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CAPITAL
Proprietary Structural Analysis & Forecasting

Dollar Tree, Inc. (DLTR):

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Presentation Outline

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Dollar Tree has had a difficult Year:

Shares are 30% off a 52-week and all-time high it in Feb 2018:

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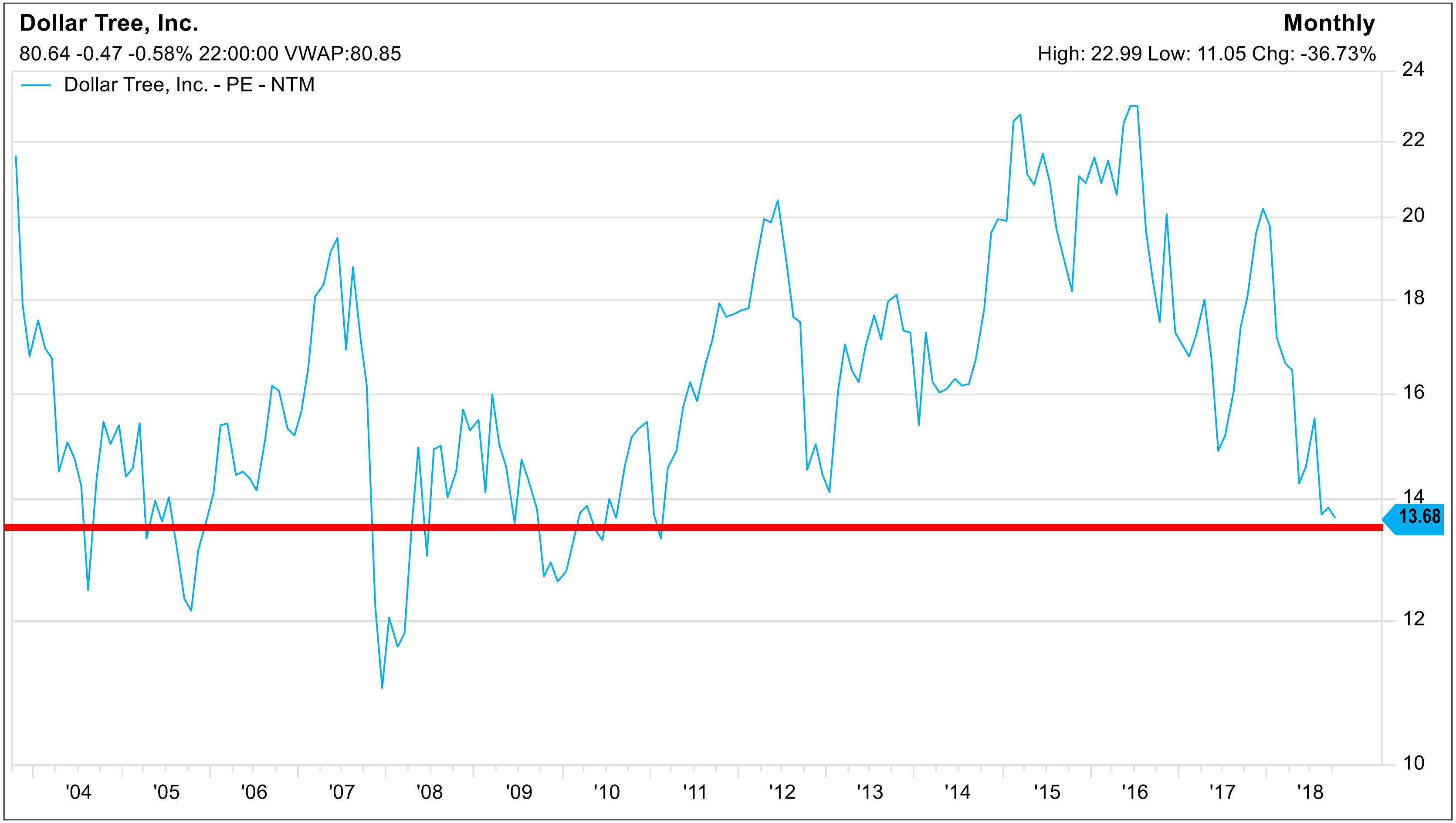
The P/E has contracted to 13x Forward Estimates

DLTR last traded at these valuations during the financial crisis (15-year PE chart):



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DLTR Has Been a LT Winner

Shares are up >500% over past 10 years; Example of high ROIC compounder

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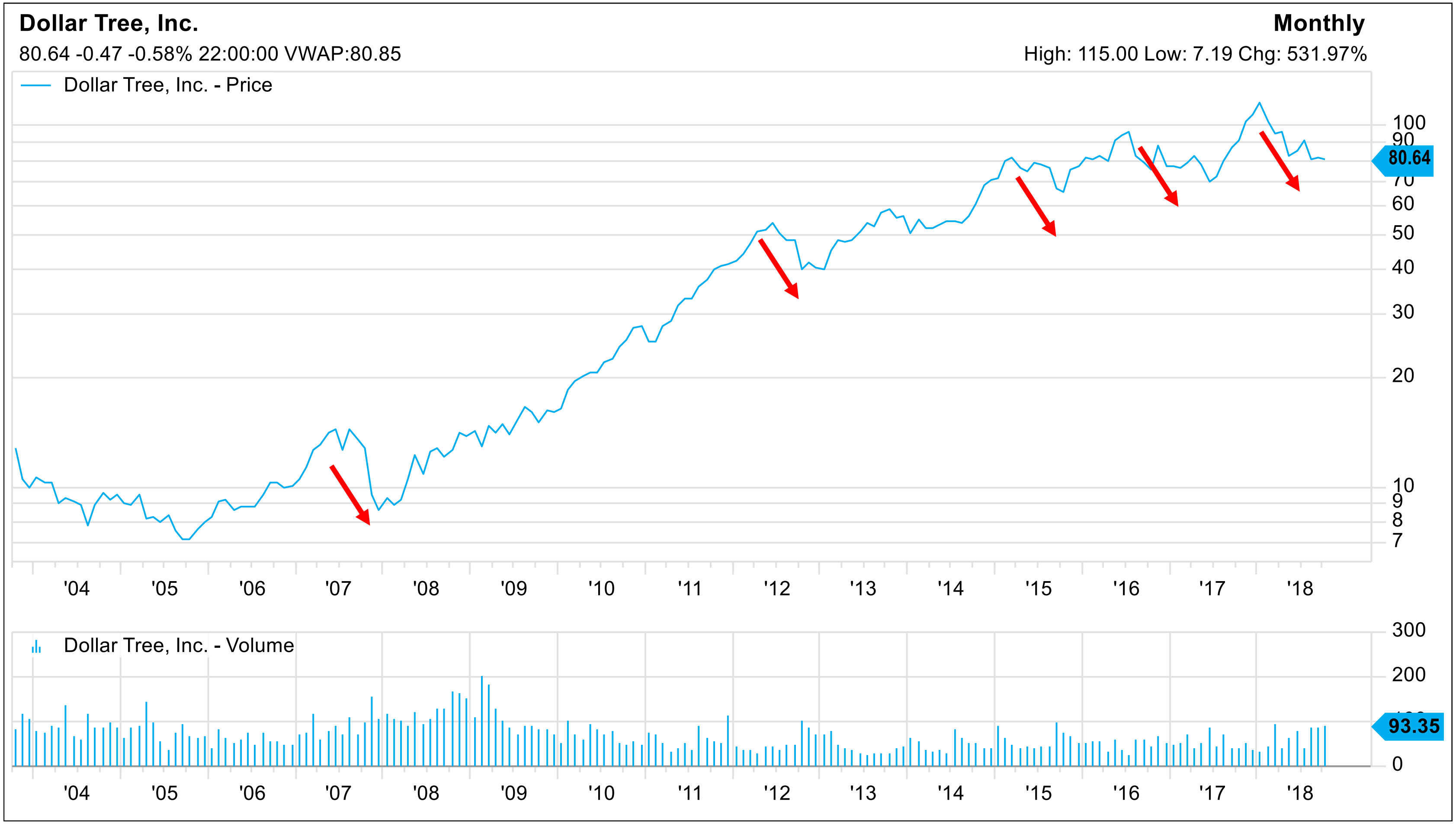
There have not been many opportunities to buy:

Since 2006, DLTR has retraced 25% or more on only 5 occasions:



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The big question: Is this pull-back different?

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This year's share price decline is due to two primary factors:

1) Concern that the acquisition of Family Dollar will create downside

and to a lesser extent:

2) **Expense headwinds at Dollar Tree** and some worries about the potential impact of **tariffs**

Note that NTM EPS estimates are relatively unchanged since January

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Our view & investment thesis:

1. Dollar Tree mgmt. will eventually figure out how to improve operations at Family Dollar leading to higher sales, margins and a positive re-rating for the shares

Or: Something will change

In the mean time:

2. The core Dollar Tree business is the vast majority of EBIT and is performing very well.

3. Valuation measures are attractive

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Quick recap of the "performance gap" thesis

This idea is not new or original but maintains a certain logical force. Skip to slide 15 if you are familiar with the comparison and thesis.

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Dollar General & Family Dollar are very similar…

Dollar General

- Over 15,000 stores
- Most in rural markets (15k population)
- Average 7,407 square ft (688 M^2)
- Sales per square foot $227
- Gross profit margin less occupancy (FY17) 26.2%
- Multiple price points vast majority below $10
- About 77% Consumables
- **EBIT margin as reported (FY17) 8.6%**

Family Dollar

- Over 8,000 stores
- Many in rural markets (15k population)
- Average 7,261 square ft (674 M^2)
- Sales per square foot $189
- Gross profit margin as reported (FY17) 27.3%
- Multiple price points vast majority below $10
- About 75% Consumables
- **EBIT margin as reported (FY17) 4.7%**

…but Dollar General produces 20% more sales per square foot and **nearly double the EBIT Margin**…

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…and Family Dollar at times was ***more*** profitable than DG

Dollar General (FY04)

- Almost 7,000 stores
- Most in rural markets (15k population)
- Average 6,815 square ft (633 M^2)
- Sales per square foot $159
- Gross profit margin less occupancy (FY04) 25.9%
- Multiple price points vast majority below $10
- About 63% Consumables
- **EBIT margin as reported (FY04) 7.3%**

Family Dollar (FY04)

- Almost 5,500 stores
- Many in rural markets (15k population)
- Average 6,986 square ft (649 M^2)
- Sales per square foot $146
- Gross profit margin less occupancy (FY04) 29.6%
- Multiple price points vast majority below $10
- About 78% Consumables
- **EBIT margin as reported (FY04) 7.7%**

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Summary of Argument for Higher Profitability at Family Dollar

- Family Dollar is essentially the same concept as Dollar General with a similar store format, merchandise mix, target customer, and geographic strategy
- At times in the past Family Dollar had similar or even higher performance metrics than Dollar General
- Today, however, Family Dollar sales productivity is lower than Dollar General and EBIT margins are roughly half
- The **best explanation** for the divergent paths in operating performance is a difference in **execution**
- Hence, improved execution should yield better performance at Family Dollar, which is essentially the premise of Dollar Tree's acquisition of the chain

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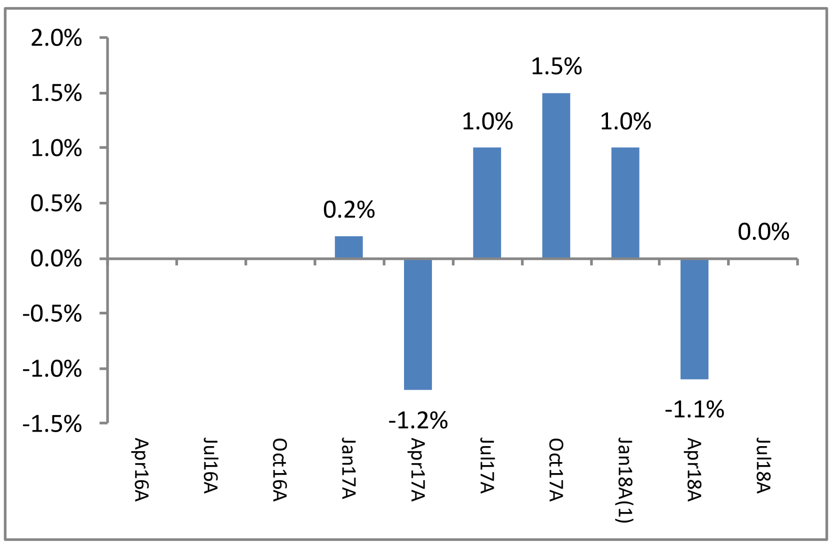
Sadly, So far DLTR has not produced the expected improvement in Family Dollar

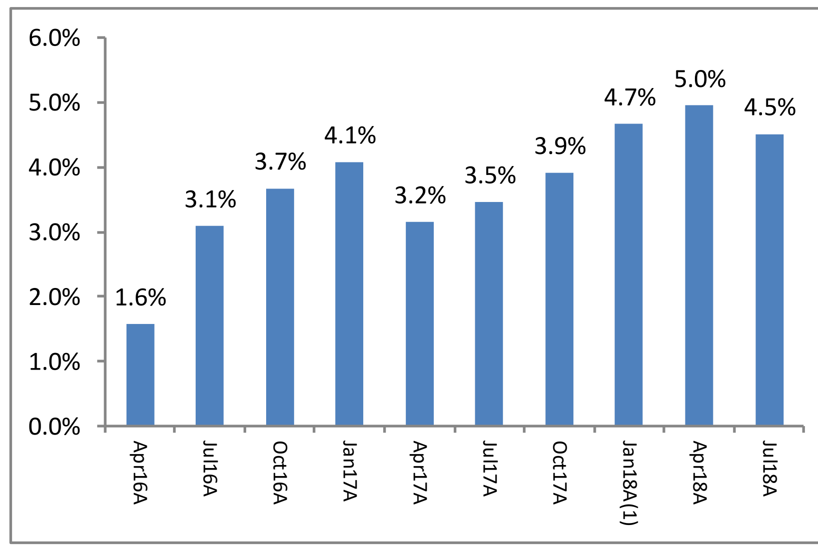
Comp performance has been lackluster since Family Dollar stores started reporting same-store sales in 4QFY16.

TTM EBIT margins have risen but are rolling over based on 1HFY18 results

Quarterly Comps Family Dollar Banner YOY% Change



TTM EBIT Margin Family Dollar Segment



Source: Company Reports, Quo Vadis Capital, Inc. estimates

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Why is Fixing Family Dollar so Difficult?

We don't think it is any one thing but note:

- Integrating a 8,000+ store chain, separate HQ (recently closed) and a network of distribution centers involves a lot of moving parts
- DLTR may have underestimated the scope of the problems with Family Dollar
- Family Dollar is a multi-price point retailer operating in a very competitive space
- Changing the consumer perception of Family Dollar just takes a really long time
- **Family Dollar is just *a different animal* than Dollar Tree, possibly requiring a different skill set and operational expertise than was present in DLTR**

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What is the Strategy to Fix Family Dollar?

We continue to believe DLTR will eventually crack the code to running Family Dollar better, but articulating the strategy is a somewhat challenging:

- Broadly speaking, the strategy is better execution across the chain and consistency of performance
- Better merchandising and execution in discretionary categories (25% of sales) as consumables are still comping
- Improved private label offerings
- Store remodels and re-banners (changing Family Dollar to Dollar Tree, when appropriate)
- **Admittedly this strategy has so far not worked, requiring patience or expectations for a new approach…**

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Absent better results, something will change*

Current mgmt. made a "bet the company" deal when it paid $9B to acquire Family Dollar at 13x NTM EBITDA.

- We continue to believe DLTR will "figure out" how to improve performance at Family Dollar and believe the company is intently focused on this outcome
- However, if performance continues to lag, the consideration of other ideas will likely intensify
- These could include 1) **a new strategy for Family Dollar** or 2) **a spin-off of the chain** as a separate business to shareholders. (See below for a discussion on valuation of each segment.)
- Alternatively, DLTR could consider "breaking the buck" and **introducing prices above $1 at Dollar Tree**. A similar maneuver was very beneficial to Dollarama (DOL.CN)'s financial results, providing a poignant case-study.

* We are not expecting any of these actions soon

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2. Meanwhile, the Dollar Tree business is the vast majority of EBIT and is performing very well

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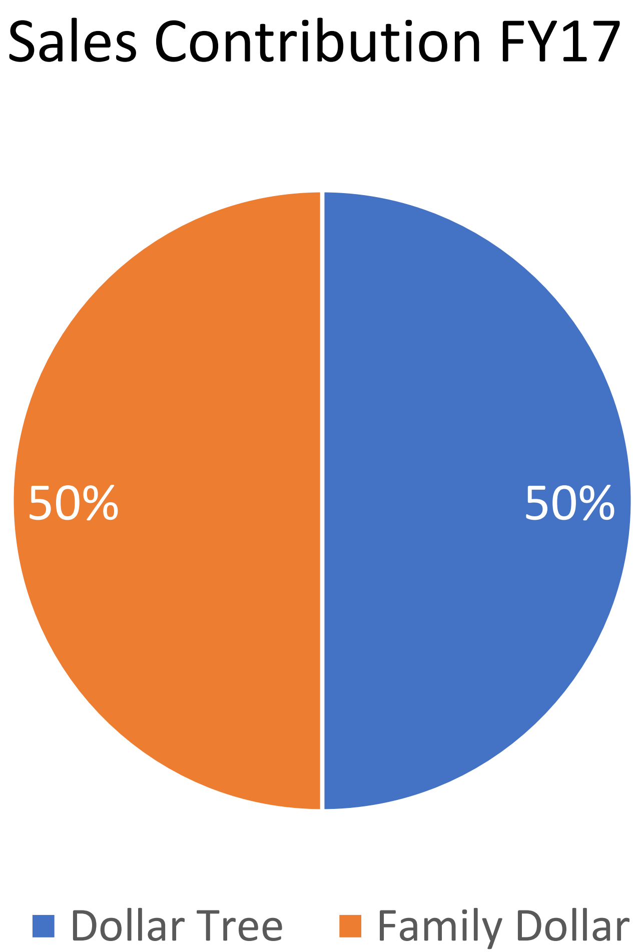

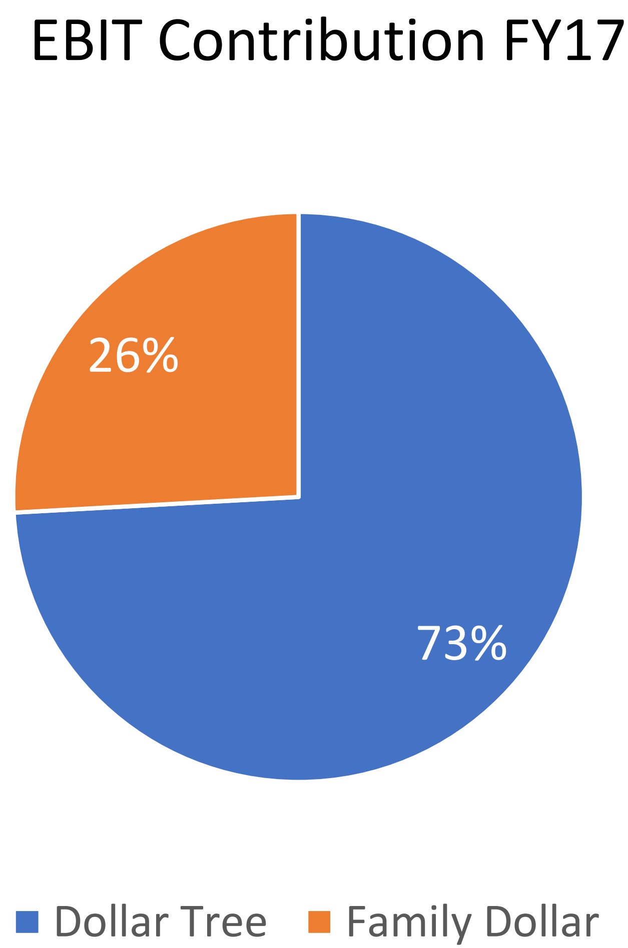

Family Dollar is *most* of investor focus but it's only ¼ of EBIT

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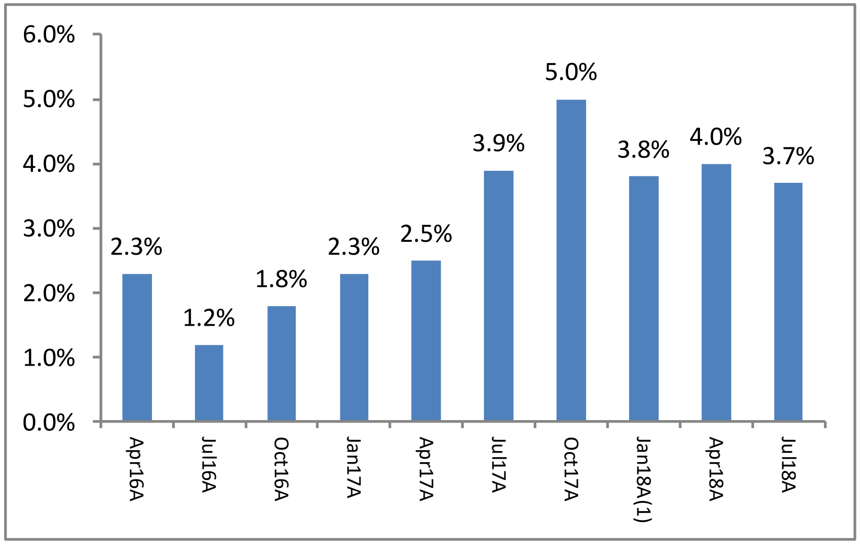
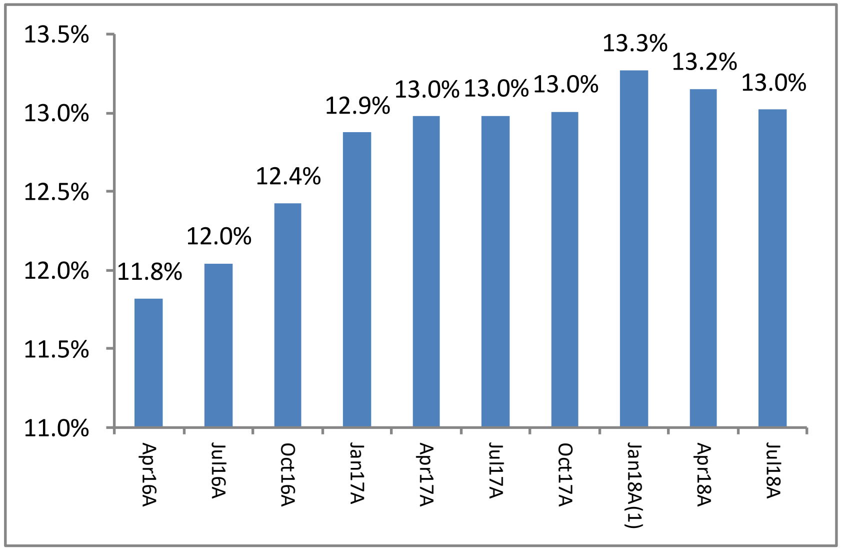
2. …and Dollar Tree Performance is Strong

- Comp performance has been good with same-store sales of ~4% over the last five quarters. Keep in mind this is produced without raising prices
- TTM EBIT margins have plateaued recently reflecting freight, labor and investments which have offset sales leverage but remains at a high level

Quarterly Comps Dollar Tree Banner YOY% Change



TTM EBIT Margin Dollar Tree Segment



Source: Company Reports, Quo Vadis Capital, Inc. estimates

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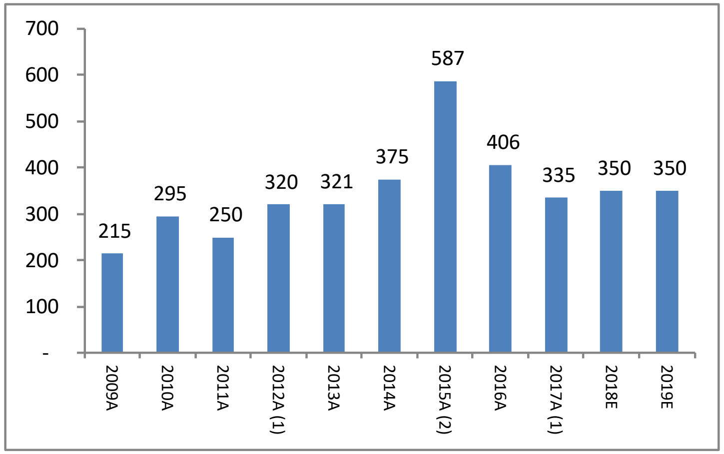
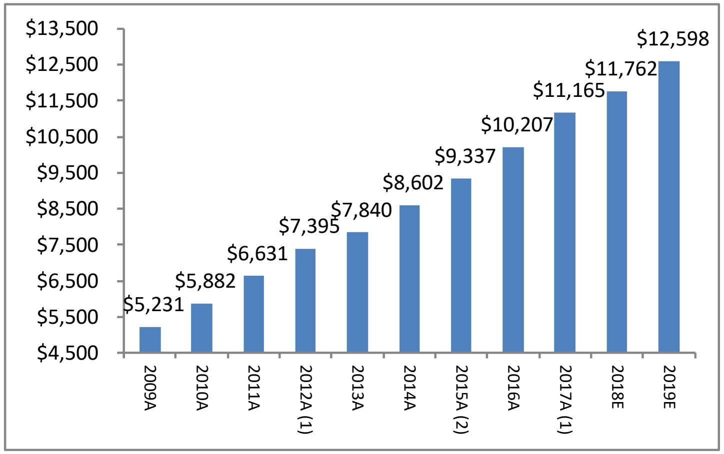
2. And Continues to offer LT Growth and high ROIC

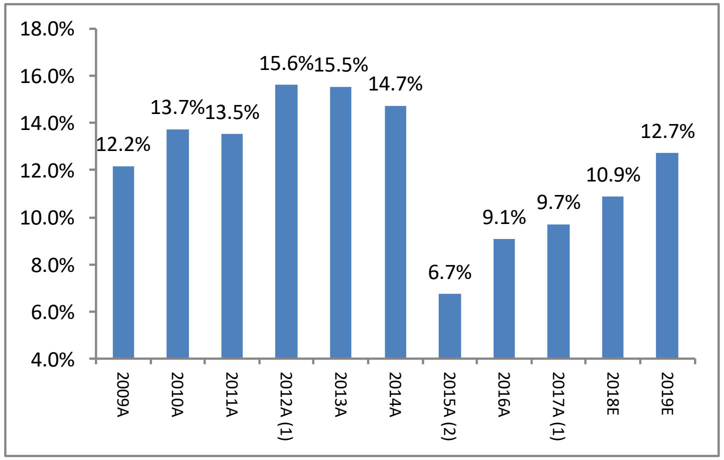
Annual Number of Net New Dollar Tree Stores



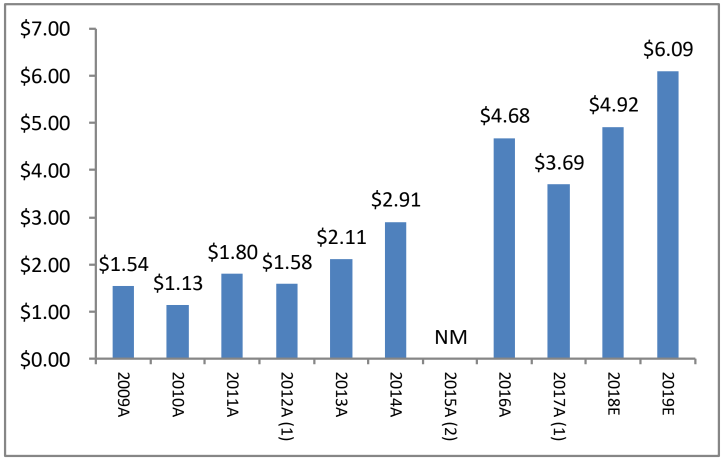
Dollar Tree Segment Annual Total Sales ($M)



Annual Lease-adjusted ROIC for Total Company



Annual FCF per Share Total Company



Source: Company Reports, Quo Vadis Capital, Inc. estimates (1) 53 week year (2) acquistion of Family Dollar

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2. We believe risks for Dollar Tree are manageable

- Dollar Tree is producing strong comps but is facing expense headwinds from freight and labor. 1HFY18 segment EBIT margins contracted 40 bps.
  - We expect the **strong consumer environment** to persist next year and believe Dollar Tree can continue to comp at 2%-5% rates.
  - Expense pressure from **freight** (caused by a shortage of drivers) will continue in 2HFY18 but at a slightly lower rate as increases are lapped. Overall FY18 pressure is close to $100M or 40-50 bps. In FY19, we expect freight pressure to continue but at a lower rate, perhaps 20-30 bps.
  - Store **payroll (labor) expenses** increased 30-40 bps as a percentage of sales in 1HFY18 at the Dollar Tree segment. However, DLTR attributed this to reinvestment prompted by the benefit of the reduction in corporate tax rates. We expect this labor cost reinvestment (which is also a function of catching up salaries to market rates) to continue in 2HFY18. In FY19 we expect minimal deleverage of labor expenses, assuming L-MSD comp growth.

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2. We believe risks for Dollar Tree are manageable

- The market is also concerned about tariffs impacting DLTR's COGS, noting that Dollar Tree's fixed $1 price point does not provide the flexibility to raise prices.
  - Currently, DLTR sources about 40% of Dollar Tree goods from abroad and 18% of Family Dollar's product. Most comes from China.
  - Current tariffs impact product representing about 9% of DLTR's total sales
  - DLTR can take action to manage tariff impact including 1) moving the source to another country, 2) negotiating a lower price with suppliers (note that weakness in the Renminbi aids in this effort), 3) adjust quantify and case pack sizes for some items, 4) discontinue the product/ carry a different item
  - Family Dollar can also raise prices

We note that concern over the sustainability of the $1 price point model was the #1 investor worry when we started following the company in 2002 and also when DLTR went public in 1995… >20 years ago

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3. Valuation is Attractive

On one measure the market is valuing Family Dollar at next to nothing

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3. Shares are trading well below historical ranges

- DLTR shares are currently trading **30% below an all time high** (Feb TY)
- Shares are currently trading at a P/E of 13.5x FY19 (Jan-20) consensus EPS compared to a five-year NTM P/E range of 13.6x-23.6x and an average of 18x. This represents **5-year trough valuations** on FY19 EPS estimates.
- EV/ EBITDA has contracted to 9x NTM EBITDA from 12x two years ago. This compares to a five year range of 7.8x-16.3x and an average of 10.0x

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3. And at a discount to a peer group of retailers

Notably DLTR trades at multiples below WMT & TGT despite ongoing unit growth opportunity:

Quo Vadis Capital Select Retailers

Relative Growth, Profitability, Balance Sheet & Valuation Metrics (Consensus Forecasts)

	Discount & Value Retailers								Other Retailers						
10/2/2018	**AVG.**	**DG**	**DLTR**	**DOL-TSE**	**FIVE**	**OLLI**	**TGT**	**WMT**	**BOOT**	**DKS**	**DSW**	**LULU**	**SFM**	**TSCO**	**ULTA**
Recent Price		$ 109.0	$ 82.0	$ 39.6	$ 125.1	$ 94.4	$ 88.2	$ 95.3	$ 29.4	$ 34.7	$ 33.0	$ 162.1	$ 26.9	$ 90.0	$ 281.8
Mkt Cap ($B)		$29.1	$19.6	$13.1	$7.0	$6.2	$47.3	$280.8	$0.8	$3.5	$2.7	$21.8	$3.5	$11.0	$17.0
ENT VALUE ($B)		$31.6	$24.0	$14.8	$6.8	$6.2	$57.3	$318.8	$1.0	$3.5	$2.4	$21.1	$4.1	$11.6	$16.6
Profitability Metrics															
ROIC TTM	19%	20%	14%	39%	28%	18%	14%	13%	9%	16%	7%	26%	16%	25%	17%
EBITDA Margin TTM	13%	10%	11%	26%	15%	15%	8%	6%	10%	9%	10%	25%	7%	12%	17%
Balance Sheet/ Leverage															
LT Debt To Cap. Ratio	26%	29%	37%	90%	0%	5%	49%	37%	45%	10%	0%	0%	42%	23%	0%
Lease-adj. Net Debt to EBITD	2.7x	3.0x	5.1x	4.1x	2.5x	2.4x	1.6x	1.9x	2.0x	3.7x	2.6x	1.1x	3.6x	2.8x	1.5x
Valuation Metrics															
Vs. 2017A EPS (P/E)	33.6	24.3	16.9	26.1	68.0	75.5	18.7	21.6	37.7	11.5	21.7	62.6	26.6	27.0	31.4
Vs. 2018E EPS (P/E)	26.2	17.9	14.9	23.1	48.6	56.5	16.3	19.8	25.4	11.1	19.3	45.3	21.3	21.5	25.8
Vs. 2019E EPS (P/E)	22.9	16.2	13.5	20.6	40.3	45.2	15.7	19.9	21.6	10.6	17.8	38.6	19.4	19.6	22.0
EV / 2018 Sales	2.2	1.2	1.0	4.1	4.4	5.1	0.8	0.6	1.6	0.4	0.8	6.6	0.8	1.5	2.5
EV / 2017A EBITDA	17.5	13.0	9.2	18.2	36.3	41.0	8.6	9.7	16.8	4.7	9.5	35.3	12.6	13.5	16.1
EV / 2018E EBITDA	15.5	12.1	9.5	16.6	30.3	35.4	8.7	9.7	14.0	5.1	8.7	26.9	11.9	13.4	14.6
EV / 2019E EBITDA	13.8	11.3	8.9	15.3	24.4	30.1	8.6	9.7	11.8	5.1	8.2	23.1	10.7	12.5	13.0
Free Cash Flow Yield ('18)	4.1%	4.3%	6.1%	3.7%	0.4%	0.8%	4.2%	4.8%	1.9%	13.1%	6.7%	1.5%	3.3%	3.7%	2.4%
Dividend Yield	1.0%	1.0%	0.0%	0.3%	0.0%	0.0%	3.4%	1.9%	0.0%	2.2%	4.1%	0.0%	0.0%	1.4%	0.0%

Source: FactSet, Quo Vadis Capital, Inc.

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3. The most powerful argument is a sum-of-the-parts analysis which suggests **15-24% upside to fair value**

- FY18E EBITDA for combined company = $2.5B
- Simplistically, Dollar Tree EBITDA = $1.875B, Family Dollar EBITDA = $625M
- Current EV = $82 Share x 238M shares = $19.5B + debt net of cash of $4.4B = $23.9B
- **Dollar Tree likely worth 12-13x (DG trades at 12.1x). At 12.5x EBITDA the Dollar Tree concept is worth $23B or 96% of the market value.**
- Accordingly, **the argument can be made that the market is currently valuing Family Dollar at zero.**
- Historically, Family Dollar traded at 8-10x EV/ EBITDA. Applying an 8x multiple, Family Dollar is worth $5B. At 10x it's worth $6.2B
- **Dollar Tree at 12x and Family Dollar at 8x = EV of $27.5B vs. $23.9B today or 15% upside. Tree at 12.5x and Family at 10x = EV of $29.7B or 24% upside without assuming any growth in future earnings**

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Investment Recap: Opportunity to buy LT winner at trough P/Es

- **DLTR shares are 30% off a 52-week high and trading at trough P/Es**
- However, the stock has been a LT winner, reflecting the strong fundamentals of the Dollar Tree business. Previous pull-backs have proven to be buying opportunities.
- While Family Dollar performance has been disappointing, we believe DLTR management will eventually produce better results, resulting in valuation expansion
- **In the event Family Dollar continues to struggle we believe there is potential for a change in approach that will create optimism**
- Meanwhile, the core Dollar Tree business remains strong and has growth
- **Further, a sum-of-the-parts valuation suggests Family Dollar is being valued at nearly zero and suggests 15%-24% upside to fair value** with little credit given to future growth

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Risks & Other Considerations

- **Family Dollar continues to suffer, producing downside to forecasts**
- **Competitive pressure hurts retail traffic and margins**
- **Labor cost pressures rise at faster than expected rate**
- **Freight costs continue to rise and hurt margins more than expected**
- **Significant inflation impairs the $1 only concept**
- **Trade disputes disrupt DLTR's direct import model**

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