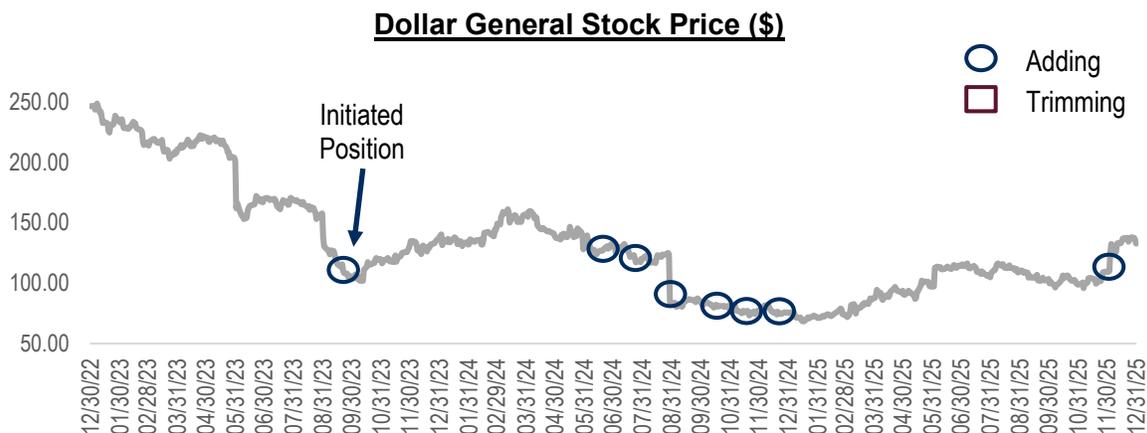


**Thesis**

- Dollar General (DG) is a value-focused, small-box retailer for rural and small-town America, offering highly convenient consumables where customers are price sensitive and time constrained.
- Competitive moat is structurally strong. DG operates in attractive low-density markets where the unit economics wouldn't work for Walmart/Target type formats leaving DG winning on proximity, convenience and price.
- With large government stimulus during the pandemic, demand surged, driving topline acceleration, while product mix improved, temporarily inflating margins and investor expectations.
- Post pandemic, margins collapsed due to a stacked set of headwinds: the roll-off of government support, inventory mismanagement (more markdowns, higher product damage and less markups), and the self checkout rollout that sharply drove shrink higher.
- The market treated these margin pressures as permanent, but our contrarian view was that most pressures were transitory and fixable execution problems, particularly shrink, damages and inventory discipline.
- We continued to purchase DG into the drawdown over ~2 years, building a large position as the stock weakened. The thesis was validated when management shifted to its "back-to-basics" strategy under the returning CEO where we have seen margin improvements that surprised the market, driving a sharp rerating in 2025 (+75% price increase in 2025).

**Opportunity**

- Despite the rerating, DG remains below our estimate of its intrinsic value as we believe the market is still underestimating the degree of margin normalization and earnings power recovery over the next several years.
- Earnings power can rebuild meaningfully through controllable levers (shrink improvement, mix recovery, top line growth). Management has outlined substantial gross margin expansion potential into FY27-FY29, which we believe is achievable.
- If execution continues and DG returns to durable 10%+ EPS growth, the stock should support a higher multiple and compound strongly from here all while supported by store remodeling paired with continued runway for store growth.



Source: FactSet. Buys and sells shown for Sionna Opportunities Fund as a representative account.

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