



### Company Overview:

Dollar General is one of the largest discount retailers in the United States by number of stores. The company operates 16,094 stores located in 44 states, concentrated in the southern, southwestern, midwestern and eastern regions of the United States. Stores offer a broad selection of household items and general merchandise in conveniently located small-box locations at everyday low prices.

<u>Name</u>	<u>Ticker</u>	<u>Growth</u>	<u>Dividend</u>	<u>D + G</u>
Dollar General Corporation	DG	10.75%	0.88%	11.63%

### Stock Highlights:

As major initiatives (DG Fresh, Fast Track, NCI, Digital) continue to ramp, we expect DG to realize notable top-line and EBIT margin benefits that are likely underappreciated in current consensus estimates. We believe continued share gains, robust unit growth, the addition of more services in-stores, a counter-cyclical trait, and strong ROIC merit a premium valuation to peers and historical average. We believe Value Retailers such as DG are well-positioned to drive top-line growth and share gains as a result of the current inflationary environment. To this end, during the Great Recession DG drove 2-year stack comps of ~19%, significantly outperforming Discount Store and Food Retail averages during that time frame.

### Bull Case:

- **Accelerated Store Remodels/Relocations & Incremental Store Openings** - The most important driver of Dollar General's performance has been the success of its real estate projects. A traditional store remodel delivers a 4% to 5% comp lift and the DG Traditional Plus or DG Plus remodels deliver a 10% to 15% comp lift. Importantly, management plans to accelerate new store openings to 1,100 stores and remodels/relocations to 1,580 stores, with ~70% of store remodels in the DG Traditional Plus or DG Plus format (higher comp lift). As a result, a greater percentage of the store base will be in an updated format. The greater percentage of remodels mixed with an acceleration of new store openings and instore initiatives should continue to drive solid sales growth in the future.
- **International Expansion is a Nascent but Potentially Lucrative Opportunity** - We believe DG's expansion into Mexico provides ample growth opportunities. While the company has previously acknowledged it will take time to achieve scale in the region, we believe this initiative could provide meaningful benefits to the company over time.
- **Incremental Value Adds:** DG noted that its NCI and pOpshelf initiatives continue to present attractive growth opportunities.
  - To this end, NCI is available in >13,000 stores and the company indicated that NCI stores continue to generate an incremental 2.5% total comp sales lift on average in the first year after implementation as well as drive a meaningful improvement in GM.
  - DG also noted its pOpshelf opportunity is significant, with the company highlighting strong customer reception, healthy average basket sizes, and robust unit economics. With 90% of products below \$5, we view pOpshelf as well-positioned in the current environment.
- **Increased Share Repurchases and Cash Dividends** – Over the last five years, Dollar General has returned almost \$6B in capital, via dividends and share buybacks, to shareholders. This equates to 14% of current market cap – a staggering figure. This policy should help the stock outperform during market volatility, as it has in recent periods.

### Bear Case:

- **Too Many Stores** - Admittedly, with the changing retail environment, there is a big worry about the potential of Dollar General having too many stores. Dollar General is one of the few companies increasing its store footprint during the new Amazon age.
- **Very Competitive Environment** - Dollar General competes against many retailers, i.e., grocery, big box, drug stores, etc. Competition is very high and at the end of the day, the consumer decides where to shop. Therefore, if management is unable to successfully drive store traffic, Dollar General's top line growth would diminish.
- **Macroeconomic Slowdown** – A negative change to macroeconomic factors could reduce customer's spending and thereby negatively impact Dollar General's profitability. To note, many of Dollar General's customers have limited amount of income to spend on discretionary products; therefore, any impact to their disposable income could drive decreased sales and earnings for Dollar General.

### Overall Thesis:

We continue to view DG as one of the top "all weather" investment opportunities in hardline retail, given the company's high consumable products mix (~78% of sales), multiyear store growth opportunity and strong financial position. Admittedly, the economic environment is highly uncertain, but DG shares have held up better than the market over the last few periods, highlighting the company's defensive characteristics of selling mostly consumer staple products.

*For Advisor use only.*



*Past performance is not indicative of future results. This information is for illustrative purposes only. Investing involves risk including the potential loss of principal. This material is not financial advice or an offer to sell any product. The actual characteristics with respect to any particular client account will vary based on a number of factors including but not limited to: (i) the size of the account; (ii) investment restrictions applicable to the account, if any; and (iii) market exigencies at the time of investment. Aptus Capital Advisors, Inc. reserves the right to modify its current investment strategies and techniques based on changing market dynamics or client needs. Forward looking statements cannot be guaranteed. This is not a recommendation to buy or sell a particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed may not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions, holdings or sectors discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. Information was obtained from third party sources which we believe to be reliable but are not guaranteed as to their accuracy or completeness.*

*Advisory services are offered through Aptus Capital Advisors, LLC, a Registered Investment Adviser registered with the Securities and Exchange Commission. Registration does not imply a certain level or skill or training. More information about the advisor, its investment strategies and objectives, is included in the firm's Form ADV Part 2, which can be obtained, at no charge, by calling (251) 517-7198. Aptus Capital Advisors, LLC is headquartered in Fairhope, Alabama. ACA-2206-23.*

*For Advisor use only.*