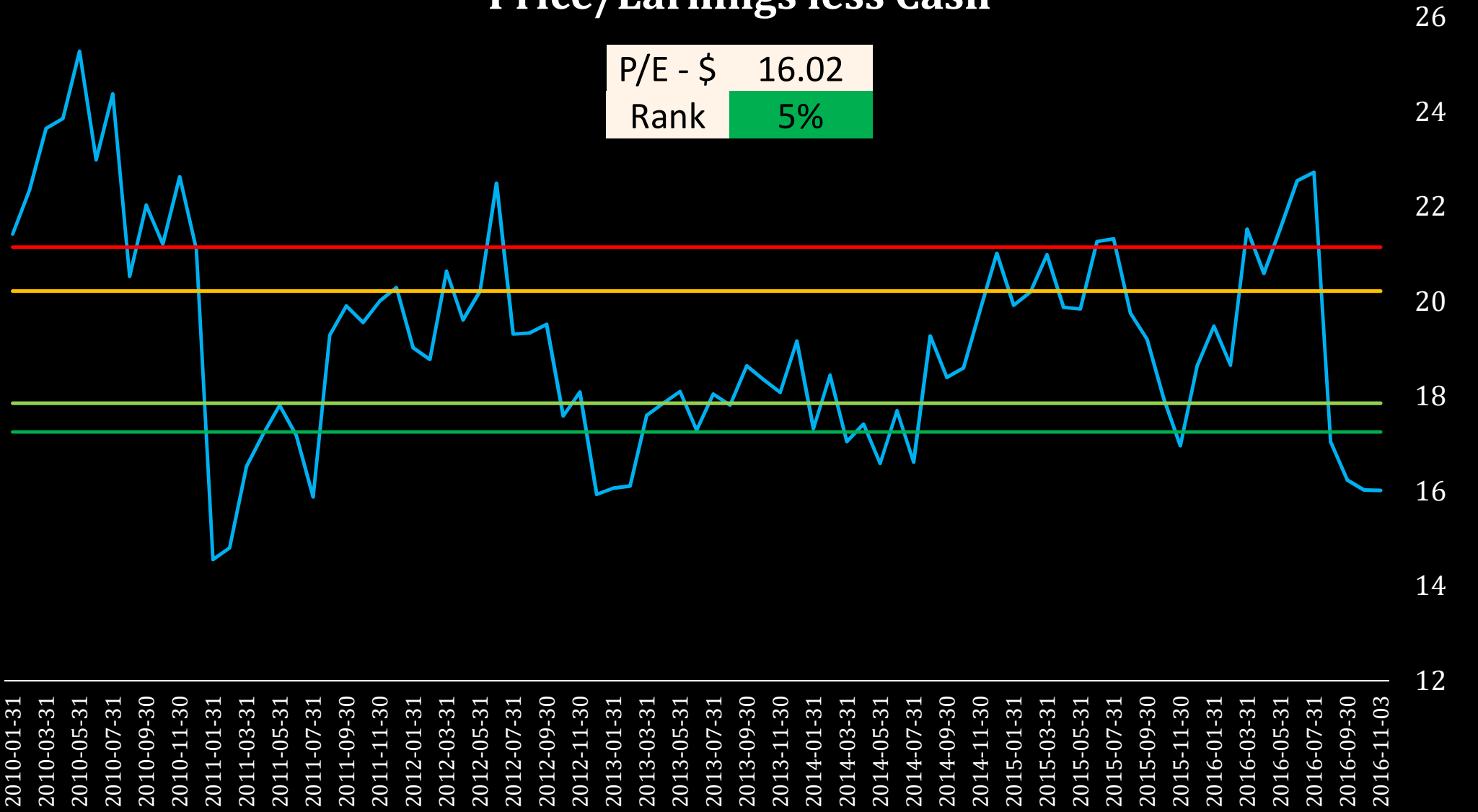
Price/Owner's Earnings

P/OE	16.09
Rank	1%



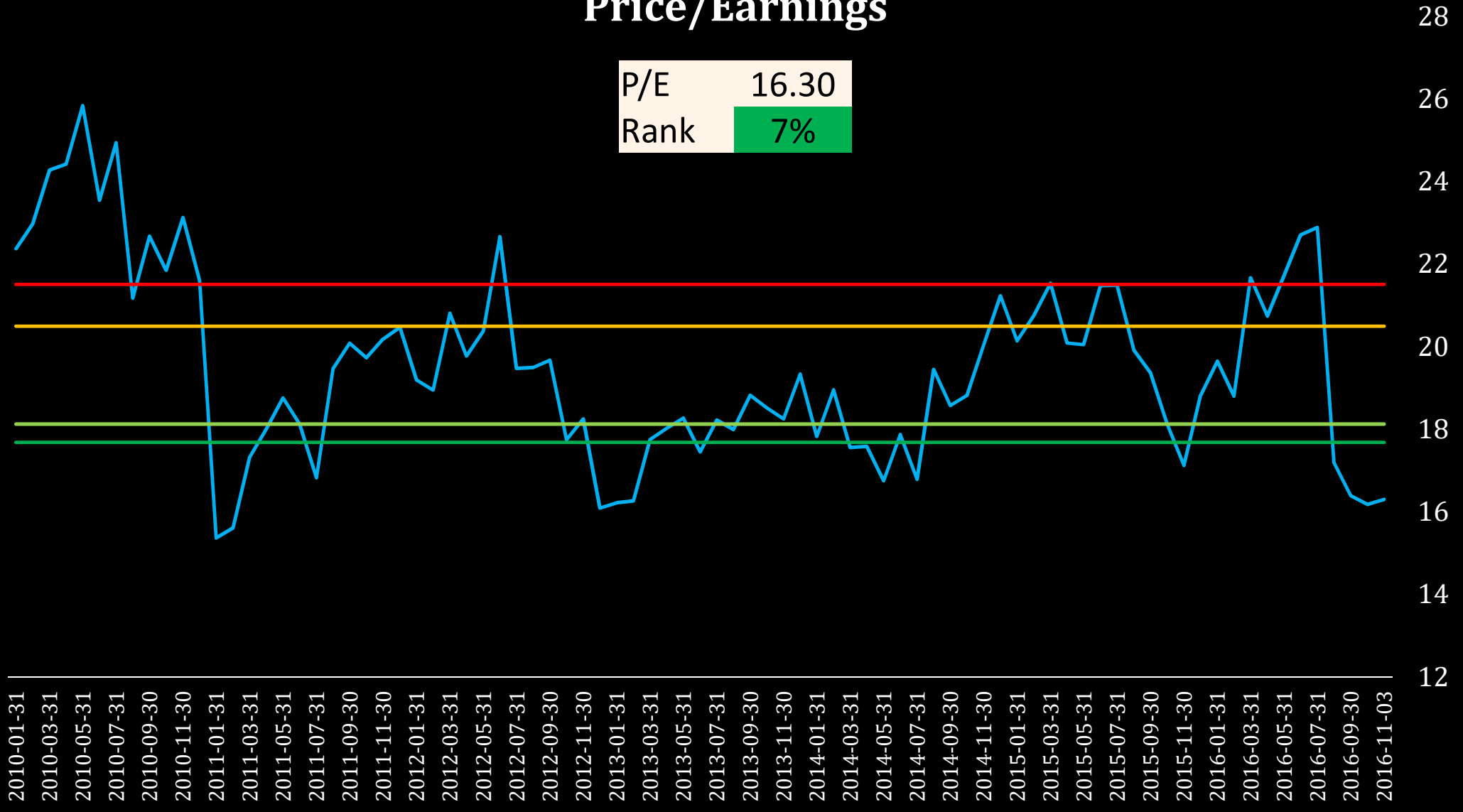
Price/Earnings less Cash

P/E - \$	16.02
Rank	5%



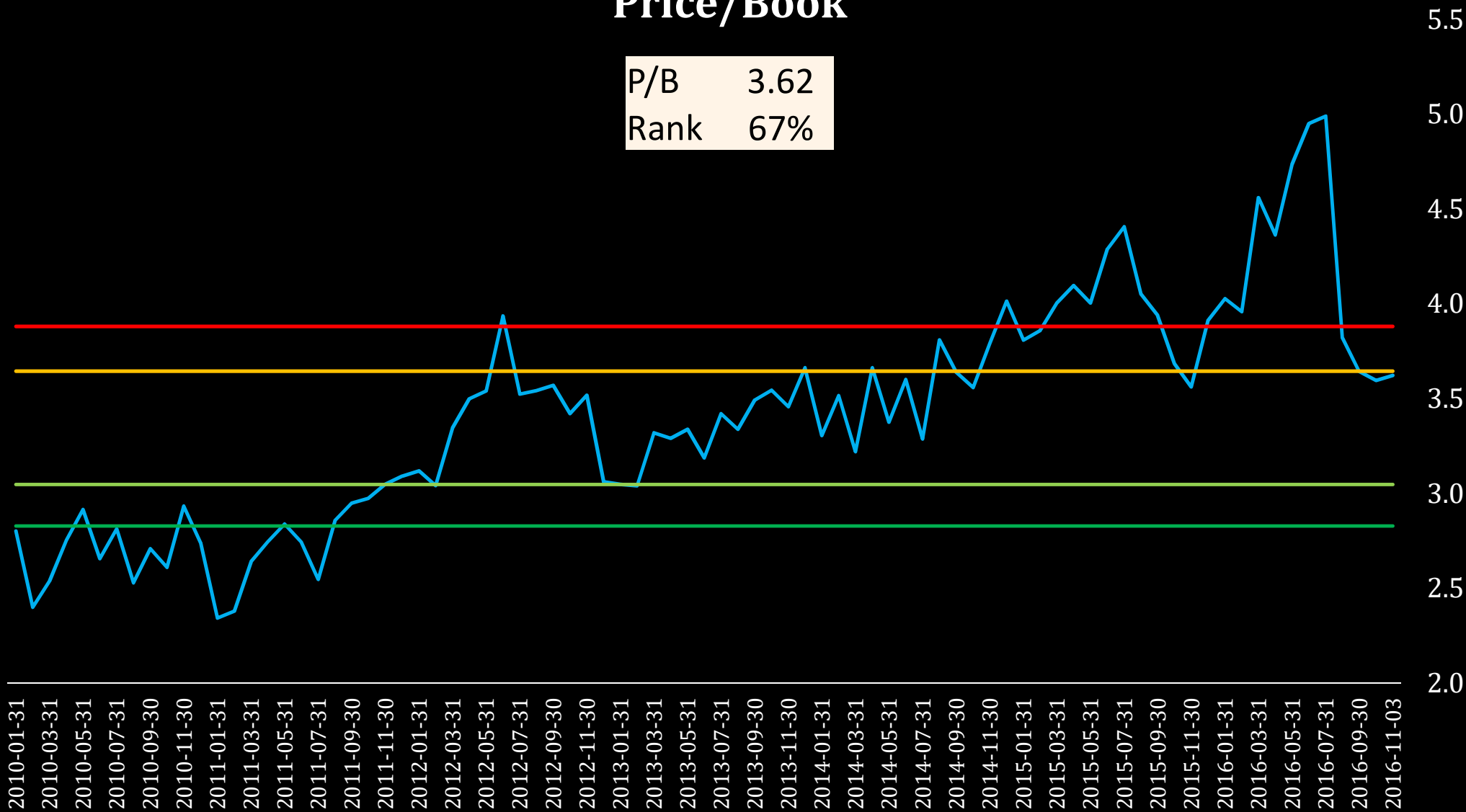
Price/Earnings

P/E	16.30
Rank	7%



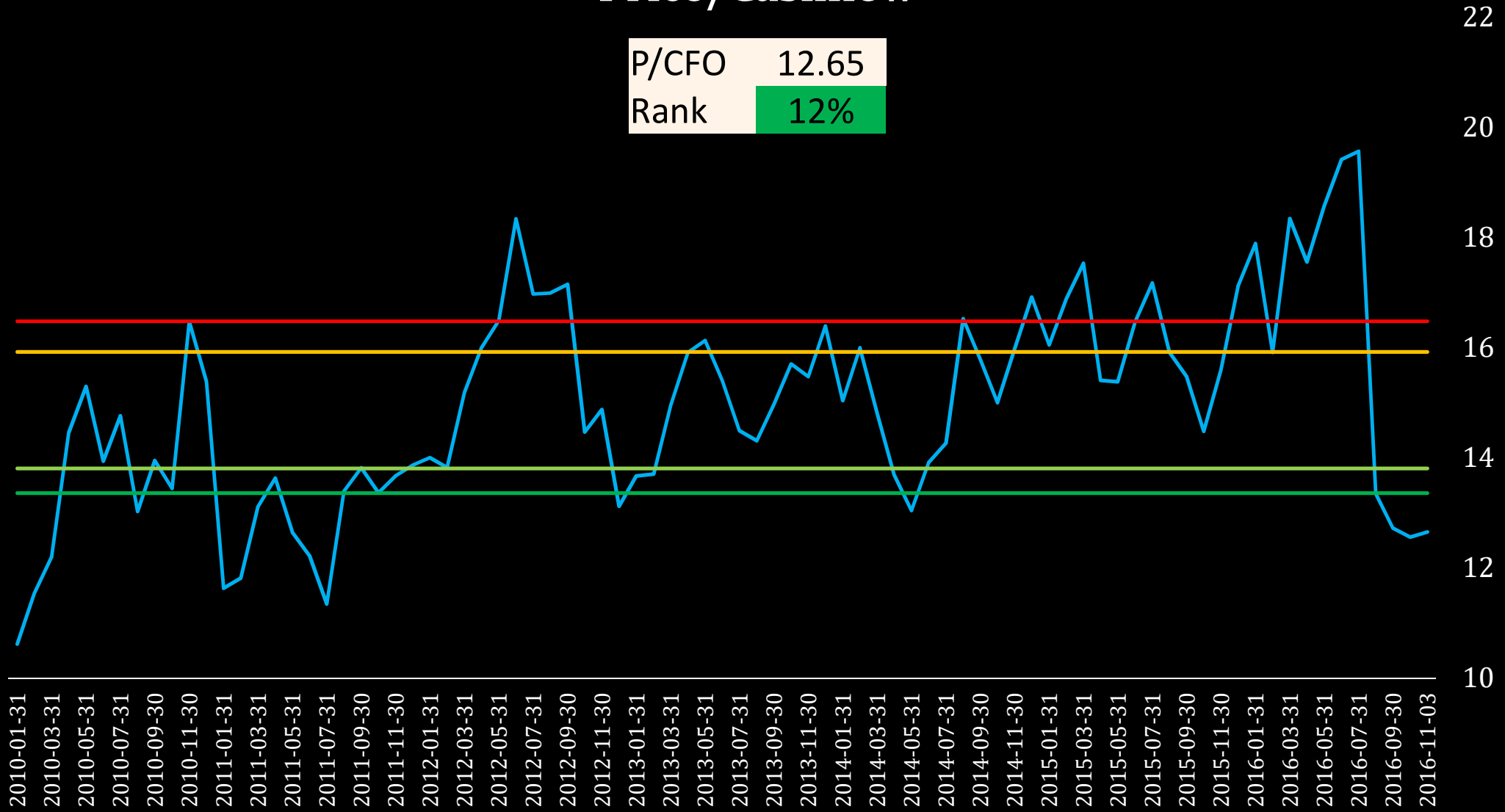
Price/Book

P/B	3.62
Rank	67%



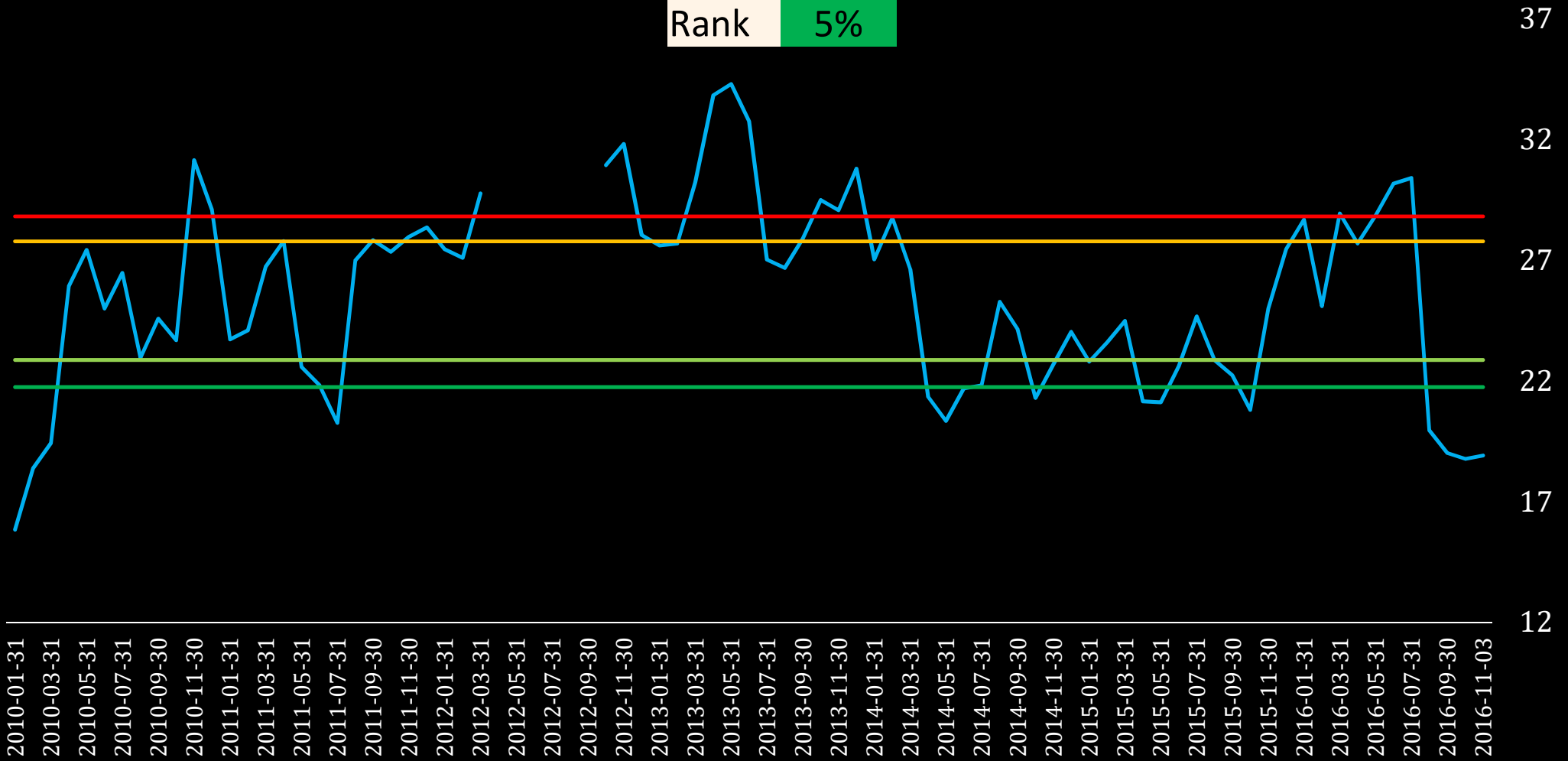
Price/Cashflow

P/CFO	12.65
Rank	12%



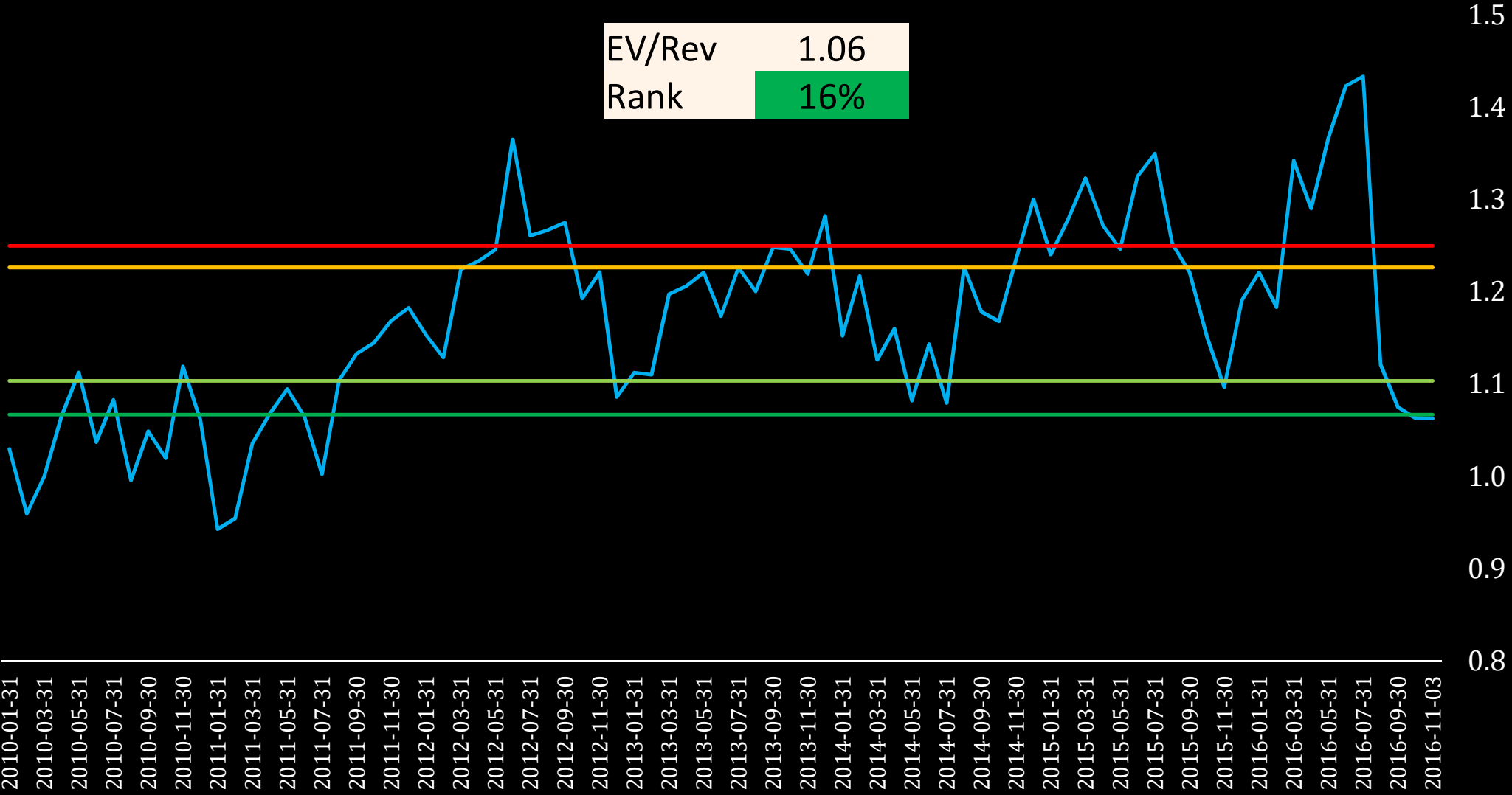
Price/Free Cashflow

P/FCF	18.92
Rank	5%



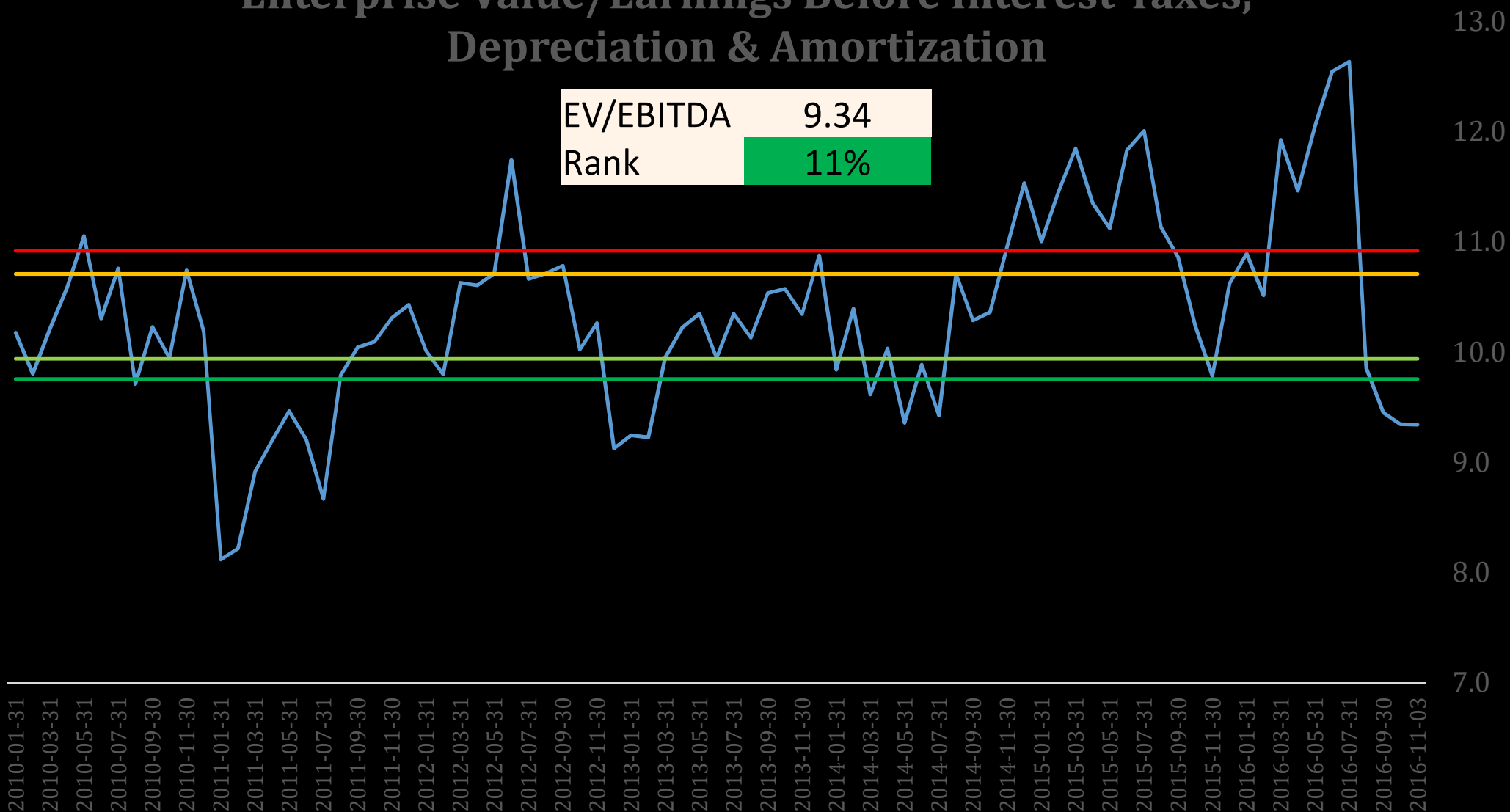
Enterprise Value/Revenue

EV/Rev	1.06
Rank	16%



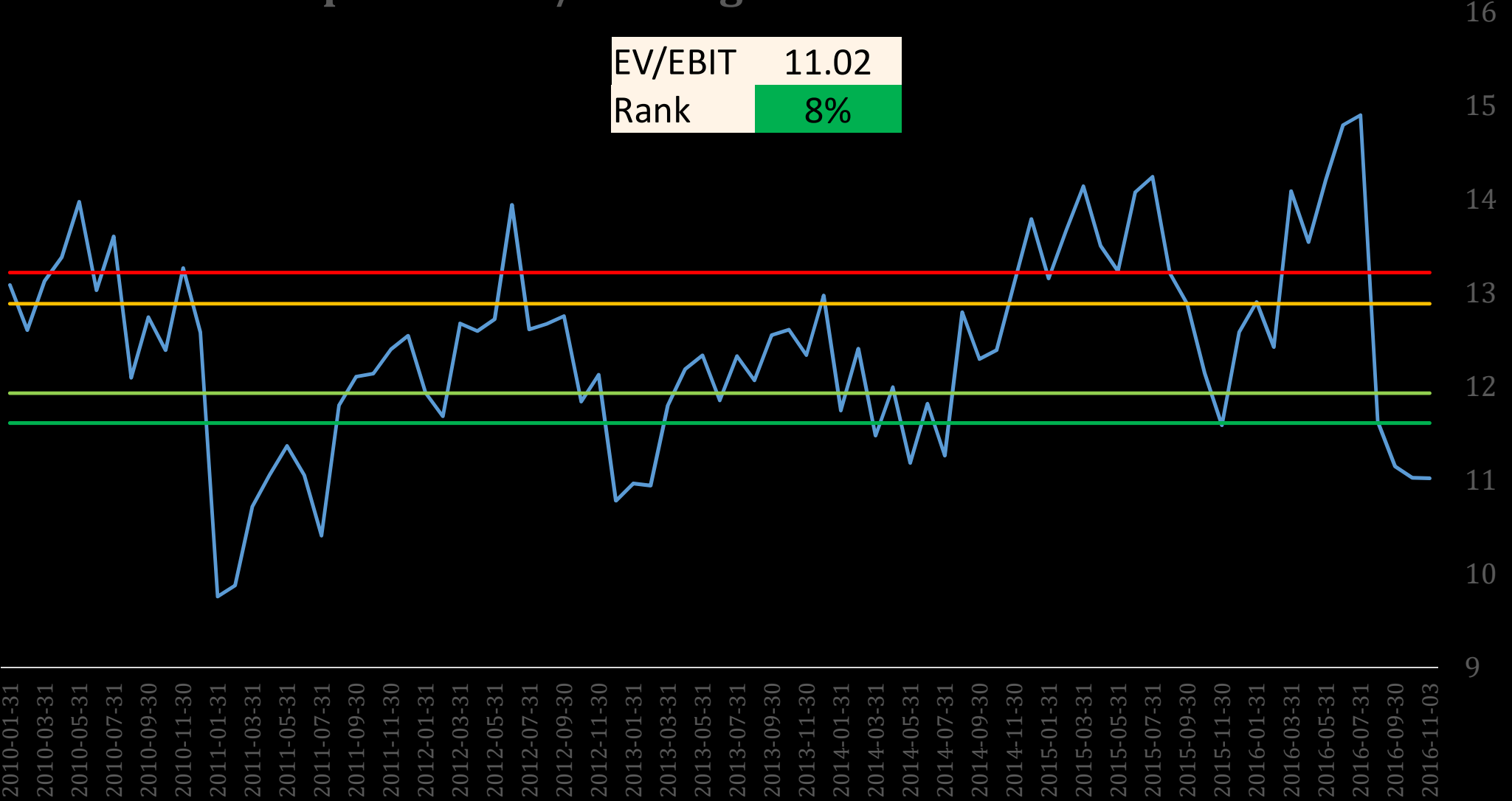
Enterprise Value/Earnings Before Interest Taxes, Depreciation & Amortization

EV/EBITDA	9.34
Rank	11%



Enterprise Value/Earnings Before Interest and Taxes

EV/EBIT	11.02
Rank	8%



Value Bands

Metric	Multiple	Rank
Price/Sales	0.96	29%
Price/Owner's Earnings	16.09	1%
Price/Earnings – Cash	16.02	5%
Price/Earnings	16.30	7%
Price/Book Value	3.62	67%
Price/Cash Flow	12.65	12%
Price/Free Cash Flow	18.92	5%
EV/Revenue	1.06	16%
EV/EBITDA	9.34	11%
EV/EBIT	11.02	8%

Intra-Portfolio Evaluations

Current

Ticker	Price/Sales
MCK	0.2
BBBY	0.5
WMT	0.5
CHRW	0.8
DG	1
PII	1.1
CMI	1.2
AIG	1.4
BRK.B	1.6
IBM	1.8
NSRGY	2.5
UNP	3.7
ORCL	4.4
QCOM	4.5
MSFT	5.5

Ticker	Price/Earnings
BBBY	8.1
IBM	12.4
BRK.B	13.9
WMT	15.0
MCK	15.3
NSRGY	16.1
DG	16.3
CMI	16.6
UNP	17.8
ORCL	18.1
CHRW	18.7
PII	19.3
QCOM	19.6
MSFT	28.5
AIG	-











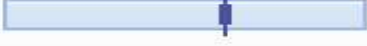
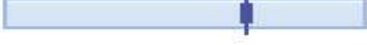
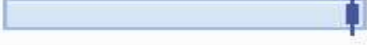
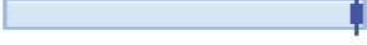
Ticker	Price/Earnings - Cash
BBBY	9.6
BRK.B	15.1
MCK	16.0
IBM	16.1
ORCL	16.8
CMI	17.1
NSRGY	17.2
WMT	18.3
QCOM	19.0
DG	19.0
PII	20.2
CHRW	20.2
UNP	21.6
MSFT	25.3
AIG	-











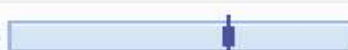
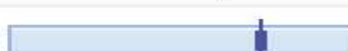
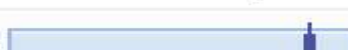
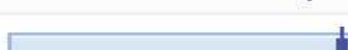
Ticker	Price/Book
AIG	0.7
BRK.B	1.3
BBBY	2.3
WMT	2.8
CMI	3.0
QCOM	3.2
MCK	3.3
ORCL	3.3
UNP	3.6
DG	3.6
NSRGY	3.7
PII	5.3
MSFT	6.6
CHRW	7.7
IBM	8.5

Ticker	Price/Free Cash-Flow
MCK	6.6
BBBY	8.6
IBM	10.1
WMT	10.4
ORCL	12.9
CMI	14.3
CHRW	15.2
QCOM	15.9
MSFT	17.6
DG	18.9
BRK.B	20.2
UNP	23.0
NSRGY	23.6
AIG	25.1
PII	34.2

Ticker	Price/PEG Forward
AIG	0.8
MCK	1.1
DG	1.1
QCOM	1.5
PII	1.5
BBBY	1.7
ORCL	1.9
MSFT	2.1
BRK.B	2.3
CHRW	2.5
UNP	2.6
NSRGY	2.7
IBM	4.0
WMT	8.9
CMI	193.3

Intra-Portfolio Evaluations 5-Year Historical

Ticker	▲ 5-Year Price / Sales Range
BBBY	0.5  1.9
NSRGY	
MCK	0.1  0.3
DG	0.9  1.4
PII	1.0  3.1
CHRW	0.6  1.2
WMT	0.4  0.6
ORCL	3.6  5.4
IBM	1.4  2.4
BRK.B	1.3  2.0
CMI	0.8  1.7
QCOM	2.8  7.2
UNP	2.5  4.9
MSFT	2.9  5.7
AIG	0.4  1.4

Ticker	▲ 5-Year Price / Book Range
BBBY	2.4  5.0
NSRGY	
PII	4.8  17.6
IBM	8.0  14.5
ORCL	2.9  4.3
MCK	2.5  6.8
WMT	2.3  3.8
DG	2.9  5.1
CHRW	5.7  11.2
BRK.B	1.1  1.6
UNP	2.5  5.1
CMI	1.9  4.5
QCOM	2.0  4.1
AIG	0.4  0.8
MSFT	3.1  6.7

Ticker	▲ 5-Year Price / Free Cash Flow Range	
BBBY	8.6	21.3
NSRGY		
WMT	10.1	27.7
DG	18.2	42.5
MCK	6.1	27.0
CHRW	14.2	36.0
CMI	11.5	30.3
IBM	8.5	16.9
UNP	17.9	37.8
QCOM	12.3	23.8
ORCL	10.1	16.3
AIG	9.8	-
BRK.B	14.2	26.5
PII	11.1	44.6
MSFT	7.7	20.2

Ticker	▲ 5-Year Price Range	
BBBY	\$39.63	\$80.82
PII	\$53.35	\$159.33
IBM	\$116.90	\$215.90
MCK	\$74.89	\$243.61
WMT	\$56.26	\$90.97
CMI	\$79.88	\$161.03
DG	\$38.32	\$96.88
UNP	\$47.58	\$124.52
ORCL	\$24.91	\$46.71
QCOM	\$42.24	\$81.97
NSRGY	\$53.90	\$83.25
CHRW	\$50.21	\$77.49
BRK.B	\$72.60	\$152.94
AIG	\$19.96	\$64.93
MSFT	\$24.30	\$61.37

Ticker	▲ 52-wk Range	
BBBY	\$39.63	\$61.49
PII	\$67.80	\$117.29
MCK	\$114.53	\$202.20
DG	\$59.75	\$96.88
NSRGY	\$68.00	\$83.25
CHRW	\$59.71	\$76.10
ORCL	\$33.13	\$42.00
UNP	\$67.06	\$98.84
WMT	\$56.30	\$75.19
BRK.B	\$123.55	\$151.05
IBM	\$116.90	\$165.00
AIG	\$48.41	\$64.31
CMI	\$79.88	\$131.04
QCOM	\$42.24	\$71.62
MSFT	\$48.04	\$61.37

Historical Dupont Analysis

MCK	Total Asset Turnover	Net Profit Margin	Financial Leverage Multiplier	Return on Equity
TTM	1.86	5.86%	2.08	22.7%
2015	1.82	5.72%	2.08	21.7%
2014	1.74	5.63%	1.90	18.6%
2013	1.69	5.86%	1.91	18.9%
2012	1.65	5.95%	1.94	19.1%
2011	1.57	5.18%	2.04	16.6%

Industry Breakdown	Dollar General	Dollar Tree	Wal-Mart Stores	Target
Market Cap (mil)	19,610	17,770	215,830	39,110
Revenue (mil)	21,001	20,039	483,830	71,600
Net Income (mil)	1,231	718	14,730	3,287
Gross Margin	31%	30%	26%	30%
Net Margin	6%	4%	3%	5%
ROA	11%	4.5%	7.3%	8.2%
ROE	23%	16%	19%	26%
ROC	15%	6%	12%	13%
Obligation	6.30	52.10	3.33	4.32

Conscious Investor

3 Year

	2010	2011	2012	2013	2014	2015	2016	Years	Growth Rate	Stability Rate
EPS (\$)	1.04	1.82	2.22	2.85	3.17	3.49	3.95	3	11.63%	99.65%
SPS (\$)	34.64	38.17	43.26	48.74	55.21	62.32	71.04	3	13.44%	99.90%

3 Year – Expected Rate of Return

	Price	EPS (ttm)	P/E Ratio	Growth Rate	Payout	Rate of Return
Default	\$69.60	\$4.27	17.70	11.63%	8.8%	11.21%
Safety	\$69.60	\$4.27	13.90	9.97%	2.6%	7.11%

Cut P/E by 22%
Cut Growth Rate by 14%
Cut Payout by 71%

7 Year

	2010	2011	2012	2013	2014	2015	2016	Years	Growth Rate	Stability Rate
EPS (\$)	1.04	1.82	2.22	2.85	3.17	3.49	3.95	7	21.88%	86.64%
SPS (\$)	34.64	38.17	43.26	48.74	55.21	62.32	71.04	7	12.84%	99.50%

7 Year – Expected Rate of Return

	Price	EPS (ttm)	P/E Ratio	Growth Rate	Payout	Rate of Return
Default	\$69.60	\$4.27	17.70	21.88%	8.8%	20.83%
Safety	\$69.60	\$4.27	13.90	11.36%	2.6%	8.33%

Cut P/E by 22%
Cut Growth Rate by 48%
Cut Payout by 71%

7 Year “Kill It” Scenario

	Price	EPS (ttm)	P/E Ratio	Growth Rate	Payout	Rate of Return
Default	\$69.60	\$4.27	17.70	21.88%	8.8%	11.21%
Safety	\$69.60	\$4.27	13.90	11.36%	2.6%	7.11%
“Kill-It”	\$69.60	\$4.27	13.90	8.00%	0.00%	5.28%

Keep P/E at 13.9x
Cut Growth Rate by 29.6%
Cut Payout by 100%















7 Year “Kill it Again” Scenario

	Price	EPS (ttm)	P/E Ratio	Growth Rate	Payout	Rate of Return
Default	\$69.60	\$4.27	17.70	21.88%	8.8%	11.21%
Safety	\$69.60	\$4.27	13.90	11.36%	2.6%	7.11%
“Kill-It Again”	\$69.60	\$4.27	12.00	3.10%	0.00%	0.00%











Cut P/E by 13.6%
Cut Growth Rate by 73%
Cut Payout by 100%

Discounted Cash Flows

DCF – Base Case

<p>Earnings Per Share  : \$ <input type="text" value="4.27"/></p> <p>Growth Rate In the Next  : <input type="text" value="10"/> Years: <input type="text" value="5"/> %</p> <p>Terminal Growth Rate  : <input type="text" value="4"/> %</p> <p>Years of Terminal Growth  : <input type="text" value="10"/></p> <p>Discount Rate  : <input type="text" value="12"/> %</p> <p>Business Predictability  :  </p> <p><input type="button" value="Save Parameters"/></p>		<p>DCF Reverse DCF <small>NEW</small> </p> <hr/> <p>Fair Value  : \$ 45.7</p> <hr/> <p>Tangible Book Value  : \$ <input type="text" value="-0.45"/> <input type="checkbox"/> Add to Fair Value</p> <p>Growth Value  : \$ 30.46</p> <p>Terminal Value  : \$ 15.24</p> <p>Stock Price: \$ <input type="text" value="69.05"/></p> <p>Margin Of Safety: -51%</p>
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DCF – Bull Case

Earnings Per Share  :	\$ <input type="text" value="4.4"/>		DCF	Reverse DCF ^{NEW}
Growth Rate In the Next  :	<input type="text" value="10"/> Years: <input type="text" value="12"/>	%	Fair Value  :	\$ 87.85
Terminal Growth Rate  :	<input type="text" value="4"/>	%	Tangible Book Value  :	\$ <input type="text" value="-0.45"/>
Years of Terminal Growth  :	<input type="text" value="10"/>		<input type="checkbox"/> Add to Fair Value	
Discount Rate  :	<input type="text" value="10"/>	%	Growth Value  :	\$ 48.65
Business Predictability  :	<input type="text" value="★★★★☆"/>		Terminal Value  :	\$ 39.21
<input type="button" value="Save Parameters"/>			Stock Price:	\$ <input type="text" value="69.05"/>
			Margin Of Safety:	21%

DCF – Bear Case

Earnings Per Share ? : \$

Growth Rate In the Next ? : Years: %

Terminal Growth Rate ? : %

Years of Terminal Growth ? :

Discount Rate ? : %

Business Predictability ? : 



DCF Reverse DCF ^{NEW}

Fair Value ? : \$ 69.61

Tangible Book Value ? : \$
 Add to Fair Value

Growth Value ? : \$ 40.93

Terminal Value ? : \$ 28.67

Stock Price: \$

Margin Of Safety:

Conclusion

Competitive Cost Structure

Undervalued

Growth Potential

Recommendation



Yeah, Charlie?
Let's do a market
order of \$5,000 on
DG!