



DISCOUNT & DOLLAR STORES

CURRENT TRENDS

- More consumers shopped at discount and dollar stores in 2021 as rising prices hit 30-year highs.
- Dollar Tree completed its base price increase from \$1 to \$1.25 at the end of February 2022 to offset continued supply chain disruptions and rising merchandise and freight costs.
- Dollar General continued to expand its Popshelf concept, which targets higher-income consumers and features items priced up to \$5.
- In the short term, the discount and dollar store industry may benefit as inflation rises and economic uncertainty weighs on domestic and international markets.

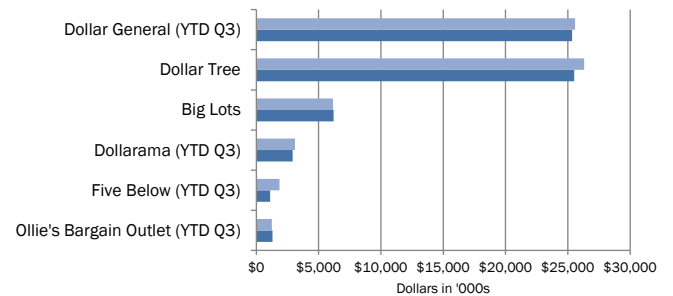
PROJECTED VALUES (12-MONTH OUTLOOK)



APPROXIMATE NET RECOVERY ON COST

75%-90%
discount & dollar stores

DISCOUNT & DOLLAR STORES - YOY SALES PERFORMANCE



Source: Company Reporting

■ 2021 ■ 2020

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INDUSTRY EXPANDS AS PRICES RISE: Many consumers bargain shopped and gravitated towards discount and dollar stores in late 2021 amid COVID-19 pandemic-related inflation, ongoing global supply chain issues and the end of government stimulus payments.

The U.S. annual inflation rate hit 7.9% in February 2022, the highest since February 1982. Additionally, The Consumer Price Index increased 0.8% in February 2022 on a seasonally adjusted basis after rising 0.6% in January. Census Bureau data showed a 12.3% increase (unadjusted) in spending for the discount department stores retail segment in 2021 over 2020, following a 3.2% decrease for 2020 over 2019.

Dollar Tree reported moderate gains in 2021, with pandemic-related factors limiting overall growth. The company annual report noted consolidated net sales up 3.1% to \$26.3 billion from \$25.5 billion in 2020. Comparable store sales for Dollar Tree increased 2.1% (or 2.2% when adjusted for the impact of Canadian currency fluctuations) in 2021 over 2020. Family Dollar comp-store sales decreased 0.1% for 2021 compared with 2020 but increased 10.4% on a two-year stack basis. Gross margins were down for 2021 at 29.4%, compared to 30.5% in 2020 driven in part by higher freight costs and recall-related markdowns in the fourth quarter.

On March 2, 2022, Dollar Tree announced it had completed the conversion from a \$1 baseline price to \$1.25 across all U.S. stores. Per management, the increase was completed more than two months ahead of schedule and was implemented “to enhance the Company’s ability to expand its offerings, introduce new products and sizes, and meet more of its customers’ everyday needs.”

Additionally, in 2022 the company plans to open 590 new stores across both banners and plans to renovate 800 Family Dollar stores. The company also plans to expand its \$3 and \$5 Plus assortment to more than 1,500 Dollar Tree stores in 2022.

Dollar General reported declining sales in the first half of 2021 and a 4% increase in the fourth quarter, which the company attributed to store growth. Comparable sales were down in each quarter, decreasing 0.6% in the third quarter. Overall sales rose 22% in 2020 year over year but failed to top 2019’s 4.6% comparable sales increase. Additionally, the company reported an 8% store inventory level decrease ahead of the holiday season because of continued supply chain issues. Despite these challenges, Dollar General plans to open 1,110 new stores and complete 1,750 remodels and 120 relocations by the end of 2022.

Additionally, the company aims to prioritize its larger traditional and Dollar General Plus formats going forward. Dollar General expects to see net sales growth of approximately 1% to 1.5% and a decline in same-store sales of

about 2.5% to 3% in 2022, according to its December 2021 fiscal forecast.

Other discount retailers have announced 2022 expansion plans. Big Lots expects to open 50 new stores by the end of 2022 and 80 stores annually for the next several years, totaling 500 at conclusion and 2,000 total locations. TJX, Ross and Burlington Coat Factory plan to open 170, 100 and 90 new stores, respectively, by the end of 2022. Five Below opened 583 stores from fiscal year 2016 to 2020 and an additional 170 in 2021, a year in which the company reported third-quarter sales of \$608 million.

DOLLAR GENERAL’S POPSHELF INITIATIVE: Dollar General is changing the dollar store landscape with its Popshef store concept, a 9,000 square-foot format offering home décor, health and beauty, home cleaning, party and entertaining products. The concept, which launched in 2020, prices about 95% of its merchandise at \$5 or less.

The format focuses on non-consumable products and targets consumers with annual incomes of \$50,000 to \$125,000, whereas the average Dollar General targets consumers with annual incomes of \$35,000 to \$40,000. Last year, the company announced its plans to operate about 1,000 Popshef stores by the end of fiscal year 2025. As of December 2021, Dollar General was operating 36 Popshef stores and is set to open 100 locations by the end of 2022.

The company is accelerating the Popshef expansion plans because of the concept’s popularity with customers, according to Dollar General’s CFO. Popshef test stores generated \$1.7 million to \$2 million in annualized sales per store and a gross margin of 40% compared to \$1.4 million in first-year sales and a 32% gross margin under the Dollar General banner. Additionally, the company is testing the store-within-a-store format with smaller versions of Popshef inside DG Markets, a larger banner of Dollar General. Dollar General was scheduled to have opened 25 shop-in-shops by February 2022 and plans to open 10 stores in Mexico in 2022.

VALUATION OUTLOOK: Discount and dollar stores’ target consumers are typically budget minded and likely to take advantage of the value-pricing model these stores offer. Fiscal trends may predict discount and dollar store volume, and the segment may benefit from economic downturns and higher jobless rates.

Gordon Brothers believes appraisal values should remain stable for this industry given the retail sector’s ongoing recovery from the pandemic; however, it is important to note consumer sentiment declined to its lowest level in 10 years as of February 2022.

While discount and dollar stores predominantly offer lower-price-point products, rising fuel and food prices resulting from inflation will disproportionately affect lower income shoppers. In the short term, the industry may benefit as economic uncertainty weighs on domestic markets, especially for consumers with moderate levels of disposable income. Longer term, consumers with lower disposable income levels may pull back on spending if inflation and fuel prices continue to increase.

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Bringing over 20 years of experience in the disposition and valuation of retail and consumer products, Becky Goldfarb oversees all aspects of retail asset valuations. Prior to joining Valuations, Becky was responsible for the financial analysis of retail dispositions across all industry sectors. Read her full bio [here](#).



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