

Chua, Gulati & Kroger Securities

Please see the disclaimer at back of this report for important information.

Initiating Coverage: Dollar General (Ticker DG)

Investment Recommendation: BUY

Target Price: \$47.37

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Dollar General Stock Information

(Dec 2, 2011)

Stock Price: \$39.90

52 Week High: \$41.05

52 Week Low: \$26.65

Market Cap: \$13.63 bn

Shares Outs.: 341.53 mm

Dividend Yield: 0%

Investment Thesis:

We are rating Dollar General as a buy for the following reasons:

- a) It is the largest player (on total sq. met of retail space, number of stores, and market cap basis) in the dollar store industry; An industry that is gaining the greatest growth albeit current economic conditions.
- b) It is the most efficient player in the space as evidenced by its clear lead in key metrics such as sales/sq. foot and EBIT/sq. foot.
- c) Since emerging from the LBO in 2007, the company has consistently been able to improve its gross margins via strong private label and price optimization systems.
- d) The company has already de-levered about 53% of the debt that it took on during the LBO (i.e. \$2.8 billion).
- e) We believe that DG would make an attractive acquisition candidate for WMT and that the latter would find it economical to pay a substantial premium over current

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Company Description and Strategy

Dollar General operates 9,641 general merchandise retail stores exclusively in the United States. The stores are located in urban, strip center and free standing locations throughout 35 states. Dollar General’s merchandise is mostly priced under ten dollars.

Dollar General Stock

Dollar General’s absolute and risk-adjusted one year performance have lagged against Dollar Tree, but have been stronger than Family Dollar and Big Lots. Dollar Tree and Family Dollar’s two year performance has been stronger than Dollar General's, and all three of its competitors have outperformed on a risk-adjusted basis. Dollar General’s P/E ratio is significantly higher than the comparables, but in line with its two largest competitors, Dollar Tree and Family Dollar. Dollar General's relative stock performance compared to its peers is shown in Exhibit 1.

Dollar General's Relative Stock Performance on a One and Two Year Basis											
		Since 12/2/2010					Since 12/2/09				
	P/E Ratio	Total Return	Return vs. DG	Volatility	Sharpe Ratio	Sharpe Ratio vs. DG	Total Return	Return vs. DG	Volatility	Sharpe Ratio	Sharpe Ratio vs. DG
Family Dollar & Competitors											
Dollar General	19.67	25.09%		29.04%	86.36%		69.24%		28.87%	239.80%	
Dollar Tree	21.80	45.75%	20.66%	25.82%	177.15%	91%	96.91%	27.67%	25.25%	383.76%	144%
Family Dollar	18.75	17.58%	-7.51%	32.95%	53.32%	-33%	151.33%	82.09%	29.39%	514.87%	429%
Big Lots	12.82	16.69%	-8.40%	36.28%	45.97%	-40%	51.74%	-17.50%	35.13%	147.25%	61%
Comparables											
S&P 500	13.09	3.98%	-21.11%	23.04%	17.23%	-69%	16.83%	-52.41%	20.79%	80.90%	-159%
S&P 500 Consumer Discretionary	15.47	6.49%	-18.60%	23.96%	27.04%	-59%	38.93%	-30.31%	22.32%	174.37%	-65%
S&P 500 Consumer Staples	15.56	13.06%	-12.03%	14.39%	90.68%	4%	23.87%	-45.37%	13.33%	178.99%	-61%
Wilshire 5000 ETF - DWAMT		1.09%	-24.00%	23.33%	4.62%	-82%	16.85%	-52.39%	21.13%	79.69%	-160%
Wal-Mart	13.26	8.95%	-16.14%	16.71%	53.49%	-33%	11.78%	-57.46%	15.58%	75.54%	-164%
Target	12.53	-9.44%	-34.53%	24.65%	-38.34%	-125%	15.00%	-54.24%	22.90%	65.45%	-174%

Source: Bloomberg - Information through 12/2/2011

Exhibit 1

Dollar General Valuation

A. Revenue Estimates

Revenue estimates were derived from projections of same store sales growth and new store sales growth.

Same Store Sales

We believe same store sales growth is mainly a function of two different variables namely a) change in the unemployment rate, and b) change in the price of crude oil.

Unemployment

An increase in the unemployment rate boosts same store sales through the increases in customer traffic per store as well as expansion of purchase baskets of existing customers. As economic conditions force people to calibrate their purchases according to tightening budget, they look to dollar stores to stretch the value of their money. Likewise, as unemployment worsens or stifles living conditions of the already existing pool of dollar store consumers, they tend to transfer an even greater portion of their purchases (i.e. consumables from higher priced convenience stores to dollar generals) Exhibit 2 is a scatter plot that shows this relationship between change in the unemployment rate and same store sales growth rate over that last ten years.

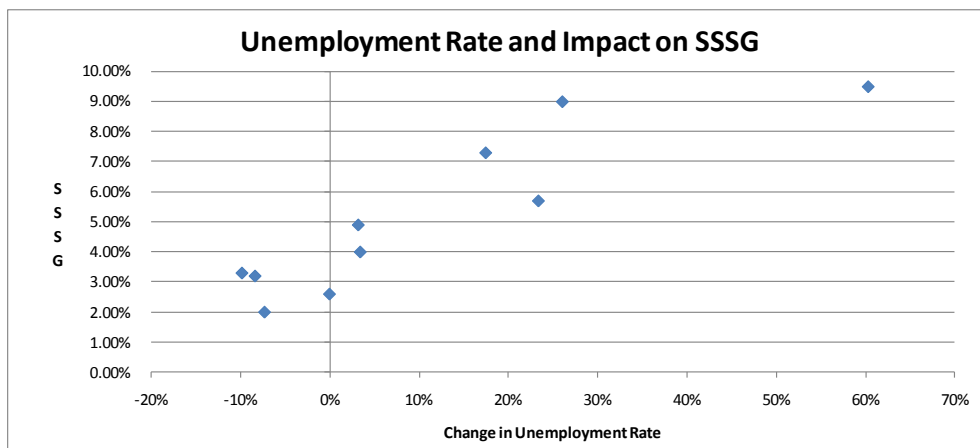


Exhibit 2

Crude oil

Crude has a negative relationship with same store sales growth. As the price of crude oil falls, consumers have to direct less of their income to filling up their gas tanks and thereby allocate more disposable expenses to the purchases of consumables and other discretionary items at Dollar General. Exhibit 3 is a scatter plot that shows this relationship based on the last ten years of data.

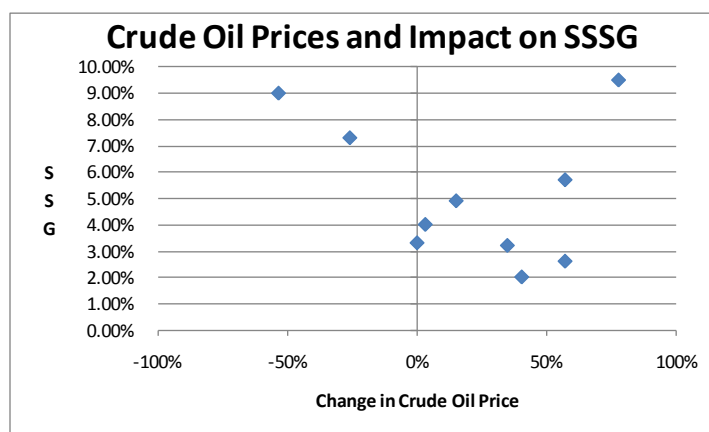


Exhibit 3

Exhibit 4 is a regression of change in the unemployment rate and change in the price of crude oil on the same store sales growth rate.

Regression of Change in Unemployment and Change in Crude on Same Store Sales Growth								
Regression Statistics								
Multiple R	0.987202612							
R Square	0.974568997							
Adjusted R Square	0.967302996							
Standard Error	0.004810824							
Observations	10							
ANOVA								
	df	SS	MS	F	Significance F			
Regression	2	0.006208492	0.003104246	134.1272902	2.62284E-06			
Residual	7	0.000162008	2.3144E-05					
Total	9	0.0063705						
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.044212458	0.001849546	23.90448593	5.7012E-08	0.039838976	0.048585941	0.039838976	0.048585941
Δ Unemployment Rate	0.119129733	0.007510759	15.8612116	9.60128E-07	0.101369611	0.136889855	0.101369611	0.136889855
Δ Crude Oil	-0.027331413	0.003992356	-6.845936527	0.00024288	-0.036771834	-0.017890992	-0.036771834	-0.017890992

Exhibit 4

Same Store Sales Growth = .04421 + .1191ΔUnemployment Rate – .0273ΔCrude Oil

Exhibit 5 is our forecast of same store sales growth rate based on forecasts for unemployment rate and crude oil prices. We have adjusted our forecast for 2011 same store sales growth rate to include Dollar General's same store sales performance in Q1 and Q2 of 6.7% and 5.4% respectively. Dollar General has not reported results for Q3 and Q4 and so we are unable factor those numbers in. Therefore, our forecasted same store sales growth number for 2011 is an average of Q1 reported same store sales, Q2 reported same store sales, and the forecasts of our regression for 2011. 2012-2015 same store sales forecasts are derived solely from our regression.

Same Store Sales Forecasts Based on Key Economic Variables				
Year	SSSG	Δ Unemployment Rate	Δ Crude Oil	
2001	7.30%	17.5%	(26.0%)	
2002	5.70%	23.4%	57.3%	
2003	4.00%	3.4%	3.2%	
2004	3.20%	(8.3%)	34.9%	
2005	2.00%	(7.3%)	40.5%	
2006	3.30%	(9.8%)	0.0%	
2007	2.60%	0.0%	57.2%	
2008	9.00%	26.1%	(53.5%)	
2009	9.50%	60.3%	77.9%	
2010	4.90%	3.2%	15.1%	
2011	4.95%	(5.2%)	(2.1%)	
2012	4.38%	1.1%	6.1%	
2013	3.68%	(3.3%)	13.1%	
2014	3.74%	(4.5%)	5.2%	
2015	3.78%	(3.5%)	8.0%	

Source: 2001-2010 SSSG from Company Filings
 Unemployment and Crude from 2001-2010 are actuals.
 Unemployment and Crude from 2011-2016 are forecasts.
 All Unemployment and Crude numbers from EIU.
 2011 SSSG is adjusted for company reports results for Q1 and Q2.

Exhibit 5

We are forecasting higher same store sales growth rate for Dollar General than we did for its main competitor, Family Dollar as shown in Exhibit 6. We are comfortable with this because Dollar General has historically outperformed Family Dollar on the same store sales growth metric. We don't believe this trend will reverse. For example, as shown in Exhibit 7, out of the last 41 quarters, Dollar General has outperformed Family Dollar on the key same store sales growth metric 31 times.

Forecasted Same Store Sales Growth		
Year	Dollar General	Family Dollar
2012	4.38%	3.50%
2013	3.68%	2.48%
2014	3.74%	2.22%
2015	3.78%	2.38%

Exhibit 6

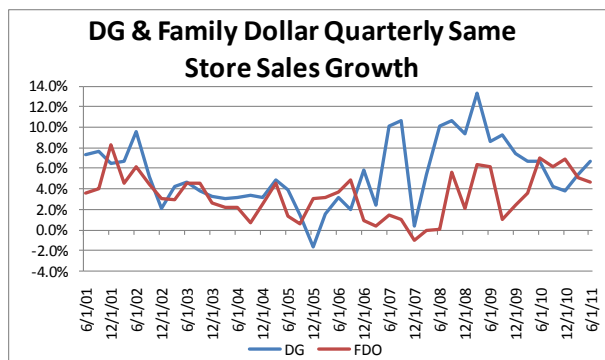


Exhibit 7

Net New Store Openings

Management is forecasting that reasonable opportunities exist to grow the number of stores by 7% each year for the foreseeable future. Given that they have opened net new stores at a CAGR of only 5.39% over the last decade, we think that the 7% growth number is a little too optimistic. To be sure, we think that substantial opportunities for opening new stores exist for DG for the following reasons:

a) They are only in 35 states now and have a minimal presence on the West Coast. They are planning to open stores in California in the first quarter of 2012 and despite the fact that Ninety-Nine Cents Only (NDN) has a large presence in that state, we think that DG will experience some success there as it stocks general merchandise such as diapers that would require frequent visits.

b) Guggenheim Securities has done a detailed market saturation analysis for the dollar store industry and their analysis suggests that there exists the potential for at least 17,000 more stores in the country¹. Roughly speaking, they base their analysis on looking at the number of households earning less than \$75,000/year and how many dollar stores currently exist to serve them. They have taken the seven states with the highest density of dollar stores per such household and projected the number of additional dollar stores that it would take in the remaining 43 states to reach similar saturation levels. We don't believe the opportunity is quite that large especially once one considers the possibility of Wal-Mart seriously entering the dollar store industry but it's large enough to provide a fair amount of room for growth for the foreseeable future.

c) Dollar General consistently has the lowest prices among all the dollar stores and discount retailers such as Wal-Mart. According to a recent Deutsche Bank study conducted by Charles Grom, the total price of a basket of 30 commonly bought goods in the Metro NYC area was \$89.85 for DG, \$92.10 for WMT, \$104.35 for FDO. Another study by Guggenheim Securities produced similar results.

d) Dollar General has consistently beaten FDO and DLTR when it comes to sales per square foot and that performance gap has widened recently. Exhibit 8 documents these numbers. Dollar General has also dramatically improved its EBIT per square foot performance (Exhibit 9) to be in line with Dollar Tree.

Sales per Square Foot				
	DG	FDO	DLTR	DG vs Avg. of FDO & DLTR
2005	164	146	156	8.36%
2006	164	151	161	5.04%
2007	166	154	155	7.22%
2008	180	152	158	15.98%
2009	195	158	167	19.55%
2010	201	170	174	17.12%

Source: Company Filings

Exhibit 8

¹ Guggenheim Securities, September 21, 2011, "King Dollar: Initiating DG and FDO at BUY - Rare Growth, Modest Vaultations"

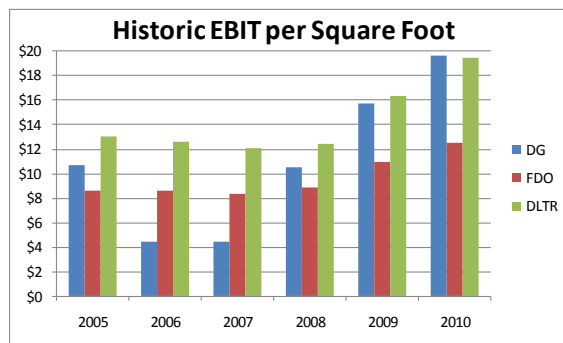


Exhibit 9

Therefore, we believe Dollar General can justify opening a high amount of stores as its sales and EBITDA per square foot is the best in the industry. However, we don't believe that management can profitably continue to open new stores at the rate of 7% per year into perpetuity. We believe that management is being unduly optimistic right now because of the strong sales growth performance the last couple of years which we are forecasting to level out a bit over the next few years once the unemployment rate comes down.

We are modeling net new stores for the next 2 years (2012 and 2013) by using management's forecast of growing the store base by 7% each year. Subsequent to that, we are modeling net new stores by taking the average number of net new stores we previously forecasted for FDO and DLTR to open and increasing that by two times 17%. 17% is the current advantage that DG enjoys over these competitors when it comes to sales/sq foot. We believe that since DG is able to utilize its existing stores more effectively by selling more goods per square foot (and enjoying a higher EBITDA/sq foot too), in the long-run, it would make economic sense for it to open a greater amount of new stores than FDO and DLTR. This is because DG will be able to outcompete the other two when it comes to negotiating rental agreements and it will be able to show a higher return on capital for its new stores to shareholders. Exhibit 10 summarizes our projections.

Projected Number of Net New Store Openings				
	DG	FDO	DLTR	
2011	656	415		264
2012	702	415		224
2013	396	292		298
2014	356	236		294
2015	363	222		319

FDO and DLTR forecasts are from our previous reports.
 DG forecasts for 2011 and 2012 are based on mgt. guidance.
 DG forecasts for 2013-2015 is based on the formula:
 Average (FDO, DLTR) * (1+2*0.17)

Exhibit 10

We calculated the average revenue per new store in the first year of its operation by breaking down total revenue into same store revenue and new store revenue for the past twelve years and dividing the latter by the number of net new stores opened each year. Based on this, we estimate that a new store generates about \$620,000 of revenue in its first year of operation. This calculation is shown in Exhibit 11. We assume that each of the new stores is opened for half of the first year.

Year	SSSG	Revenue	Same Store Revenues	New Stores Revenues	Net New Stores	Revenue Per New Store	Existing Stores	Revenue Per Existing Store
2010	4.9%	\$13,035.00	\$12,374.40	\$660.60	544	1.21	8828	\$1.40
2009	9.5%	11796.38	11451.15	345.23	466	0.74	8362	1.37
2008	9.0%	10457.67	10349.82	107.85	168	0.64	8194	1.26
2007	2.6%	9495.25	9408.24	87.01	-35	-2.49	8229	1.14
2006	3.3%	9169.82	8865.45	304.37	300	1.01	7929	1.12
2005	2.0%	8582.24	7814.15	768.09	609	1.26	7320	1.07
2004	3.2%	7660.93	7091.90	569.03	620	0.92	6700	1.06
2003	4.0%	6871.99	6344.42	527.57	587	0.90	6113	1.04
2002	5.7%	6100.40	5626.30	474.10	573	0.83	5540	1.02
2001	7.3%	5322.90	4882.76	440.13	540	0.82	5000	0.98
2000	0.9%	4550.57	3922.96	627.62	706	0.89	4294	0.91
1999	6.4%	3887.96	3427.13	460.83	607	0.76	3687	0.93
1998		3220.99						
Average						\$ 0.62	\$1.11	
Source: Company Filings and Interpolations from Company Filings								

Exhibit 11

B. Gross Margin

Dollar General's margins have been incrementally declining at a CAGR rate of 2% from 2002 to 2010. Among all factors, product mix seemed to be the most deterministic factor of DG's gross margins. The other drivers of margins relevant to the company are also listed below:

- **Product Mix-** Growth in low margin high turnover consumables between 2002 and 2007 negatively correlated to gross margins at -0.89. Since 2007, growth in consumables correlated to gross margins at a rate of 0.92. Initiatives by management have allowed product mix to become less predictive of gross margins than in the past.
- **Private/National Labels Mix-** Offerings of private labels have allowed the company to achieve higher profit margins and is particularly important in consumables category where 20% of its items are from private labels and typically have stronger margins than both name and off-brand products.
- **Transportation and Freight Costs-** The company has announced plans to increase direct sourcing activities from China, India, and Southeast Asia in order to improve its profit margins; crude oil prices which directly affects freight prices are also material to DG margin estimates.
- **Currency Futures-** As a growing number of DG's product is intended to be directly sourced externally, currency fluctuations are also material to our estimation of gross margins.
- **Other factors-** distribution channel synergies, volume or purchasing power related discounts, inventory shrinkage, inflation, product size and packaging modifications, are some of the drivers that has been identified to affect DG's margins.

Again as consumables start to account for greater than 70% of DG's product mix, (see Exhibit 12) the company has rolled out strategies intended to counteract the effect of consumables on margins.



Exhibit 12: Dollar General's Gross Margin and Product Mix (Source: Company Filings)

Overall we see only a slight rise in consumables within DG’s product mix as it has reached close to our expected store saturation point. Margin erosion from the increase in consumables is tempered by increases in private label offerings. As long forward looking shipping index forecasts are not available, we use crude as a proxy for shipping rates. Crude prices according to Bloomberg consensus will remain flat next year and then grow by 5.1%, 2.6% and 3.9% on average from 2013 to 2015. The currency forward market is currently pricing a 0.4% depreciation in the Yuan in 2013 followed by an appreciation between of the currency against the dollar in 2014 through 2016 of between 1% and 2% each year.

For our model, we used a scenario analysis method in order to intuitively incorporate all of the abovementioned margin estimates. We provide four gross margin scenarios analysis, namely base case, worst case, best case and opportunistic case scenarios.

We think Dollar General’s product mix will continue to skew slightly more toward consumables based on a continued weak economic and employment environment, but this growth is only expected to be about 2% in our base case as this portion of sales mix is close to saturation. Dollar General has started to open up test stores which carry a larger portion of fresh foods are sold, but this is still a very limited concept and will likely only be rolled out in certain new store models as opposed to current locations. Growth in private labels continues to outpace overall sales growth and should more than offset the negative gross margin impact of growing consumables sales. Other factors will play roles in consumer purchasing decisions and management’s response through product mix offerings will dictate gross margins. Dollar General currently plans for an aggressive store opening schedule, greater volume discounts should result in a minor boost gross margins over the next four years. Our base case analysis results in gross margins remaining flat in 2011 based on the reported minimal decrease in margins during 1H11 y-o-y, tempered by a stronger reported started to the holiday shopping season; we then forecast a gross margin to remain at this level each year 2012 through 2015. Our bearish case has margins dropping by 40 bps per year starting in 2012 and a worst case is presented with margins dropping by 90bps in 2012 through 2015. Finally, a bullish case results in margins growing by 45 bps in 2012 through 2015 (see Exhibit 13 and Exhibit 14).

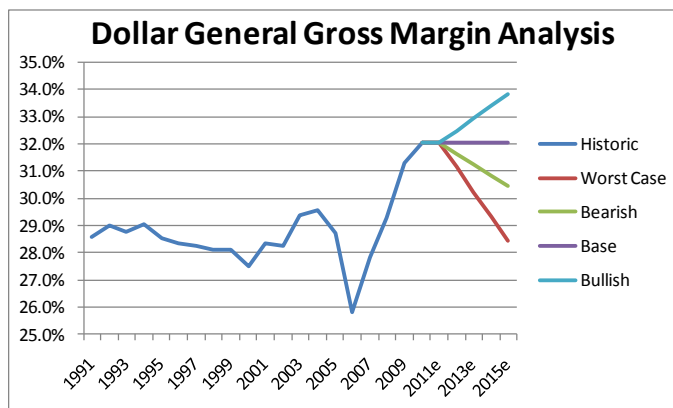


Exhibit 13: Source Company Filings and Chua, Gulati & Kroger Securities' estimates

Scenario	Yearly Gross Margin Change	2015 Gross Margin	Stock Valuation	Premium/Discount
Worst Case	-0.90%	28.4%	\$27.21	-31.8%
Bearish	-0.40%	30.4%	\$38.41	-3.7%
Base	0.00%	32.0%	\$47.37	18.7%
Bullish	0.45%	33.8%	\$57.45	44.0%

Exhibit 14:

C. Selling, General & Administrative Expense

2007 saw an unusually large amount of SG&A expenses (22.68% of sales) due to the various fees that Dollar General was charged with in regards to the buyout by KKR and Goldman Sachs. Removing 2007 from the equation, over the last 5 years, Dollar General's SG&A expense has been relatively stable when compared to sales with an average of 20.66%, a standard deviation of 0.48% and a range of 1.04%. Going forward, we expect advertising expenses to continue to increase as a larger number of new store constructions call for a higher marketing budget to inform local communities about this alternative shopping option. However, we believe this will be balanced out by the current fixed SG&A expenses being spread over a larger sales base. Therefore, we model SG&A expense as the average of the prior three years' SG&A expense divided by sales.

D. Depreciation & Amortization

Depreciation and Amortization are projected by taking our estimate of Dollar General's current year capital expenditure and multiplying it by the average of the prior five years ratio of depreciation and amortization to capital expenditure.

E. Effective Tax Rate

An effective tax rate of 36.30 % is employed in the model as this was the effective tax rate for 2010 and we have no reason to believe that it will materially change going forward.

F. Working Capital

We found that Dollar General's working capital requirements as a percentage of sales are tied to the changes in the number of its stores (there is a positive correlation of 0.53 between increase in working capital and net new store openings for the last twelve years). As management opens a greater number of stores, more working capital is tied up in inventory. This is because stores have to be fully stocked before they are opened and it takes the local store managers a while to adjust their inventory purchases to the buying habits of the new customer base. Therefore, we model change in working capital as change in

working capital of the previous adjusted for the relative level of new net store openings. Mechanically, change in working capital this year = change in working capital the previous year * (number of net new stores opened this year / number of net new stores opened the previous year). As a result of this, we believe working capital will continue to be a net use of cash throughout 2011-2015 but more so in 2011 and 2012 when the level of new store openings will be especially high.

G. Capital Expenditures

Our capital expenditure forecasts for 2011-2015 are highlighted in Exhibit 15. To arrive at these numbers, we looked at total capex, number of stores remodeled and number of net new store openings over the past six years. We backed out the cost of remodeling stores (assuming a cost of remodeling of \$108k per store which is the average of the cost of a remodel and a relocation according to management) from capex to get capex net of remodeling. We divided this number by the number of net new stores opened each year to get capex per net new store opening. Now, we have both capex per remodeled store and capex per net new store opening.

Next, we plugged in our forecasts for net new store openings which we have described earlier in the report. In terms of remodeling, management has said they intend to maintain the accelerated pace of remodeling established in 2010 in 2011 and thereby remodel 550 stores in 2011. This amounts to remodeling about 5.9% of stores each year. We think this pace will continue for the next three years but subside substantially in 2014 and 2015 once sales growth has leveled off. So we project remodels to be around 5.9% in 2011-2013 and then revert to their long-term average of around 2.5% in 2014 and 2015.

We multiplied our projections for number of stores to be remodeled by the cost of remodeling a store to get total projected remodeling costs. Then we multiplied our projections for net new store openings by the average capex per net new store for 2008-2010 to get total projected capex for new store openings. We used an average for a three year period because this number is the blended average of opening new stores and opening new distribution centers as the company has been building a distribution center (scheduled to open in 2012) during this period of time. Finally, the sum of projected remodeling costs and projected net new store capex is our total projected capex.

Dollar General Capital Expenditures											
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Beginning # of Stores	7320	7929	8229	8194	8362	8828	9372	10028	10730	11126	11482
Ending # of Stores	7929	8229	8194	8362	8828	9372	10028	10730	11126	11482	11845
# of Net New Openings	609	300	-35	168	466	544	656	702	396	356	363
# of Stores Remodeled	82	64	300	404	400	504	550	581	625	254	315
% of Stores Remodeled	1.1%	0.8%	3.6%	4.9%	4.8%	5.7%	5.9%	5.8%	5.8%	2.3%	2.7%
Remodeling Cost	(\$8.82)	(\$6.88)	(\$32.25)	(\$43.43)	(\$43.00)	(\$54.18)	(\$59.13)	(\$62.40)	(\$67.23)	(\$27.34)	(\$33.90)
Capex	(\$284.11)	(\$261.52)	(\$139.79)	(\$205.55)	(\$250.75)	(\$420.40)	(\$514.85)	(\$550.03)	(\$342.32)	(\$274.45)	(\$286.14)
Capex Net of Remodeling	(\$275.30)	(\$254.64)	(\$107.54)	(\$162.12)	(\$207.75)	(\$366.22)	(\$455.72)	(\$487.62)	(\$275.09)	(\$247.11)	(\$252.24)
Capex Per Net New Store	(\$0.45)	(\$0.85)	N/A	(\$0.96)	(\$0.45)	(\$0.67)	(\$0.69)	(\$0.69)	(\$0.69)	(\$0.69)	(\$0.69)
# of Distribution Centers	1	1						1			

Source: Company Filings and Our Interpolations and Projections

Exhibit 15

H. Private Market Discount

Dollar General underwent a private equity buyout in 2007 led by KKR and Goldman Sachs. Post the IPO in November 2009, both those entities have been gradually reducing their stake in the company. However, they currently hold 50% of the outstanding stock. Since this consolidates a lot of power in their hands (for voting and management decision making purposes), we have discounted the value of the other 50% stake by 10% (as noted in our industry analysis paper) to take this concentration of power into account.

I. Terminal Growth Rate

We think a long-term terminal growth rate of 1.75% is sustainable. As stated in our industry report, we believe the terminal growth rate for the entire dollar store industry is going to be 1.5%. Since Dollar General is outperforming its peers on sales/sq foot and on EBITDA/sq foot basis, we believe that Dollar General is best in breed and is going to be able to outperform the industry on a long-term sustainable basis, and therefore, we are pegging its terminal growth rate to be 1.75%. We provide a sensitivity analysis varying the terminal growth rate from 0.75% to 2.5% in Exhibit 16. As indicated in the sensitivity analysis, in the highlighted range (which is our sphere of likely values for the two variables), the value of the company falls below the current market value only if the actual beta is higher than what we are modeling it to be (i.e. 0.7 vs 0.53). Therefore, regardless of the terminal growth rate we use, our valuation indicates that the company is worth more than what is currently trading at.

		Valuation Sensitivity Analysis				
		Equity Value				
		Equity Beta				
		0.25	0.40	0.53	0.7	0.75
Terminal Growth Rate	0.75%	\$57.87	\$45.79	\$38.28	\$31.46	\$29.79
	1.00%	\$61.87	\$48.43	\$40.24	\$32.89	\$31.12
	1%	\$66.43	\$51.37	\$42.38	\$34.45	\$32.55
	1.50%	\$71.68	\$54.66	\$44.75	\$36.15	\$34.11
	1.75%	\$77.77	\$58.36	\$47.37	\$38.01	\$35.82
	2.00%	\$84.94	\$62.56	\$50.29	\$40.06	\$37.69
	2.25%	\$93.50	\$67.38	\$53.57	\$42.33	\$39.75
	2.50%	\$103.90	\$72.95	\$57.27	\$44.85	\$42.05

Exhibit 16

J. Debt Profile

Exhibit 17 has our projection of the debt situation at DG over the next 5 years. The company has been aggressively paying down its debt burden from the LBO. Below are the company's four tranches of debt. We are projecting that the company will pay down the second and third tranches listed over the next eighteen months as they carry a high interest rate and our model indicates that the company will generate sufficient free cash flow to be able to do so. The first tranche of debt and the revolver carry relatively low interest rates (2.75% over LIBOR) and so we project that DG will not retire that debt and continue to roll it over.

Debt Profile	2011	2012	2013	2014	2015
Debt Outstanding	3192.85	2535.35	2310	2310	2310
July 6, 2014 (Projecting Roll Over)	1964	1964	1964	1964	1964
10.625% Notes due 2015 Projected Early Retirement	432.15	0	0	0	0
12.625% Notes due 2017 Projected Early Retirement	450.7	225.35	0	0	0
Revolving Credit Facility	346	346	346	346	346
Debt Repaid	95.38	657.5	225.35	0	0
Interest Payments	218.43	144.01	115.50	115.50	115.50

Exhibit 17

K. Potential Bolt On Acquisition by Wal-Mart

We see the potential for an acquisition of Dollar General by Wal-Mart. Wal-Mart has been lagging the same store performance of Dollar General as shown in Exhibit 18. Dollar General would provide a well run complementary business in support of Wal-Mart's fledgling Wal-Mart Express small store prototype stores. Synergies from consolidating purchases, support staff, and distribution while not empirically quantified would likely be sizable. The two companies same store sales have very low correlation over the past five years (-.07) and thirteen years (.14). Dollar General would be preferable to Family Dollar for two reasons. First, Family Dollar's operates fewer stores reducing the scope of synergies. Secondly Family Dollar has lower sales and EBIT per square foot and we think Wal-Mart would prefer to operate a company that is performing strongly rather than take on a project when moving into the discount retail space. If Wal-Mart pays the same 18.5x multiple of next year's EBIT that KKR and Goldman Sachs did for Dollar General in 2007, then the equity value of the firm jumps to \$20 bn (+47%) versus our valuation on the firm on a standalone basis of \$16.12 bn (18.7%). We project Dollar General to generate over \$3.3 bn of free cash flow in the next five years under our base case analysis and Wal-Mart has \$7 bn of cash on its balance sheet as a source of deal financing.

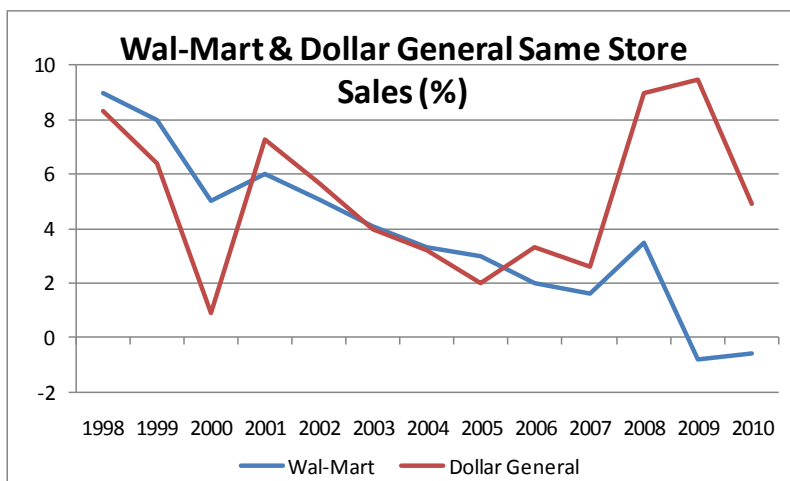


Exhibit 18: Source: Company filings

Valuation Model										
Numbers in Million \$	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	9169.82	9495.25	10457.67	11796.38	13035.00	13885.54	14713.5	15378.0	16064.8	16785.9
Revenue Growth		3.55%	10.14%	12.80%	10.50%	6.53%	5.96%	4.52%	4.47%	4.49%
Same Store Sales Growth	3.30%	2.60%	9.00%	9.50%	4.90%	4.95%	4.38%	3.68%	3.74%	3.78%
# of Stores	8,229	8,194	8,362	8,828	9,372	10,028	10,730	11,126	11,482	11,845
COGS	(6801.62)	(6851.78)	(7396.57)	(8106.51)	(8858.44)	(9436.46)	(9999.14)	(10450.74)	(10917.44)	(11407.51)
% of sales	74.17%	72.16%	70.73%	68.72%	67.96%	67.96%	67.96%	67.96%	67.96%	67.96%
Gross Profit	2368.21	2643.47	3061.10	3689.87	4176.56	4449.08	4714.37	4927.29	5147.32	5378.38
% of sales	25.8%	27.8%	29.3%	31.3%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
SG&A	(1919.32)	(2153.95)	(2200.71)	(2479.84)	(2647.56)	(2887.14)	(3046.95)	(3168.50)	(3325.68)	(3469.88)
% of sales	20.9%	22.7%	21.0%	21.0%	20.3%	20.8%	20.7%	20.6%	20.7%	20.7%
Depreciation & Amortization	(200.61)	(234.13)	(247.90)	(256.77)	(254.93)	(481.14)	(529.75)	(312.16)	(242.28)	(247.79)
% of capex	76.7%	167.5%	120.6%	102.4%	60.6%	93.5%	96.3%	91.2%	88.3%	86.6%
Operating Income (EBIT)	248.28	255.39	612.49	953.26	1274.07	1080.79	1137.66	1446.63	1579.36	1660.71
Taxes on EBIT	(82.42)	(10.22)	(86.22)	(212.67)	(357.12)	(392.33)	(412.97)	(525.13)	(573.31)	(602.84)
NOPLAT	165.86	245.17	526.27	740.58	916.95	688.47	724.69	921.51	1006.06	1057.87
Depreciation & Amortization	200.61	234.13	247.90	256.77	254.93	481.14	529.75	312.16	242.28	247.79
Change in Working Capital	23.26	166.06	69.47	(12.99)	(138.07)	(166.50)	(178.16)	(100.51)	(90.28)	(92.16)
% of sales	0.3%	1.7%	0.7%	(0.1%)	(1.1%)	(1.3%)	(1.4%)	(0.8%)	(0.7%)	(0.7%)
Capex	(261.52)	(139.79)	(205.55)	(250.75)	(420.40)	(514.85)	(550.03)	(342.32)	(274.45)	(286.14)
% of sales	2.9%	1.5%	2.0%	2.1%	3.2%	3.7%	3.7%	2.2%	1.7%	1.7%
Free Cash Flow	128.21	505.57	638.08	733.62	613.42	229.26	526.25	790.84	883.60	927.36
Terminal Value										19696.77
PV FCF						222.11	478.55	674.99	707.87	697.32
PV of Terminal Value						14810.77				
NPV FCF	17591.61									
Debt Balance	270.04	4282.00	4137.11	3403.39	3288.23					
Interest on Debt						218.43	144.01	115.50	115.50	115.50
PV of Tax Shield						212.67	132.91	101.05	95.79	90.81
Terminal Value of Tax Shield						2013.82				
NPV Tax Shield	2,647.06									
Shares Outstanding	341.53									
Enterprise Value	20,238.67									
Outstanding Debt	(3,538.23)									
Private Market Discount	(523.08)									
Equity Value	16,177.36									
Current Market Cap	13,627.05									
Implied Model Valuation to Market Value	18.7%									
Market Cap	5011.25	0.00	0.00	7639.39	10461.60					

Exhibit 19

Key Inputs

Tax Rate	36.30% Effective Tax Rate for 2010, Projected to be Stable Going Forward
Rm-rf	9% Enhanced Risk Premium Due to Current Risk Averse Environment
rf	2.23% 10 year Treasury Bond Yield
rD	5.49% "BB" Bloomberg Seven Year US Retail Generic Yield
Bd	0.36 Implied Debt Beta
Be	0.53 Company Equity Beta Based on Past 10 Years
Re	7.03% Cost of Equity
D/E	47.46% Including Operating Leases as Debt
Ba	0.48 Asset Beta (Unlevered Beta)
Ra	6.54% Unlevered Cost of Equity
Terminal Growth Rate	1.75% Sensitivity Analysis from 0.75% to 2.5%
Average Sales Per Store	\$0.62 (in Millions) Average New Store Revenue in First Year
% of Sales in Store for First Year	50% Assuming All Stores Open in Middle of Year
Average Cost of Remodeling/Store	(\$0.108) (in Millions) Management Guidance

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