

## Dollar Tree, Inc. (DLTR)

**\$81.73** (As of 04/17/20)

Price Target (6-12 Months): **\$87.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: C

### Summary

Dollar Tree has slid and lagged the industry in the past three months. The stock came under further pressure when management withheld its guidance for fiscal 2020 given the unprecedented impacts of COVID-19. Further, high costs and soft margins marred earnings growth on a year over year basis. However, its initiatives to extend support during the coronavirus outbreak are commendable. Also, it is witnessing a hike in demand for essential products which is likely to boost traffic and sales. Moving on, the company earnings beat the Zacks Consensus Estimate in fourth-quarter fiscal 2019, while sales missed the same. Although it witnessed drab holiday season sales, results gained from the initial launch of the Dollar Tree Plus! initiative and sturdy performance of renovated stores. Encouragingly, it is moving to the next phase of the plan.

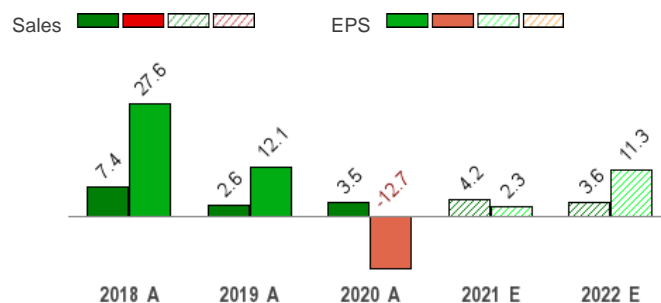
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$119.71 - \$60.20
20 Day Average Volume (sh)	3,172,381
Market Cap	\$19.4 B
YTD Price Change	-13.1%
Beta	0.52
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Retail - Discount Stores</a>
Zacks Industry Rank	Bottom 32% (173 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.7%
Last Sales Surprise	-1.2%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	06/04/2020
Earnings ESP	-6.2%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	6,244 E	6,185 E	6,245 E	6,875 E	25,480 E
2021	6,078 E	5,945 E	5,981 E	6,609 E	24,598 E
2020	5,809 A	5,741 A	5,746 A	6,315 A	23,611 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$1.19 E	\$0.94 E	\$1.25 E	\$2.12 E	\$5.42 E
2021	\$0.97 E	\$0.80 E	\$1.13 E	\$1.97 E	\$4.87 E
2020	\$1.14 A	\$0.76 A	\$1.08 A	\$1.79 A	\$4.76 A

\*Quarterly figures may not add up to annual.

P/E TTM	17.1
P/E F1	16.8
PEG F1	1.7
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/17/2020. The reports text is as of 04/20/2020.

## Overview

Founded in 1986 and headquartered in Chesapeake, VA, Dollar Tree Inc. is an operator of discount variety stores offering merchandise and other assortments. Its stores successfully operate in major metropolitan areas, mid-sized cities and small towns. The company offers a wide range of quality everyday general merchandise in many categories, including housewares, seasonal goods, candy and food, toys, health and beauty care, gifts, party goods, stationery, books, personal accessories, and other consumer items. Its stores are supported by a nationwide logistics network and distribution centers.

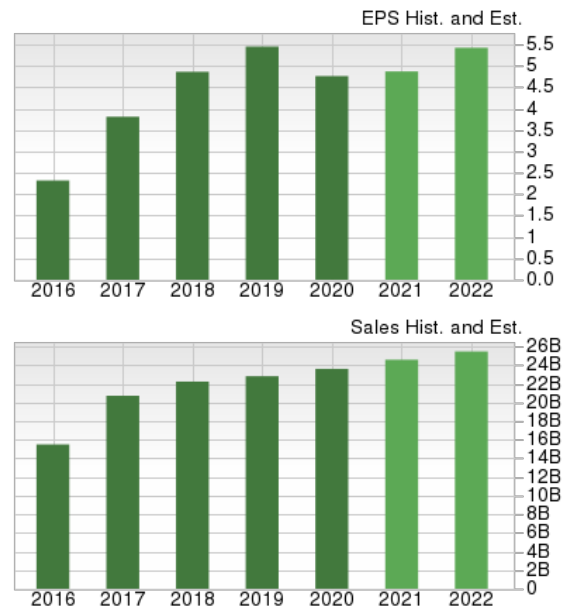
Dollar Tree also owns an e-commerce platform – DollarTree.com – which sells its merchandise in bulk to individuals and small businesses as well as organizations. Through its online platform, the company advertises its in-store events and showcases its special and seasonal promotions for featured products. Further, it acquired Family Dollar Stores, Inc. on July 6, 2015.

The company operates in two reporting business segments: Dollar Tree and Family Dollar.

**Dollar Tree:** Being the major operator of discount variety stores, this segment offers merchandise at the fixed price point of \$1.00. The segment has nearly 7,505 stores operating under the Dollar Tree and Dollar Tree Canada banners, 12 distribution centers in the United States and two in Canada. Dollar Tree stores primarily range from 8,000 - 10,000 selling square feet.

**Family Dollar:** This segment operates general merchandise discount retail stores with competitively-priced merchandise in the neighborhood stores. It has nearly 7,783 stores, which sell merchandise at prices ranging from \$1.00 to \$10.00. These stores primarily range from 6,000 - 8,000 selling square feet. The segment includes store operations under the Family Dollar brand and 11 distribution centers.

As of Feb 1, 2020, Dollar Tree operated 15,288 stores in 48 states and five Canadian provinces.



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## Reasons To Buy:

▲ **Coronavirus-Related Actions:** The company is benefiting from the actions implemented recently to provide necessary goods to customers in the midst of the dreadful coronavirus pandemic. As the company provides essential products like food, water, cleaning supplies, sanitizers, paper products, home goods, and over-the-counter cold and flu medicines, it announced modified store hours to serve customer in the time of crisis. The stores will at 8 p.m. local time to facilitate proactive cleaning and stock replenishment. Further, the company plans to hire 25,000 full- and part-time associates at Dollar Tree and Family Dollar stores and distribution centers across the United States, to support the store and distribution center operations at a time when consumers' demand for essential items is on the rise. These actions keep the company afloat despite the recent coronavirus-related market sell-off.

Dollar Tree is gaining from unprecedented hike in some of its essential products given the COVID-19 crisis. Also, robust comps, the Dollar Tree Plus! initiative and store renovation efforts bode well.

▲ **Impressive Comps & Sales Performance:** Dollar Tree has been witnessing a strong top-line performance, which was retained in fourth-quarter fiscal 2019. Although sales lagged the Zacks Consensus Estimate, the metric improved 1.8% year over year. Further, it has been displaying remarkable comps growth for the last few quarters. Enterprise same-store sales (comps) grew 0.4%. Comps growth was backed by a 1.5% improvement in Dollar Tree (taking into account the impact of Canadian currency fluctuations). This marked the 48th straight quarter of comps growth for the Dollar Tree segment, with December and January recording robust comps.

▲ **Dollar Tree Store Initiatives:** The Dollar Tree segment remains keen on delivering ever-changing and new product ideas that drive customer engagement. This has led to increases in both traffic and ticket at stores, with traffic slightly outpacing the ticket increase in the fiscal fourth quarter. Among the variety of initiatives the company is undertaking, it added the Hallmark cards section across all Dollar Tree chain stores in 2018, which continues to offer value and is accretive to the segment's sales. In 2019, it introduced the Crafters Square program in more than 600 Dollar Tree stores. This program includes new and expanded selection of arts and craft supplies all priced at \$1. Additionally, the company is on track to roll out Snack Zones across the chain, which is attracting customers. In fourth-quarter fiscal 2019, the company introduced 49 Dollar Tree Snack Zones, bringing the total count to 2,136 Snack Zones across the chain.

▲ **Dollar Tree Plus!2.0 Bodes Well:** Following the successful completion of Dollar Tree Plus! 1.0, which was aimed at adding new items and categories with higher price points to boost margins and sales, the company is gradually moving to the next phase of this plan. The Dollar Tree Plus! 2.0 plan is in its initial phases of development. This plan will bring in a change in assortments from consumable items to discretionary products with better margins. In this context, the company noted that it will offer new merchandises such as electronics, toys, health and beauty, craft, and seasonal.

▲ **Store Rationalization:** Dollar Tree's restructuring and expansion initiatives, as evident from steady store openings and improvement of distribution centers, are likely to drive revenues. In fourth-quarter fiscal 2019, Dollar Tree opened 112 stores, expanded or relocated 17 outlets and shuttered 95 stores. As of Feb 1, 2020, Dollar Tree operated 15,288 stores in 48 states and five Canadian provinces. These actions place the company on track to reach its long-term target of operating 26,000 stores, with more than 10,000 Dollar Tree and 15,000 Family Dollar outlets, across North America. Additionally, the company is on track to leverage Family Dollar and Dollar Tree distribution center systems and combined merchandise. This will help in bringing the latest products into Dollar Tree stores without any disruptions.

▲ **Family Dollar Integration – Renovations and Re-Banner in Focus:** Dollar Tree is on track with the integration of Family Dollar that was acquired in July 2015. The company is undertaking significant store renovation initiatives for Family Dollar to attract more customers. As part of its store optimization program for the Family Dollar brand, the company is rolling out H2 — a latest model for the new and renovated Family Dollar stores internally. These renovations are likely to boost traffic at stores, thus lifting average comps. The company had nearly 200 H2 stores at the beginning of fiscal 2019. During the fiscal fourth quarter, it completed the renovation of five Family Dollar to the H2 format.

Moreover, it is on track to close underperforming Family Dollar stores. As already stated, the company closed 95 Family Dollar stores in fourth-quarter fiscal 2019, as part of its store optimization program for Family Dollar. Further, the company re-bannered five Family Dollar stores into Dollar Tree for a total of 230 projects during the quarter. It re-bannered about 200 Family Dollar stores to Dollar Tree locations in fiscal 2019.

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## Reasons To Sell:

- ▼ **COVID-19 Compels Dollar Tree to Withdraw Guidance, Stock Underperforms:** Shares of Dollar Tree have lost 10.2% in the past three months compared with the industry's decline of 5.5%. The stock's dismal run on the bourses can be attributable to the ongoing coronavirus pandemic, which has led management to to withdraw its first quarter and fiscal 2020 view. Further, it expects sales for the rest of the quarter to be impacted by uncertain COVID-19 impacts. Particularly, the company foresees weaker than expected sales for some discretionary products owing to drab Easter season.
- ▼ **Higher Costs Weigh on Margins & Bottom line:** Dollar Tree continued to witness soft margins and reported bottom line decline in the fiscal fourth quarter due to higher costs. Notably, this was the eighth straight quarter of soft gross and operating margin performance. In the reported quarter, gross margin contracted 50 bps to 31% due to higher tariffs, and increased occupancy, shrink and distribution costs, as a percentage of sales. These were partly compensated by lower freight expenses. Further, adjusted operating margin contracted 100 bps to 9.2%, driven by soft gross margin and higher SG&A costs. Adjusted selling, general and administrative (SG&A) expense rate expanded 60 bps to 21.9%, as a percentage of sales, due to elevated payroll and higher depreciation costs.
- ▼ **Competitive Pressure:** Dollar Tree operates in the highly competitive discount retail merchandise sector. The company faces stiff competition from Wal-Mart and Dollar General that will probably continue to weigh on its results. The competitors have a larger number of stores, greater market presence, brand recognition and financial resources.
- ▼ **Risks of Sourcing Merchandise from Overseas Markets:** A significant portion of Dollar Tree's merchandise is imported from countries outside the U.S. such as China and other Asian countries. Consequently, the company is exposed to political, social and economic risks associated with operations in these countries. Further, an adverse movement in foreign currency exchange rates may dent the company's operational performance.

Given the uncertain impacts related to COVID-19, Dollar Tree has withdrawn its first-quarter and fiscal 2020 view. Also, it is not likely to repurchase any shares in the near term.

## Last Earnings Report

### Dollar Tree Q4 Earnings Beat Estimates, Sales Rise Y/Y

Dollar Tree reported fourth-quarter fiscal 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but sales lagged the same. Although it witnessed drab holiday season sales, results gained from the initial launch of the Dollar Tree Plus! initiative and sturdy performance of renovated stores.

#### Quarter in Detail

Dollar Tree's earnings declined 5.8% year over year to \$1.79 per share but exceeded the Zacks Consensus Estimate of \$1.76. The bottom line was toward the higher end of the company's guidance of \$1.70-\$1.80 per share.

Consolidated net sales rose 1.8% to \$6,315.3 million but lagged the Zacks Consensus Estimate of \$6,393 million. Enterprise same-store sales (comps) grew 0.4%. Comps growth was backed by a 1.5% improvement in Dollar Tree (taking into account the impact of Canadian currency fluctuations), while the metric fell 0.8% in Family Dollar. This marked the 48th straight quarter of comps growth for the Dollar Tree segment.

Quarterly gross profit improved 2.5% year over year to \$1,960.5 million, while gross margin contracted 50 bps to 31%. The margin contraction mainly resulted from higher tariffs, and increased occupancy, shrink and distribution costs as a percentage of sales, which were partly compensated by lower freight expenses.

Adjusted selling, general and administrative (SG&A) expense rate expanded 60 bps to 21.9% as a percentage of sales due to elevated payroll and higher depreciation costs.

Adjusted operating income declined 8.3% to \$580.4 million. Due to the soft gross margin and higher SG&A costs, adjusted operating margin contracted 100 bps to 9.2%.

#### Balance Sheet

Dollar Tree ended the quarter with cash and cash equivalents of \$539.2 million, net merchandise inventories of \$3,522 million, net long-term debt (excluding current maturities) of \$3,522.2 million and shareholders' equity of \$6,254.8 million. Further, it still has nearly \$800 million under the current share-buyback plan.

#### Store Update

In fourth-quarter fiscal 2019, Dollar Tree opened 112 stores, expanded or relocated 17 outlets, and shuttered 95 stores. Moreover, it re-bannered 10 Family Dollar stores into Dollar Tree. It also completed the renovation of five Family Dollar stores to the H2 format. For fiscal 2020, management anticipates renovating nearly 1,250 Family Dollar stores to the H2 format.

As of Feb 1, 2020, Dollar Tree operated 15,288 stores in 48 states and five Canadian provinces.

#### Guidance

The company issued fiscal 2020 view, wherein it expects sales to be \$24.21-\$24.66 billion and same-store sales to grow in low-single digit. Also, adjusted earnings are envisioned to be \$4.8-\$5.15.

This view includes a tariff impact of \$47 million, with most of it being incurred in the first half of the fiscal year. Further, it excludes any impact of COVID-19 on the supply chain or other aspects of the business. Additionally, it is gearing up for the launch of the Dollar Tree Plus! 2.0 initiative in fiscal 2020.

For first-quarter fiscal 2020, the company projects sales of \$5.89-\$5.99 billion along with same-store sales growth in low-single digit. Further, adjusted earnings are estimated to be \$1-\$1.09 per share. The first-quarter guidance is inclusive of adverse impacts from higher tariffs and promotions.

Quarter Ending 01/2020

Report Date	Mar 04, 2020
Sales Surprise	-1.22%
EPS Surprise	1.70%
Quarterly EPS	1.79
Annual EPS (TTM)	4.77

## Recent News

### Dollar Tree Issues Update On COVID-19 Impact – Mar 31, 2020

Dollar Tree is witnessing healthy demand of essential items such as cleaning supplies and sanitizer, household products, paper goods, food and over-the-counter medicine which has led to rise in traffic and sales in turn. However, it expects sales for the rest of the quarter to be impacted by uncertain COVID-19 impacts. Particularly, the company foresees weaker than expected sales for some discretionary products owing to drab Easter season. That said, management has withdrawn its first quarter and fiscal 2020 view.

Moreover, it has also withdrawn \$750 million from the revolving credit facility. As of Mar 30, it has \$1.9 billion in cash and investments and \$1.25 million in revolving credit facility. Going ahead, it is not likely to repurchase shares under its current share repurchase plan of \$800 million.

Prior to this, the company announced that all its stores will close at 8pm for cleaning and replenishing purposes. Also, it revealed plans to hire 25,000 employees to ramp up customer service.

### Dollar Tree to Hire Staff to Support Rise in Demand – Mar 20, 2020

Amid many coronavirus-led store closures, Dollar Tree announced plans to appoint 25,000 workers at its namesake as well as Family Dollar stores and distribution centers in the United States. These will include both full and part time associates, to support the store and distribution center operations at a time when consumers' demand for essential items is on the rise.

Dollar Tree will hire part and full-time managers for the company's stores, with flexible shifts for stockers and cashiers. Also, it will appoint order fillers, equipment operators, and warehouse associates for its 24 distribution centers.

### Dollar Tree Adjusts Store Timings Amid COVID-19 Crisis – Mar 19, 2020

Dollar Tree has adjusted its store hours for cleaning purposes in order to safeguard its employees and customers from the ongoing COVID-19 outbreak. In this regard, the company will now be closing its store at 8 pm beginning from Mar 19 till any further notice. These stores serve essential items including food, water, cleaning supplies, sanitizers, paper products, home goods, and over-the-counter cold and flu medicines at \$1 in Dollar Tree stores and between \$1-\$10 at Family Dollar stores.

## Valuation

Dollar Tree shares are down 14.6% in the year-to-date period and nearly 25.8% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 5% but the Zacks Retail-Wholesale sector 1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 16.3% and 7.1%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 16X forward 12-month earnings, which compares to 24.76X for the Zacks sub-industry, 28.01X for the Zacks sector and 19.53X for the S&P 500 index.

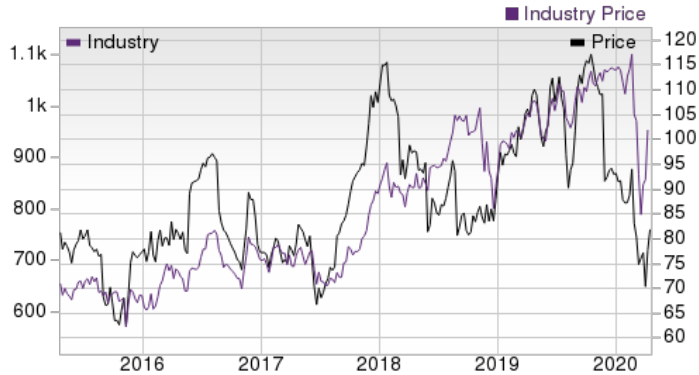
Over the past five years, the stock has traded as high as 32.81X and as low as 12.93X, with a 5-year median of 18.2X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$87 price target reflects 17.03X forward 12-month earnings.

The table below shows summary valuation data for DLTR

Valuation Multiples - DLTR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	16	24.76	28.01	19.53
	5-Year High	32.81	24.76	28.01	19.53
	5-Year Low	12.93	17.95	19.06	15.19
	5-Year Median	18.2	20.07	23.16	17.45
P/S F12M	Current	0.78	1.35	0.93	3.2
	5-Year High	1.74	1.39	1.11	3.44
	5-Year Low	0.63	0.94	0.8	2.54
	5-Year Median	0.91	1.12	0.93	3.01
EV/EBITDA TTM	Current	11.16	18.2	15.5	10.51
	5-Year High	17.62	19.86	16.36	12.87
	5-Year Low	4.95	10.91	10.46	8.27
	5-Year Median	11.17	13.54	12.53	10.78

As of 04/17/2020

## Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 253)



## Top Peers

Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Ross Stores, Inc. (ROST)	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		
	DLTR Neutral	X Industry	S&P 500	DG Neutral	ROST Neutral	TGT Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>C</b>	<b>A</b>
Market Cap	19.35 B	15.73 B	19.60 B	45.80 B	32.60 B	56.82 B
# of Analysts	10	11	14	22	13	12
Dividend Yield	0.00%	0.80%	2.17%	0.79%	1.24%	2.33%
<b>Value Score</b>	<b>B</b>	-	-	<b>C</b>	<b>C</b>	<b>B</b>
Cash/Price	0.03	0.05	0.06	0.01	0.04	0.05
EV/EBITDA	12.27	13.13	11.73	20.05	13.68	9.33
PEG Ratio	1.69	2.33	2.19	1.99	2.53	2.20
Price/Book (P/B)	3.09	5.86	2.67	6.85	9.80	4.86
Price/Cash Flow (P/CF)	9.21	13.99	10.55	20.47	16.42	9.74
P/E (F1)	16.56	24.86	18.18	24.38	25.34	17.30
Price/Sales (P/S)	0.82	0.82	2.08	1.65	2.03	0.73
Earnings Yield	5.96%	3.95%	5.38%	4.10%	3.95%	5.77%
Debt/Equity	1.36	1.46	0.70	1.60	0.87	1.15
Cash Flow (\$/share)	8.87	6.38	7.01	8.90	5.59	11.64
<b>Growth Score</b>	<b>B</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	18.69%	12.09%	10.92%	13.67%	17.31%	7.09%
Proj. EPS Growth (F1/F0)	2.29%	-20.89%	-3.36%	10.97%	-20.98%	2.58%
Curr. Cash Flow Growth	-55.39%	9.68%	5.93%	9.68%	4.53%	10.26%
Hist. Cash Flow Growth (3-5 yrs)	19.78%	8.54%	8.55%	9.69%	11.61%	3.95%
Current Ratio	1.20	1.19	1.24	1.14	1.27	0.89
Debt/Capital	57.61%	59.24%	42.78%	61.55%	46.53%	53.50%
Net Margin	3.50%	4.38%	11.64%	6.17%	10.36%	4.20%
Return on Equity	19.71%	24.73%	16.74%	26.04%	50.11%	28.46%
Sales/Assets	1.21	1.76	0.54	1.25	1.74	1.85
Proj. Sales Growth (F1/F0)	4.18%	0.37%	-0.14%	8.51%	-5.18%	4.42%
<b>Momentum Score</b>	<b>C</b>	-	-	<b>A</b>	<b>F</b>	<b>C</b>
Daily Price Chg	1.62%	4.56%	4.04%	1.10%	5.20%	3.77%
1 Week Price Chg	10.42%	18.94%	16.01%	4.34%	18.72%	12.56%
4 Week Price Chg	15.32%	23.37%	18.93%	27.35%	41.11%	12.86%
12 Week Price Chg	-7.06%	-19.63%	-19.39%	17.38%	-22.41%	-1.83%
52 Week Price Chg	-24.79%	-9.03%	-11.34%	47.40%	-8.28%	36.22%
20 Day Average Volume	3,172,381	2,631,090	3,220,598	3,158,176	4,317,954	6,255,661
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.36%	0.00%
(F1) EPS Est 4 week change	-2.87%	-4.16%	-7.09%	0.55%	-24.79%	-4.16%
(F1) EPS Est 12 week change	-6.79%	-26.20%	-9.32%	0.55%	-26.88%	-3.96%
(Q1) EPS Est Mthly Chg	-9.39%	-9.39%	-10.68%	2.26%	-61.60%	-6.37%



## 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	<b>B</b>
Growth Score	<b>B</b>
Momentum Score	<b>C</b>
VGM Score	<b>A</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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