

Dollar General (DG)

\$162.20 (As of 04/03/20)

Price Target (6-12 Months): **\$172.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/28/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: C

Summary

Shares of Dollar General have risen and outpaced the industry in a year. The stock may scale new highs with solid prospects, brand recognition and strategic endeavors likely to act as propellants. Better pricing, private label offering, inventory management, and merchandise and operational initiatives should drive sales. These along with focus on consumable and non-consumable categories with impressive comps run are noteworthy. Also, in the wake of coronavirus outbreak people are shopping essential items rather than making discretionary purchases, as a result the company is witnessing huge demand. Looking ahead, the company provided a decent fiscal 2020 view. However, we remain concerned about margins going forward. Higher SG&A costs due to startup expenses and other investments may keep margins under pressure in the short run.

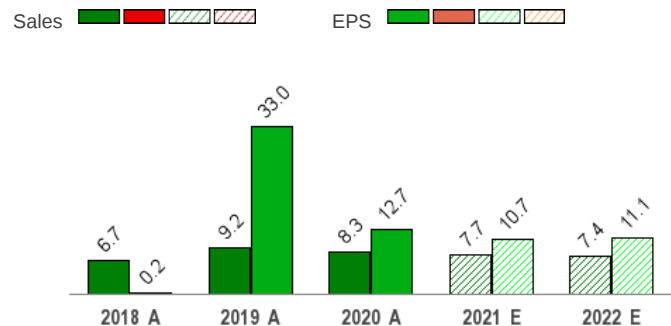
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$168.17 - \$116.15
20 Day Average Volume (sh)	3,964,192
Market Cap	\$40.9 B
YTD Price Change	4.0%
Beta	0.38
Dividend / Div Yld	\$1.44 / 0.8%
Industry	Retail - Discount Stores
Zacks Industry Rank	Bottom 38% (157 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.0%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	-0.2%
P/E TTM	24.1
P/E F1	21.7
PEG F1	1.8
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	7,643 E	8,053 E	8,040 E	8,245 E	32,108 E
2021	7,150 E	7,520 E	7,511 E	7,709 E	29,896 E
2020	6,623 A	6,982 A	6,991 A	7,158 A	27,754 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.81 E	\$2.17 E	\$1.75 E	\$2.56 E	\$8.28 E
2021	\$1.62 E	\$1.94 E	\$1.56 E	\$2.33 E	\$7.45 E
2020	\$1.48 A	\$1.74 A	\$1.42 A	\$2.10 A	\$6.73 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/03/2020. The reports text is as of 04/06/2020.

Overview

Founded in 1939 and headquartered in Goodlettsville, Tennessee, Dollar General Corporation is one of the largest discount retailers in the United States. The company trades in low priced merchandise typically \$10 or less.

The company offer a wider selection of merchandise, including consumable items, seasonal items, home products and apparel. The company's merchandise comprises national brands from leading manufacturers, as well as own private brand selections with prices at substantial discounts to national brands.

The company sells products from America's renowned manufacturers such as Clorox, Energizer, Procter & Gamble, Hanes, Coca-Cola, Mars, Unilever, Nestle, Kimberly-Clark, Kellogg's, General Mills, and PepsiCo.

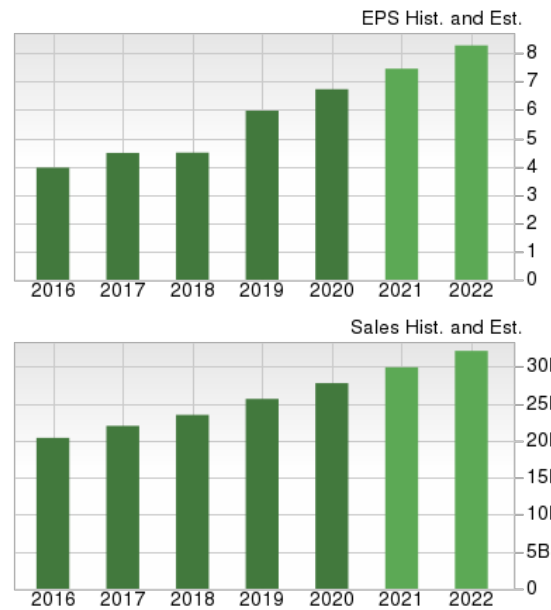
As of February 28, 2020, Dollar General operated approximately 16,368 stores across 45 states. It offers general merchandise under four categories, namely, Consumables, Seasonal, Home products and Apparel.

The Consumables Category (78% of Fiscal 2019 Sales) is the leading one, consisting of cleaning products, health & beauty products, snacks, perishables, packaged food and pet supplies and food.

The Seasonal Products (11.7% of Fiscal 2019 Sales) Category consists of prepaid phones and accessories, small electronics, batteries, toys, greeting cards, hardware, decorations, automotive gardening supplies, stationery and home office supplies.

The Home products Category (5.8% of Fiscal 2019 Sales) includes kitchen supplies, candles small appliances, light bulbs, cookware, frames, craft supplies, bed & bath soft goods and storage containers.

The Apparel Category (4.5% of Fiscal 2019 Sales) offers casual daily wear for infants, children, girls, boys, women and men, along with socks, intimate wear, disposable diapers, accessories and shoes.



Reasons To Buy:

- ▲ **Growth Catalysts Driving Stock:** Shares of Dollar General have increased 32.6% in a year compared with the industry's rise of 0.2%. We believe that the company's commitment toward better price management, cost containment, private label offering, effective inventory management, merchandise and operational initiatives should drive sales and margin trends. Moreover, in order to increase traffic, Dollar General is focusing on both consumables and discretionary categories, and items ranging between \$1 and \$5. The company is also offering better-for-you products at affordable prices. In addition, the company is expanding its cooler facilities to enhance the sale of perishable items, and is rolling out DG digital coupon program and consolidating DG GO app into primary Dollar General app. The company has DG GO! mobile checkout in approximately 750 stores. Dollar General also plans to invest roughly \$35 million in bonuses for all store, distribution center and private fleet employees. Moreover, in the wake of COVID-19 outbreak people are shopping essential items rather than making discretionary purchases, as a result the company is witnessing huge demand. In order to support customers' needs, the company plans to hire up to 50,000 employees by the end of April.

We believe Dollar General's commitment towards better price management, cost containment, effective inventory management, merchandise and operational initiatives should drive sales higher.

Management introduced two transformational strategic initiatives — DG Fresh, designed to enable self-distribution of fresh and frozen products and Fast Track, an in-store labor productivity and customer convenience initiative. As a part of its non-consumable initiative, the company is now focusing on categories of home, domestics, housewares, party and occasion. The non-consumable initiative offering was available across approximately 2,400 outlets by the end of fiscal 2019. The company intends to include it in roughly 2,600 more stores in fiscal 2020. Also, Dollar General has entered into a strategic alliance with FedEx Corp. and Western Union.

- ▲ **Upbeat Q4 Performance, Decent View:** Dollar General reported better-than-expected fourth-quarter fiscal 2019 results, wherein both the top and the bottom line continued to improve year over year. Also, the company witnessed sturdy same-store sales performance. Impressive performance prompted management to provide decent fiscal 2020 view. Management stated that as of now it does not expect supply chain disruptions caused by coronavirus outbreak to materially impact fiscal 2020 results. The company expects fiscal 2020 earnings to increase 10% year-over-year on an adjusted basis and projects net sales growth of 7.5-8%.

Fourth-quarter earnings came in at \$2.10 per share that surpassed the Zacks Consensus Estimate of \$2.02 and increased 14.1% from the prior-year period. The year-over-year increase in the bottom line can be attributed to higher net sales and share repurchase activity. Notably, this was the fourth straight quarter of positive earnings surprise. Net sales of \$7,157.6 million increased 7.6% from the prior-year period and came ahead of the Zacks Consensus Estimate of \$7,145.9 million for the seventh quarter in row. Contribution from new outlets and same-store sales growth favorably impacted the top line.

- ▲ **Impressive Same-Store Sales Performance:** Dollar General's same-store sales growth story is impressive. Fiscal 2019 was the 30th consecutive year of same-store sales growth for the company. In first, second, third and fourth quarter of fiscal 2019, same-store sales increased 3.8%, 4%, 4.6% and 3.2%, respectively. Same-store sales increased owing to rise in average transaction amount and customer traffic. Consumables, Seasonal, Apparel and Home categories favorably impacted the metric. Management expects same-store sales increase of 2.5-3% for fiscal 2020.
- ▲ **Active Management of Cash Flows:** Dollar General has been actively managing cash flows, returning much of free cash to investors through share repurchases and dividends. During fiscal 2019, the company bought back 8.3 million shares for \$1.2 billion under its share repurchase program. The total remaining authorization for future repurchases was \$1.1 billion at the end of the fiscal year. The company intends to repurchase shares worth \$1.15 billion during fiscal 2020. In March 2020, the company raised the quarterly dividend by 12.5% to 36 cents a share. The company has also been making prudent investments relating to store infrastructure, store openings, expansions, remodels and relocations; and construction and improvement of distribution centers to drive revenues. Management incurred capital expenditures of \$785 million during fiscal 2019. For fiscal 2020, it anticipates capital expenditures in the range of \$925-\$975 million.
- ▲ **Store Expansion:** Dollar General has been steadily increasing its store base. During fiscal 2019, the company opened 975 new stores, remodeled 1,024 stores and relocated 100 stores. In fiscal 2020, the company intends to open 1,000 new stores, remodel 1,500 stores, and relocate 80 stores. The company highlighted that more than 1,100 of remodels would be in the higher cooler count, DGTP or DGP format, bringing the total number of stores in these formats to approximately 3,500 by the end of fiscal 2020. Management plans to add produce in approximately 400 stores up from the prior goal of 250 stores in fiscal 2020. The company's aim is to bring the total number of stores with produce to more than 1,000 by year-end.
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Reasons To Sell:

- ▼ **Higher SG&A Expenses May Strain Margins:** SG&A expenses as a percentage of net sales increased 10 basis points to 21.7% during the fourth quarter of fiscal 2019, while the same in dollar terms rose 8.3% to \$1,551.9 million. This followed an increase of 8.3%, 9.9% and 8.6% in the third, second and first quarters, respectively. The increase in expenses may be attributed to higher store occupancy costs, repairs and maintenance expenses, and advertising costs. Evidently, any deleverage in SG&A expenses may weigh on the company's profitability. Management reiterated its plan to spend on strategic endeavors such as DG Fresh and non-consumable initiative or NCI offering. Further, supply chain pressures and tariffs may weigh on margins.
- ▼ **Stock Looks Stretched:** Considering price-to-earnings (P/E) ratio, Dollar General looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 24.07, which is above the median level of 23.43 and the high level of 26.23 scaled in the past one year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 20.82 and 15.54, respectively.
- ▼ **Macroeconomic Factors May Impact Discretionary Sales:** The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, high household debt levels and tariffs, which may negatively impact their discretionary spending, and in turn the company's growth and profitability. Any unfavorable changes in trade policy may result in higher prices for our customers and may negatively impact their budgets, consequently their discretionary spending. Moreover, any cut in Supplemental Nutrition Assistance Program, which is expected to lower the purchasing power of low-income consumers, may also impact sales of Dollar General.
- ▼ **Competitive Pressure:** The retail landscape has been witnessing a sea change with the focus gradually shifting to online shopping. Dollar General operates in the highly competitive discount retail merchandise sector. The company faces stiff competition from Wal-Mart, Target, Dollar Tree, Fred's, 99 Cents Only and various other local, independent operators as well as other forms of retail commerce such as online retailers, contingent on location, price and quality of merchandise, in-stock consistency, merchandise assortments, and customer service. Some of these competitors boast superior financial, distribution, and marketing resources. We believe that unhealthy price competition to gain market share and attract footfall might weigh on the company's profit margins.

As Dollar General remains committed toward making further investments toward store expansions, cost hurdles associated with the same remains a threat to its margins.

Last Earnings Report

Dollar General Q4 Earnings Beat Estimates, Increase Y/Y

Dollar General Corporation reported better-than-expected fourth-quarter fiscal 2019 results, wherein both the top and the bottom line continued to improve year over year. Also, the company witnessed sturdy same-store sales performance. Impressive performance prompted this Goodlettsville, Tennessee based company to provide decent fiscal 2020 view. Management stated that as of now it does not expect supply chain disruptions caused by coronavirus outbreak to materially impact fiscal 2020 results.

Quarter Ending **01/2020**

Report Date	Mar 12, 2020
Sales Surprise	0.16%
EPS Surprise	3.96%
Quarterly EPS	2.10
Annual EPS (TTM)	6.74

Let's Delve Deep

Quarterly earnings came in at \$2.10 per share that surpassed the Zacks Consensus Estimate of \$2.02 and increased 14.1% from the prior-year period. The year-over-year increase in the bottom line can be attributed to higher net sales and share repurchase activity. Notably, this was the fourth straight quarter of positive earnings surprise.

Net sales of \$7,157.6 million increased 7.6% from the prior-year period and came ahead of the Zacks Consensus Estimate of \$7,145.9 million for the seventh quarter in row. Contribution from new outlets and same-store sales growth favorably impacted the top line.

Dollar General's same-store sales increased 3.2% year over year primarily owing to rise in average transaction amount and customer traffic. Consumables, Seasonal, Apparel and Home categories favorably impacted the metric.

Sales in the Consumables category increased 8.4% to \$5,471.6 million, while the same in Seasonal category witnessed a rise of 4.3% to \$917 million. Home Products sales rose 5.9% to \$460.2 million, while Apparel category sales grew 6.3% to \$308.9 million.

Gross profit advanced 9.7% to \$2,272.8 million, while gross margin expanded 60 basis points to 31.8%. Higher initial markups on inventory purchases and a lower LIFO provision were offset by increase in markdowns as a percentage of sales, higher proportion of sales from Consumables category and increased distribution costs.

Meanwhile, operating income rose 12.9% to \$720.9 million, whereas adjusted operating margin increased 47 basis points to 10.1%.

Store Update

During fiscal 2019, the company opened 975 new outlets, remodeled 1,024 stores and relocated 100 stores. In fiscal 2020, the company intends to open 1,000 new stores, remodel 1,500 stores, and relocate 80 stores.

Other Financial Details

Dollar General ended the quarter with cash and cash equivalents of \$240.3 million, long-term obligations of \$2,911.4 million and shareholders' equity of \$6,702.5 million. The company incurred capital expenditures of \$785 million during fiscal 2019. For fiscal 2020, it anticipates capital expenditures in the range of \$925-\$975 million.

The company bought back 8.3 million shares for \$1.2 billion during fiscal 2019. The company intends to repurchase shares worth \$1.15 billion during fiscal 2020. The company's board of directors recently raised the quarterly dividend by 12.5% to 36 cents a share.

Outlook

Management expects fiscal 2020 earnings to increase 10% on a year-over-year basis. Dollar General projects net sales growth of 7.5-8% and same-store sales increase of 2.5-3% for the fiscal year.

Recent News

Dollar General Announces Investment Plan of \$35M – March 24, 2020

Dollar General plans to invest roughly \$35 million in bonuses for all store, distribution center and private fleet employees.

Dollar General Plans to Hire New Employees – March 23, 2020

In the wake of COVID-19 outbreak, there has been a huge demand for household essentials and to support customers' needs Dollar General plans to hire up to 50,000 employees by the end of April.

Valuation

Dollar General shares are up 4% in the year-to-date period and 32.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 18.1% and 14.7%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry is up 0.2% but the sector is down 9.4%.

The S&P 500 index is down 22.7% in the year-to-date period and 14.3% in the past year.

The stock is currently trading at 21.32X forward 12-month earnings, which compares to 20.49X for the Zacks sub-industry, 22.62X for the Zacks sector and 15.74X for the S&P 500 index.

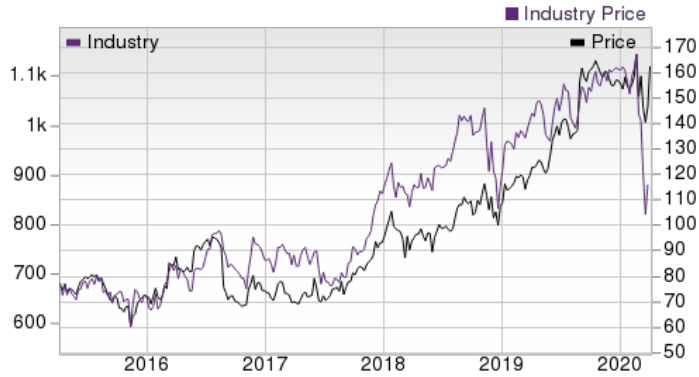
Over the past five years, the stock has traded as high as 23.6X and as low as 13.69X, with a 5-year median of 17X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$172 price target reflects 22.6X forward 12-month earnings.

The table below shows summary valuation data for DG

Valuation Multiples - DG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.32	20.49	22.62	15.74
	5-Year High	23.6	23.75	26.2	19.34
	5-Year Low	13.69	17.95	19.06	15.19
	5-Year Median	17	20.07	23.07	17.44
P/S F12M	Current	1.36	1.15	0.85	2.72
	5-Year High	1.46	1.39	1.11	3.44
	5-Year Low	0.78	0.94	0.8	2.54
	5-Year Median	1.03	1.12	0.92	3
EV/EBITDA TTM	Current	18.48	15.88	13.26	9.1
	5-Year High	19.95	19.86	16.24	12.87
	5-Year Low	8.87	10.91	10.89	8.27
	5-Year Median	12.13	13.54	12.52	10.78

As of 04/03/2020

Industry Analysis Zacks Industry Rank: Bottom 38% (157 out of 253)



Top Peers

Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Neutral
Target Corporation (TGT)	Neutral
The TJX Companies, Inc. (TJX)	Neutral
Tuesday Morning Corp. (TUES)	Neutral
Big Lots, Inc. (BIG)	Underperform

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	DG Neutral	X Industry	S&P 500	COST Neutral	DLTR Neutral	TGT Neutral
VGM Score	B	-	-	B	B	A
Market Cap	40.86 B	12.97 B	16.73 B	127.46 B	16.63 B	46.37 B
# of Analysts	17	11	13	10	10	12
Dividend Yield	0.79%	0.84%	2.53%	0.90%	0.00%	2.85%
Value Score	D	-	-	C	B	B
Cash/Price	0.01	0.06	0.06	0.07	0.03	0.05
EV/EBITDA	18.29	11.51	10.55	19.71	11.05	7.90
PEG Ratio	1.86	1.79	1.71	3.90	1.33	1.79
Price/Book (P/B)	6.10	5.01	2.28	7.50	2.66	3.92
Price/Cash Flow (P/CF)	18.23	11.81	8.96	24.79	7.92	7.95
P/E (F1)	22.40	18.04	14.34	32.66	14.34	14.05
Price/Sales (P/S)	1.47	0.70	1.78	0.80	0.70	0.59
Earnings Yield	4.60%	5.36%	6.84%	3.06%	6.98%	7.12%
Debt/Equity	1.60	1.46	0.70	0.44	1.36	1.15
Cash Flow (\$/share)	8.90	6.38	7.01	11.64	8.87	11.64
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	13.67%	12.09%	10.95%	12.09%	18.69%	7.09%
Proj. EPS Growth (F1/F0)	10.78%	-7.16%	1.08%	7.90%	2.90%	3.10%
Curr. Cash Flow Growth	9.68%	9.68%	5.92%	14.92%	-55.39%	10.26%
Hist. Cash Flow Growth (3-5 yrs)	9.69%	8.54%	8.55%	10.65%	19.78%	3.95%
Current Ratio	1.14	1.19	1.24	1.04	1.20	0.89
Debt/Capital	61.55%	59.24%	42.29%	30.74%	57.61%	53.50%
Net Margin	6.17%	4.38%	11.69%	2.39%	3.50%	4.20%
Return on Equity	26.04%	24.73%	16.74%	23.41%	19.71%	28.46%
Sales/Assets	1.25	1.76	0.54	3.34	1.21	1.85
Proj. Sales Growth (F1/F0)	7.72%	3.00%	1.56%	7.48%	4.03%	4.54%
Momentum Score	C	-	-	C	F	D
Daily Price Chg	1.57%	-0.38%	-1.59%	-0.97%	-0.31%	-1.90%
1 Week Price Chg	4.27%	5.73%	12.26%	-2.10%	1.42%	-2.73%
4 Week Price Chg	3.00%	-19.57%	-22.86%	-8.59%	-9.94%	-12.65%
12 Week Price Chg	6.30%	-33.61%	-30.01%	-3.60%	-22.86%	-25.04%
52 Week Price Chg	34.99%	-23.91%	-23.87%	18.11%	-33.50%	13.75%
20 Day Average Volume	3,964,192	3,054,557	4,256,776	5,470,755	4,463,176	7,555,068
(F1) EPS Est 1 week change	0.00%	-1.45%	-0.04%	0.50%	-1.45%	-0.88%
(F1) EPS Est 4 week change	0.04%	-4.69%	-4.29%	2.07%	-4.69%	-3.91%
(F1) EPS Est 12 week change	0.20%	-14.15%	-5.40%	2.96%	-4.94%	-4.03%
(Q1) EPS Est Mthly Chg	-0.64%	-16.74%	-5.90%	3.27%	-19.14%	-7.52%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	C
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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