

Dollar General Corp (DG)

Earnings Update

- | -

William Errett | August 30, 2024



Overview

- Dollar General has more than 20,000 stores across the U.S
- The average basket size is typically around \$15 and consists of only about five to six items. With its core customer earning around \$35,000-\$40,000 per year and often relying on government assistance
- Dollar General stores are often placed closest to rural homes where there are few options that are close

Results

- Revenue up by 4%
- Gross margin down 1% to 30%, Operating margin down 1.7% to 5.4%, and Net margin down 1.2% to 3.7%
- Earnings per share missed by 5% and decreased by 20%.

Key Performance Indicators

- Comparable store sales up 0.5% compared to a historical average of 3%
- Increased stores by 4.4%
- Inventories were 7% lower

Guidance

- Revenue for the year expected to be up 5%
- Earnings expectations for the year decreased by 20% to a midpoint of down 22.5% for EPS
- Share buybacks remain paused while leverage is high



IOFS

- Margins are compressing, which is more severe due to their low margin profile
- Return on Capital now below threshold at 11%
- They are now at a 10.7x Obligation Ratio

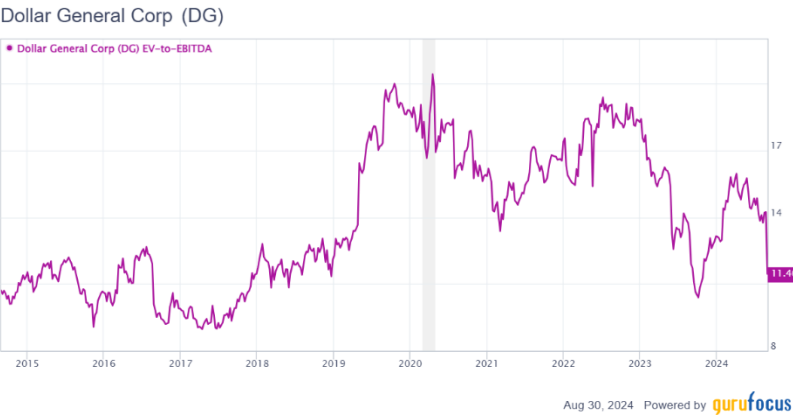
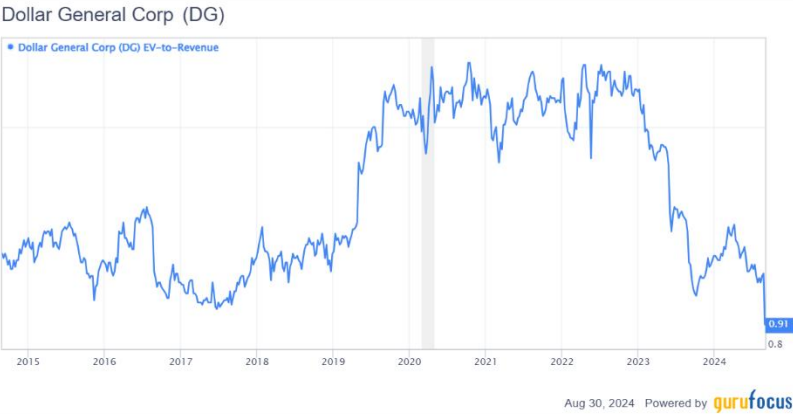
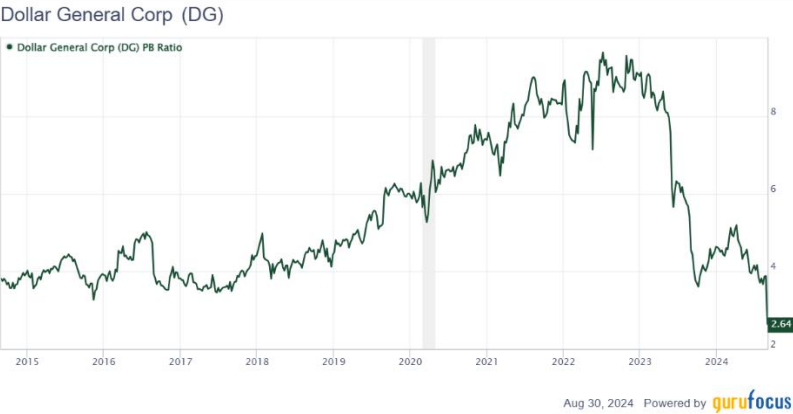
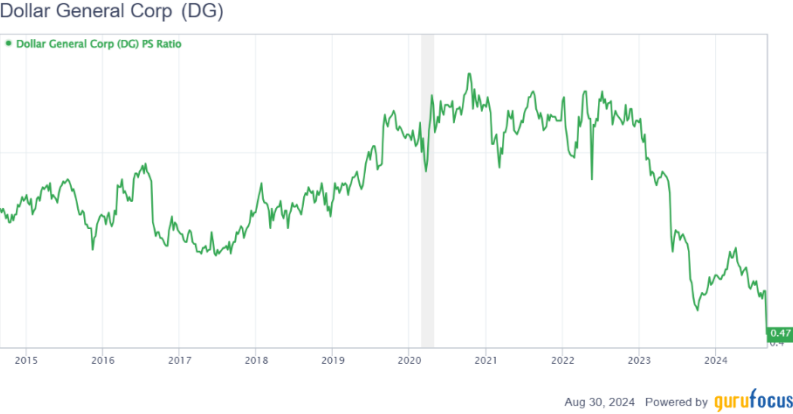
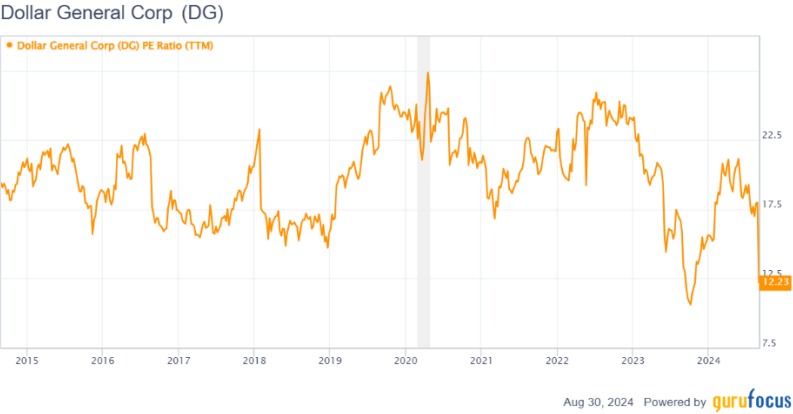
DG												CAGRS			
In Millions Except Per Share Data												Threshold	3-Years	5-Years	10-Years
2015-01	2016-01	2017-01	2018-01	2019-01	2020-01	2021-01	2022-01	2023-01	2024-01	TTM					
Revenue	\$ 18,910	\$ 20,369	\$ 21,987	\$ 23,471	\$ 25,625	\$ 27,754	\$ 33,747	\$ 34,220	\$ 37,845	\$ 38,692	\$ 39,263		4.7%	8.6%	8.3%
Cost of Goods Sold	\$ 13,107	\$ 14,062	\$ 15,204	\$ 16,250	\$ 17,821	\$ 19,265	\$ 23,028	\$ 23,407	\$ 26,025	\$ 26,973	\$ 27,507		5.4%	8.6%	8.4%
Gross Profit	\$ 5,803	\$ 6,306	\$ 6,783	\$ 7,221	\$ 7,804	\$ 8,489	\$ 10,719	\$ 10,813	\$ 11,820	\$ 11,719	\$ 11,756		3.0%	8.5%	8.0%
Gross Margin %	31%	31%	31%	31%	30%	31%	32%	32%	31%	30%	30%	> 40%			
Selling, General, & Admin. Expense	\$ 4,033	\$ 4,366	\$ 4,719	\$ 5,214	\$ 5,688	\$ 6,187	\$ 7,164	\$ 7,592	\$ 8,492	\$ 9,273	\$ 9,504		9.0%	10.3%	9.6%
% of Gross Profit	70%	69%	70%	72%	73%	73%	67%	70%	72%	79%	81%	< 30%			
EBITDA	\$ 2,111	\$ 2,292	\$ 2,443	\$ 2,409	\$ 2,569	\$ 2,807	\$ 4,129	\$ 3,862	\$ 4,053	\$ 3,295	\$ 3,131		-7.2%	5.1%	4.9%
Depreciation, Depletion and Amortization	\$ 342	\$ 352	\$ 380	\$ 404	\$ 454	\$ 505	\$ 574	\$ 641	\$ 725	\$ 849	\$ 879		13.9%	13.3%	9.8%
% of Gross Profit	6%	6%	6%	6%	6%	6%	5%	6%	6%	7%	7%	< 10%			
Operating Income	\$ 1,769	\$ 1,940	\$ 2,063	\$ 2,008	\$ 2,116	\$ 2,302	\$ 3,555	\$ 3,221	\$ 3,328	\$ 2,446	\$ 2,252		-11.7%	2.9%	3.5%
Operating Margin %	9%	10%	9%	9%	8%	8%	11%	9%	9%	6%	6%	> 20%			
Interest Expense	\$ 88	\$ 87	\$ 98	\$ 97	\$ 100	\$ 101	\$ 150	\$ 158	\$ 211	\$ 327	\$ 316				
% of Operating Income	5%	4%	5%	5%	5%	4%	4%	5%	6%	13%	14%	< 35%			
EBIT	\$ 1,769	\$ 1,940	\$ 2,063	\$ 2,004	\$ 2,115	\$ 2,302	\$ 3,555	\$ 3,221	\$ 3,328	\$ 2,446	\$ 2,252		-11.7%	3.0%	3.6%
Tax Rate %	37%	37%	36%	19%	21%	22%	22%	22%	22%	22%	22%				
Net Income	\$ 1,065	\$ 1,165	\$ 1,251	\$ 1,539	\$ 1,589	\$ 1,713	\$ 2,655	\$ 2,399	\$ 2,416	\$ 1,661	\$ 1,510		-14.5%	0.9%	4.9%
Net Margin %	6%	6%	6%	7%	6%	6%	8%	7%	6%	4%	4%	> 10%			
Shares Outstanding (Diluted Average)	305.7	295.2	282.3	273.4	266.1	258.1	250.1	235.8	226.3	219.9	220.1		-4.2%	-3.7%	-3.8%
EPS (Diluted)	\$ 3.49	\$ 3.95	\$ 4.43	\$ 5.63	\$ 5.97	\$ 6.64	\$ 10.62	\$ 10.17	\$ 10.68	\$ 7.55	\$ 6.87		-10.8%	4.8%	9.1%
ROE %	19%	22%	23%	25%	25%	26%	40%	38%	44%	25%	23%	> 15%			
ROC %	13%	14%	15%	17%	17%	18%	25%	23%	19%	12%	11%	> 15%			
Net Income	\$ 1,065	\$ 1,165	\$ 1,251	\$ 1,539	\$ 1,589	\$ 1,713	\$ 2,655	\$ 2,399	\$ 2,416	\$ 1,661	\$ 1,510				
Capital Expenditure	\$ 374	\$ 505	\$ 560	\$ 646	\$ 734	\$ 785	\$ 1,028	\$ 1,070	\$ 1,561	\$ 1,700	\$ 1,679				
% of Net Income	35%	43%	45%	42%	46%	46%	39%	45%	65%	102%	111%	< 50%			
Free Cash Flow	\$ 953	\$ 887	\$ 1,045	\$ 1,156	\$ 1,409	\$ 1,453	\$ 2,848	\$ 1,795	\$ 424	\$ 692	\$ 1,185				
FCF Margin %	5%	4%	5%	5%	5%	5%	8%	5%	1%	2%	3%	> 10%			
Purchase of Business	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Dividends Per Share	\$ -	\$ 0.88	\$ 1.00	\$ 1.04	\$ 1.16	\$ 1.28	\$ 1.44	\$ 1.68	\$ 2.20	\$ 2.36	\$ 2.36				
Dividend Payout Ratio	0%	22%	23%	19%	19%	19%	14%	17%	21%	31%	34%	< 60%			
Dividend Yield %	0.0%	1.2%	1.4%	1.0%	1.0%	0.8%	0.7%	0.8%	0.9%	1.8%	2.8%				
Repurchase of Stock	\$ 800	\$ 1,300	\$ 990	\$ 580	\$ 1,007	\$ 1,200	\$ 2,466	\$ 2,550	\$ 2,748	\$ -	\$ -				
Stock Based Compensation	\$ 37	\$ 39	\$ 37	\$ 34	\$ 41	\$ 49	\$ 69	\$ 78	\$ 73	\$ 52	\$ 49				
% of Revenue	0.2%	0.2%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.1%	0.1%				
Obligation Ratio	2.0x	2.4x	2.4x	1.8x	1.7x	6.1x	4.2x	5.3x	6.6x	9.7x	10.7x	< 5.0x			
Short-Term Debt	\$ 101	\$ 1	\$ 501	\$ 401	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ 769	\$ 769				
Long-Term Debt	\$ 2,624	\$ 2,969	\$ 2,711	\$ 2,605	\$ 2,863	\$ 2,912	\$ 4,131	\$ 4,172	\$ 7,009	\$ 6,232	\$ 6,222				
Preferred Stock	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Pension Shortfall	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
Leases x7	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,820	\$ 8,385	\$ 8,891	\$ 9,363	\$ 9,710				
Cash and Cash Equivalents	\$ 580	\$ 158	\$ 188	\$ 267	\$ 235	\$ 240	\$ 1,377	\$ 845	\$ 382	\$ 537	\$ 721				

Notes:

DOLLAR GENERAL

Valuation

Value Bands:



Valuation:

Ticker: DG												
Price: \$88.00												
								P/E	Total Return Price	PV	5 YR Return	Annual Return
Bear	EPS	Current	2025	2026	2027	2028	2029	14.0x	\$119.37	\$71.98	35.7%	6.3%
		\$6.87	\$6.18	\$6.99	\$7.55	\$7.77	\$8.01	16.0x	\$135.38	\$81.48	53.8%	9.0%
			-10.0%	13.0%	8.0%	3.0%	3.0%	18.0x	\$151.39	\$90.98	72.0%	11.5%
Base	EPS	Current	2025	2026	2027	2028	2029	14.0x	\$131.17	\$79.03	49.1%	8.3%
		\$6.87	\$6.32	\$7.27	\$8.00	\$8.40	\$8.81	16.0x	\$148.80	\$89.49	69.1%	11.1%
			-8%	15%	10%	5%	5%	18.0x	\$166.43	\$99.95	89.1%	13.6%
Bull	EPS	Current	2025	2026	2027	2028	2029	14.0x	\$143.88	\$86.63	63.5%	10.3%
		\$6.87	\$6.46	\$7.56	\$8.46	\$9.05	\$9.69	16.0x	\$163.26	\$98.13	85.5%	13.2%
			-6%	17%	12%	7%	7%	18.0x	\$182.64	\$109.63	107.5%	15.7%

Total RoR Sensitivity				
		Est. EPS growth rate		
		3%	5%	7%
P / E	14.0x	6.3%	8.3%	10.3%
	16.0x	9.0%	11.1%	13.2%
	18.0x	11.5%	13.6%	15.7%