Value Investor INSIGHT
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A Dollar Saved?

Value investors are regularly reminded how difficult it is to call the bottom when betting on a company to right its ship. Witness the rocky voyage endured by shareholders of discount retailer Dollar Tree over the past two years.

Ask Latitude Investment Management's Jacopo Di Nardo for lessons learned from the firm's investment in U.S. discount retailer Dollar Tree [*VII*, November 30, 2023] and he's quick to answer. "One, remember that large-scale M&A is a low-quality way to grow that often destroys value. Two, when something you think is already cheap gets cheaper, before acting wait until there's some tangible evidence things can get better."

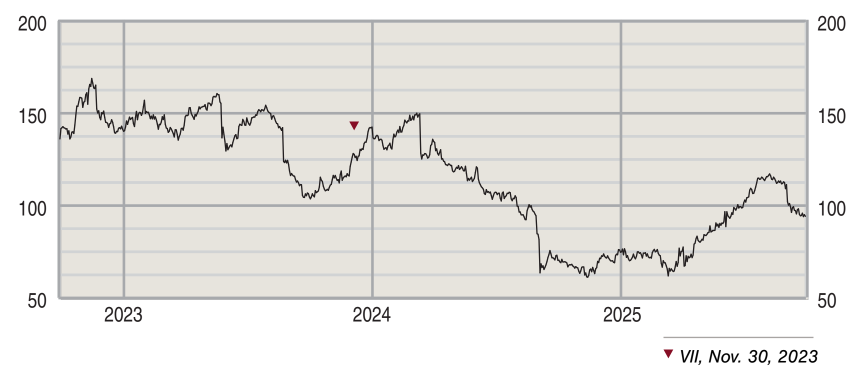
While Dollar Tree's "transformative" 2015 acquisition of industry competitor Family Dollar had long been considered a bust, Di Nardo's investment case two years ago was that if the Family Dollar business improved even modestly, investors would again focus on the bright ongoing prospects of the Dollar Tree franchise, which he thought could drive mid-teens annual earnings growth for the entire company. He didn't think that was reflected in a stock then trading at $121, 12x his estimate of normalized earnings per share.

Several issues conspired against that thesis. Family Dollar's performance didn't improve and continued to consume inordinate amounts of investment spending and management attention. Input-cost inflation put pressure on margins. Labor costs increased. Losses from theft rose. Cutbacks in government assistance programs impacted spending by the company's low-income customers. For the fiscal year ending February 1, 2025, Dollar Tree's operating margins fell below 9%, 500 basis points below the level two years before, and writeoffs related to Family Dollar drove an overall-company $3 billion net loss. Investors abandoned ship, taking the shares that had traded near $150 in February 2024 into the low-$60s just a year later.

The prognosis from here? New CEO Michael Creedon took over last December and instituted a strategic review, which in March resulted in the announced sale of Family Dollar to a private-equity consortium for $1 billion. (The 2015 purchase price: $8.5 billion.) Initiatives at Dollar Tree to increase the sales mix of consumables, frozen foods and higher-

INVESTMENT SNAPSHOT

Dollar Tree
(Nasdaq: DLTR))



Share Information (@9/29/25):

Price	**94.21**
52-Week Range	60.49 – 118.06

Valuation Metrics (@9/25/25):

	DLTR	S&P 500
P/E (TTM)	18.2	25.3
Forward P/E (Est.)	15.7	21.9

ORIGINAL BOTTOM LINE – November 30, 2023

The company's growth thesis is intact and its Family Dollar operation appears finally to be improving profitability and same-store sales, says Freddie Lait. If earnings over the medium term compound at the 15% annual rate he expects, he thinks the company's shares will trade at significantly higher than the current 12x his normalized 2026 EPS estimate.

NEW BOTTOM LINE

The company's prognosis has improved as operating initiatives at its Dollar Tree business pay off and after it finally agreed to give up on its failed Family Dollar acquisition, says Jacopo Di Nardo. The shares now trade at only 10.4x his estimate of normalized earnings.

Sources: S&P Capital IQ, company reports, other publicly available information priced items – typically priced at $3 to $7 – appear to be gaining traction, driving same-store sales growth this year to an estimated 5-6%. Through a combination of new-store openings, same-store sales growth, operating margins going above 10% and share buybacks, Di Nardo believes the company is again on track to deliver high-single-digit annual revenue growth that can translate into mid-teens annual growth in EPS.

While the shares have somewhat recovered from their lows, the market understandably remains reticent. At a recent price of $94, the stock trades at just over 10x Di Nardo's revised $9-per-share estimate of normal earnings. How has Latitude handled its position? Di Nardo says they held on to their stake through the painful 2024 share-price swoon, but the combination of Dollar Tree's operating results starting to improve and the announcement of the Family Dollar sale led them to double their position at around $70 per share in March. VII