



INTERNATIONAL EQUITIES FUND

BUCKING THE AMAZON TREND, WITH DOLLAR GENERAL

- Dollar General has 14,000 stores America wide. By comparison, Walmart and Target operate 5,352 and 1,828 respectively.
- The majority of Dollar General's customers live within three to five miles, or a ten-minute drive, to a Dollar General store. The close proximity and ease of parking discourages online shopping.
- The average Dollar General household spends approximately 10% of their household wallet in the stores. This relatively large figure indicates a high level of customer loyalty.
- Approximately 70% of Dollar General's sales are from stores in small rural towns with populations less than 20,000. Overnight or same day delivery, as offered by competitors such as Amazon, do not make economic sense in these regions.

The assumption that Amazon would sweep away all retailers that stand before it resulted in many US retailers being sold down. This hysteria created some interesting opportunities in the retail segment, one of which is Dollar General.

Dollar General is one of USA's largest budget shopping chains. Its core business is retailing daily consumer essentials to lower social demographic consumers, predominantly located in rural, small towns. Catering to the lower income household market, who are less likely to shop online, Dollar General has seen their stock increase by 22% over 2017. Research into this customer base indicates that shoppers are not visiting the stores for the purpose of leisure, but instead to pick up every-day necessary household products, a habit not easily changed.

TO READ MORE
STORIES FROM
OUR FUNDS YOU
CAN SUBSCRIBE
TO OUR PENGANA
INSIGHTS
NEWSLETTER AT:

[www.bit.ly/
penganainsights](http://www.bit.ly/penganainsights)

WE HAVE IDENTIFIED DOLLAR GENERAL AS BEING A HIGH-QUALITY RETAILER WITH AN ATTRACTIVE VALUATION, AND INVESTED IN IT FOR THESE MAIN REASONS:

- 1. High quality operator** - Dollar General has grown same store sales consecutively for the last 27 years and management has consistently delivered on guidance.
- 2. Attractive growth outlook** - under its current projections, Dollar General will double its store base over the next eight to ten years and its revenue is expected to grow between 7 – 10% p.a. over the medium to long-term. It will also benefit from USA's growing lower social economic demographics due to that country's ballooning rich-poor divide.
- 3. Competitive cost advantage** - Dollar General stores have an attractive cost structure, as it costs less than \$0.25 million to open a new store (including inventory) resulting in new stores having a payback period of less than two years.
- 4. Valuation** – the hysteria around Amazon resulted in indiscriminate selling of US retailers, resulting in Dollar General trading on attractive valuation.
- 5. Insulated from the online** (read: Amazon) threat – 70% of Dollar General sales come from stores in remote towns with a population of less than 20,000 people. It does not make economic sense for Amazon to offer free deliver to these regions.

During 2017, Dollar General's share price increased 22% as the company continued to deliver operationally.

For more information on the Pengana International Equities Fund you can visit:
www.bit.ly/penganainternational

For any inquiries please
feel free to contact
Pengana Client Service.

T: +61 2 8524 9900
E: clientservice@pengana.com

PENGANA.COM