

# DOLLAR GENERAL

## Buy Pitch

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Consumer Staples Sector

October 23th, 2019



**SIMM**  
STUDENTS IN MONEY MANAGEMENT

## Recommendation

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*“We would like to initiate a 4.0% position in DG”*

Recommendation		
<b>Total Shares</b>		<b>96</b>
TD #1 (Unrestricted) Shared		32
TD #2 (Endowment) Shared		64
Market Price	\$	164.35
Price Target	\$	182.51
Potential Upside		11.05%
Cost Basis	\$	15,777.60
% of Portfolio		4.00%



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## Section I. Company Overview



# Company Overview

"Save time. Save money. Every Day!"

## Summary

- For more than 80 years Dollar General has earned a reputation on providing a great value to their customers
- They offer a broad selection of merchandise, including consumable items, seasonal items, home products and apparel.
- As of February 1st, 2019 They have 15,730 stores in 44 States
- Continually evaluate and modify there merchandise and pricing accordingly, while remaining focused on increasing profitability, cash and returns for shareholders.
- In 2007 investment groups bought out Dollar General for \$6.9 Billion
- In 2009 the New York Stock Exchange welcomes back Dollar General

## Market Capitalization

Dollar General (USD\$)	
Current price	\$ 162.87
Dividend yield	0.78%
52-week high	\$ 166.98
52-week low	\$ 98.08
Shares outstanding	.266 B
<b>Market cap</b>	<b>42.649 B</b>
Add: Total Debt	10,969.98
Add: Minority Interest	0
Less: Cash & S.T Investment	259.57
<b>Enterprise value:</b>	<b>\$ 51,023.87</b>

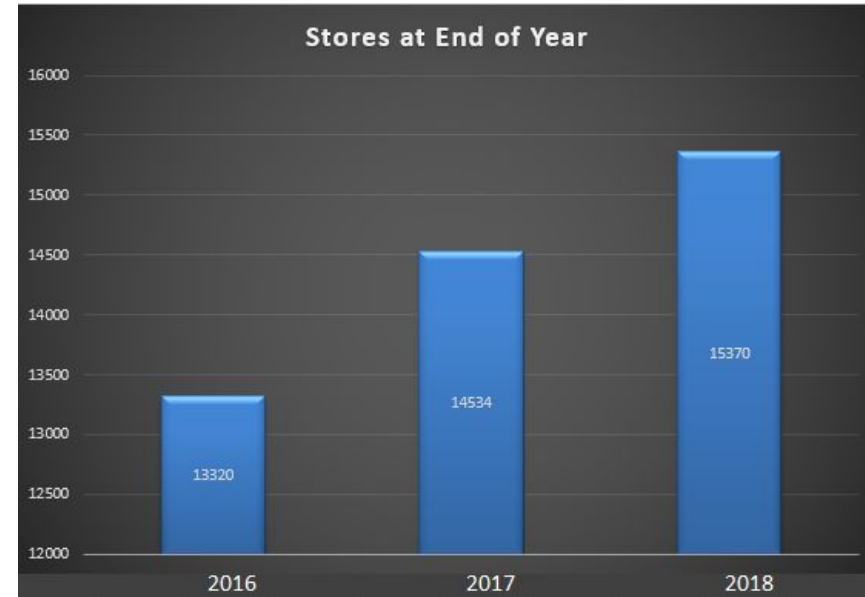
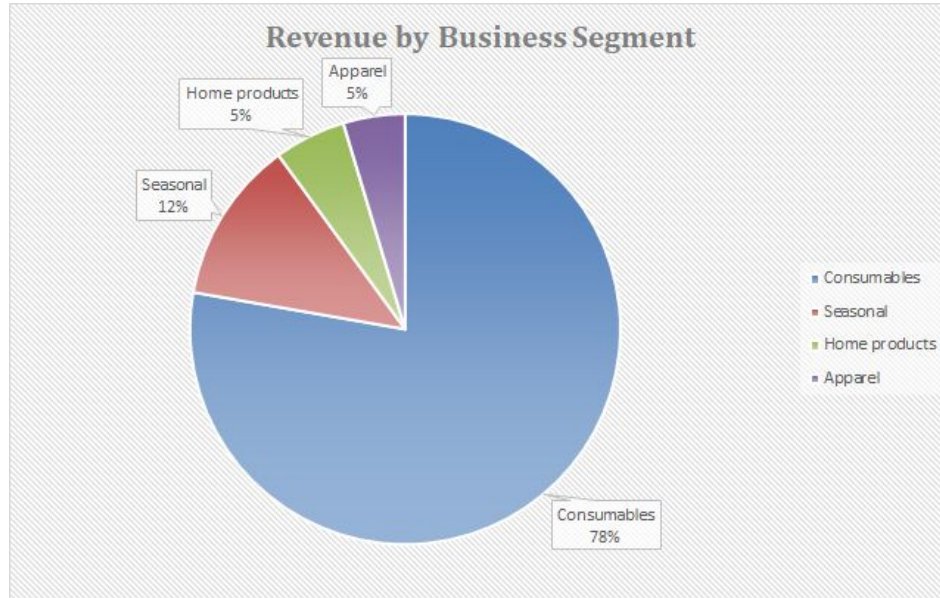
Financial Summary (Millions)				
	2017	2018	2019	TTM
<b>Revenue</b>	21,986.6	23,471.0	25,625.0	26,672.2
YOY Growth	7.94%	6.75%	9.18%	4.09%
<b>EBITDA</b>	2,443.4	2,412.0	2,570.4	3,271.6
YOY Growth	6.57%	-1.28%	6.57%	27.28%



# Company Overview

“Save time. Save money. Every Day!”

## Revenue Breakdown and Store Growth



# Company Overview

## DG Annotated Price Chart

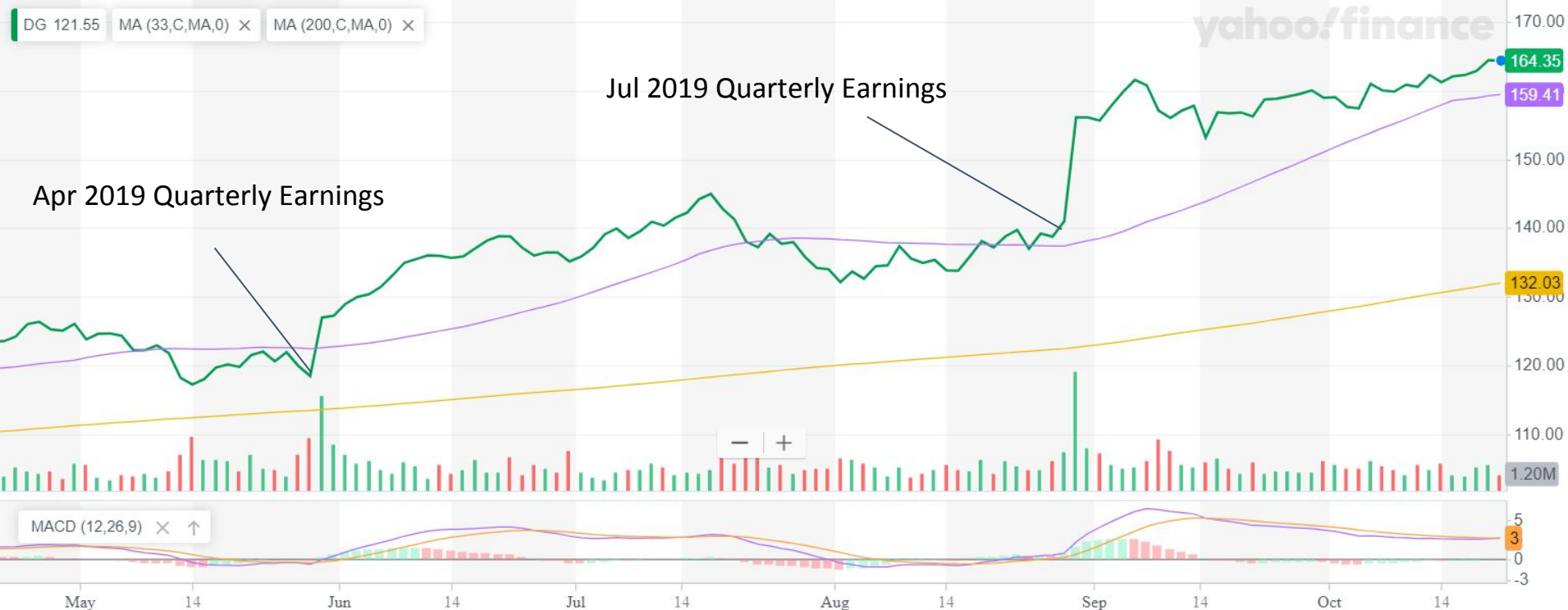
**DOLLAR  
GENERAL®**



# Company Overview

## DG Annotated Price Chart

**DOLLAR  
GENERAL®**





# Company Overview

## DG Annotated Price Chart

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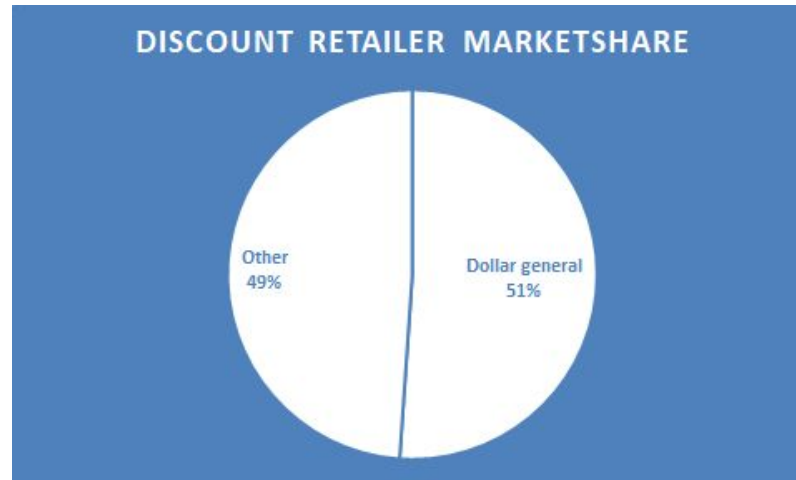
## Section II. Industry Overview



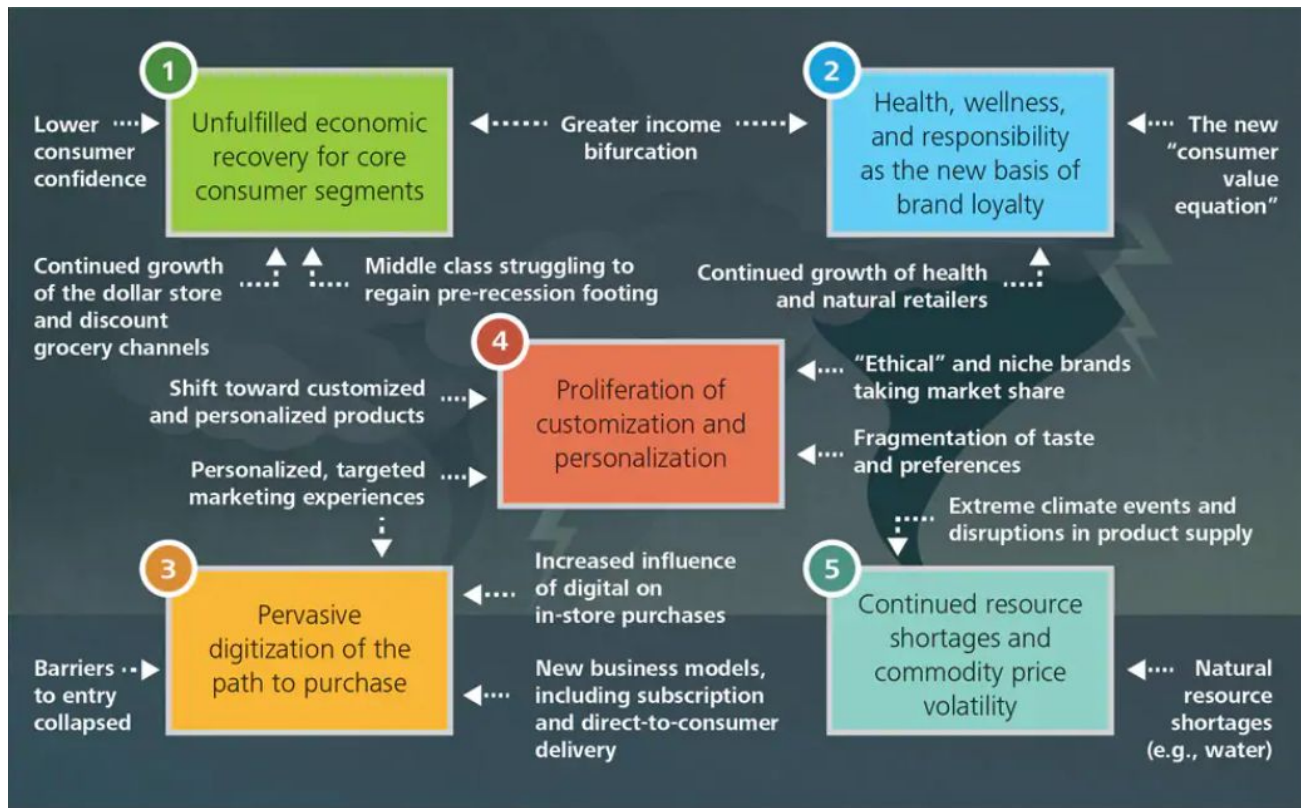
## Industry Overview

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- Consumer staples sector performs well during recession
- Trade war tensions have been increasing appeal of consumer staples stocks
- Shifts in consumer preferences towards healthier choices
- Deep discount stores focus on remote locations
- Increased demand for E-commerce and in store pickup



# Industry Overview



## Section III. Environment and Social Impact

## Environment Impact

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- Cardboard Backhauling:
  - Cardboard shipped to Dollar General stores are broken down and returned to the distribution center for recycling or sold to paper mills. More than 1.7 million tons of cardboard have been recycled, which is equivalent to nearly 29 million trees saved.
- Moving Smarter:
  - They have implemented a more efficient freight loading process that helps reduce the total number of miles driven and the diesel fuel required to transport items from distribution centers to stores
- Plastic Film:
  - Program in which distribution centers collect plastic film returned from stores. The plastic is then sold to a vendor which recycles the material for use in the company's D.G home trash bags. They have recycled more than 10,000 tons of plastic film that not only is reused, but also helps maintain low prices on the satisfaction-guaranteed products

## Social Impact

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- In 2018 Dollar General and its foundations awarded over 20 million dollars to over 3,000 nonprofit organizations.
  - Since 1993, the Dollar General Literacy Foundation has invested nearly 160 million to nonprofits to help more than 10 million individuals learn to read.
  - In 2015 the Adult Literacy XPRIZE was launched to inspire innovations in applications to help adults improve their literacy skills. As a result, 12,000 new learners now have access to free learning applications
- Children's health
  - For 13 years Dollar General has helped raise over 20 million dollars for the St. Jude Children's Research Hospital.
- Disaster Relief
  - Since partnering with Red Cross in 2010 Dollar General has donated 5.1 million to the organization.



## Section IV. Investment Thesis



- 15,370 STORES** | **IN 44 STATES**  
AS OF FEBRUARY 1, 2019

**STORES**  
**DISTRIBUTION CENTER**

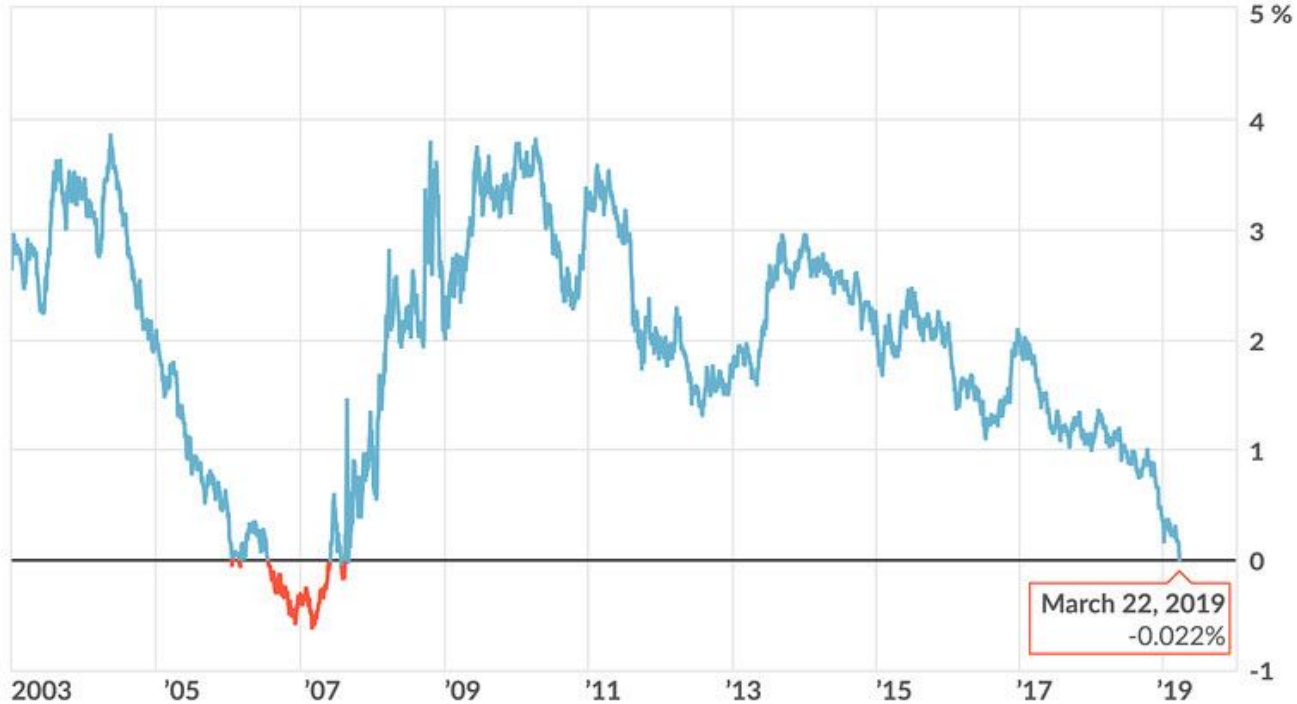
State	Stores
Alabama	137
Alaska	0
Arizona	52
Arkansas	0
California	216
Colorado	0
Connecticut	15
Delaware	45
District of Columbia	0
Florida	849
Georgia	541
Hawaii	0
Idaho	0
Illinois	511
Indiana	520
Iowa	169
Kansas	0
Kentucky	510
Louisiana	0
Maine	0
Maryland	132
Massachusetts	56
Michigan	134
Minnesota	52
Mississippi	0
Missouri	236
Montana	0
Nebraska	0
Nevada	0
New Hampshire	0
New Jersey	461
New Mexico	0
New York	735
North Carolina	814
North Dakota	0
Ohio	544
Oklahoma	440
Oregon	0
Pennsylvania	242
Rhode Island	0
South Carolina	866
South Dakota	0
Tennessee	772
Texas	1,474
Utah	0
Vermont	0
Virginia	659
Washington	0
West Virginia	0
Wisconsin	516
Wyoming	0
36	36
55	55
30	30



**DOLLAR  
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## Spread between 10-year minus 3-month note

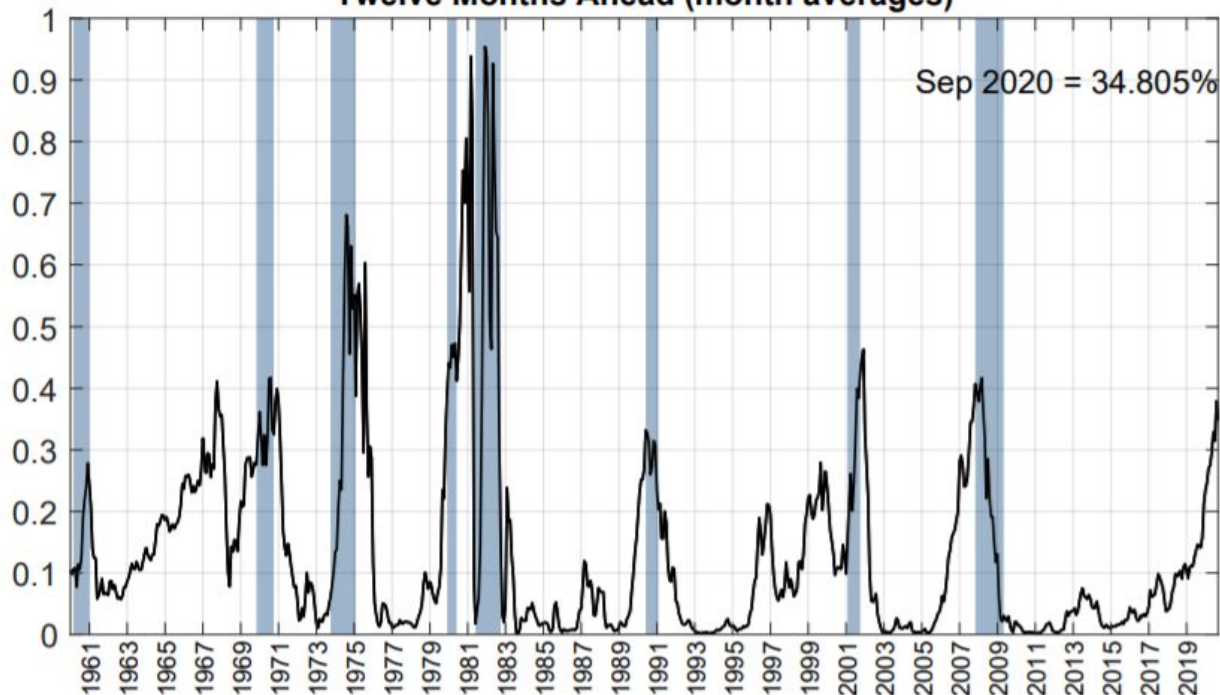
Narrowest since August 2007



Source: Ryan ALM

# Investment Thesis

## Probability of US Recession Predicted by Treasury Spread\* Twelve Months Ahead (month averages)



\*Parameters estimated using data from January 1959 to December 2009, recession probabilities predicted using data through Sep 2019. The parameter estimates are  $\alpha = -0.5333$ ,  $\beta = -0.6330$ .



## Section V. Risks and Catalysts



## Risks and Catalysts

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### Risks

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- Chinese trade war
- SNAP reduction
- Increased competition
- Unemployment rate
- 52 week high
- Seasonal products

### Catalysts

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- DG Go app
- DG Fresh
- Store openings and renovations
- Brand Loyalty

Dollar General has managed to thrive despite a downward spiraling macroeconomic environment.

With the threat of a recession looming, Dollar General is an appealing investment for a potential bear market.



## Section V. Valuation

## Recommendation

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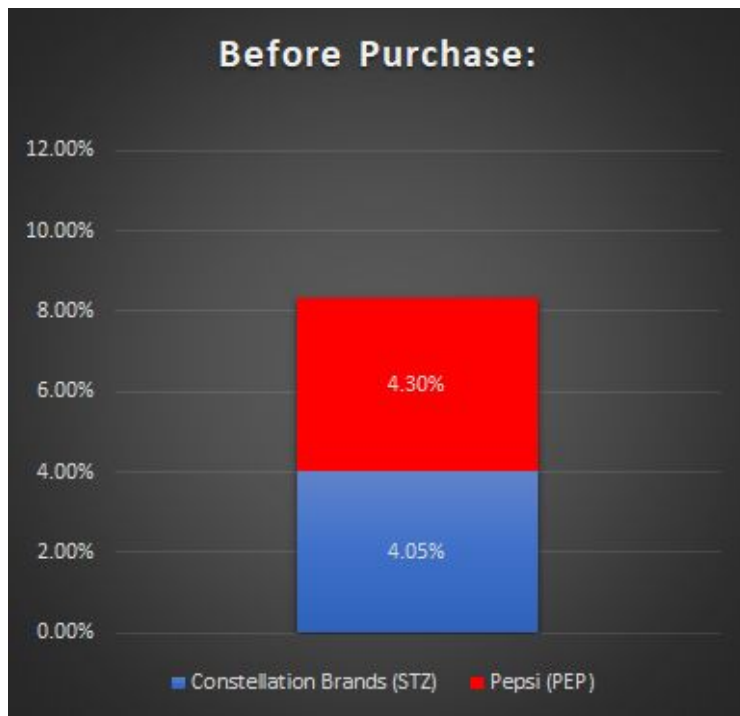
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# Sector Holdings

Current



Recommended

