

DOLLAR GENERAL CORP

FORM 8-K (Current report filing)

Filed 08/18/14 for the Period Ending 08/18/14

Address	100 MISSION RIDGE GOODLETTSVILLE, TN, 37072
Telephone	6158554000
CIK	0000029534
Symbol	DG
SIC Code	5331 - Retail-Variety Stores
Industry	Discount Stores
Sector	Consumer Cyclical
Fiscal Year	02/02

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **August 18, 2014**

Dollar General Corporation

(Exact name of registrant as specified in its charter)

Tennessee
(State or other jurisdiction
of incorporation)

001-11421
(Commission File Number)

61-0502302
(I.R.S. Employer
Identification No.)

100 Mission Ridge
Goodlettsville, Tennessee
(Address of principal executive offices)

37072
(Zip Code)

Registrant's telephone number, including area code: **(615) 855-4000**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 5.02 DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.

As previously disclosed, Mr. Richard W. Dreiling, Chairman and Chief Executive Officer of Dollar General Corporation (the “Company”), advised the Company on June 24, 2014 of his intention to retire as Chief Executive Officer effective May 30, 2015 or upon the appointment of a successor. In connection with the Company’s proposal to acquire all of the outstanding shares of common stock of Family Dollar Stores, Inc. (“Family Dollar”) (the “Proposed Transaction”), Mr. Dreiling informed the Board of Directors that he is committed to remaining as Chief Executive Officer of the Company through May 2016 if the Proposed Transaction occurs in order to oversee the successful integration of Family Dollar and the Company, and, at the request of the Board of Directors and upon being duly elected, to continuing to serve on the Board of Directors and as Chairman beyond that date.

ITEM 7.01 REGULATION FD DISCLOSURE.

As discussed in Item 8.01 below, on August 18, 2014, the Company issued a press release announcing that it had delivered to the Board of Directors of Family Dollar a proposal (the “Proposal”) in connection with the Proposed Transaction. The press release announcing the Proposal, including the full text of the letter delivered to the Board of Directors of Family Dollar setting forth the Proposal, is furnished as Exhibit 99.1 to this Current Report and is incorporated herein by reference.

On August 18, 2014, the Company also furnished the additional information set forth in Exhibit 99.2 to this Current Report concerning the Proposed Transaction.

The information in Exhibit 99.1 and Exhibit 99.2 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended.

ITEM 8.01 OTHER EVENTS.

On August 18, 2014, the Company issued a press release announcing that it had delivered to the Board of Directors of Family Dollar a proposal to acquire all of the outstanding shares of common stock of Family Dollar for \$78.50 per share in cash.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

- (a) Financial statements of businesses acquired. N/A
 - (b) Pro forma financial information. N/A
 - (c) Shell company transactions. N/A
 - (d) Exhibits. See Exhibit Index immediately following the signature page hereto.
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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: August 18, 2014

DOLLAR GENERAL CORPORATION

By: /s/ Rhonda M. Taylor
Rhonda M. Taylor
Senior Vice President and General Counsel

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Dollar General Corporation News Release dated August 18, 2014
99.2	Presentation referenced during the Dollar General Corporation analyst and investor conference call on August 18, 2014

DOLLAR GENERAL

100 Mission Ridge / Goodlettsville, Tennessee 37072-2170 / Telephone: (615) 855-4000 /http://www.dollargeneral.com

NEWS FOR IMMEDIATE RELEASE

DOLLAR GENERAL MAKES PROPOSAL TO ACQUIRE FAMILY DOLLAR FOR \$78.50 PER SHARE

Proposal Provides Superior Valuation and All-Cash Certainty to Family Dollar Shareholders

Combination Would Solidify Dollar General's Position as Largest U.S. Small-Box Discount Retailer

Rick Dreiling, Dollar General's Chairman and CEO, Would Lead Combined Company through May 2016

GOODLETTSVILLE, Tennessee — August 18, 2014 — Dollar General (NYSE: DG) today announced it has made a proposal to acquire Family Dollar Stores, Inc. (NYSE: FDO) for \$78.50 per share in cash, in a transaction valued at \$9.7 billion. The proposal was conveyed this morning in a letter to Family Dollar's Board of Directors. This transaction would deliver increased consideration and immediate liquidity to Family Dollar's shareholders and represents a compelling opportunity to create value for Dollar General shareholders. The combination would solidify Dollar General's position as the largest small-box discount retailer in the U.S. with nearly 20,000 stores in 46 states and sales of over \$28 billion.

Dollar General's all-cash proposal of \$78.50 per share would provide Family Dollar shareholders with a substantially superior valuation to the \$74.50 per share cash / stock offer announced by Dollar Tree, Inc. on July 28, 2014.

"For Family Dollar shareholders, our proposal is financially superior to the current transaction agreement with Dollar Tree and would provide Family Dollar shareholders with a substantial premium and immediate liquidity for their shares," said Rick Dreiling, Dollar General's Chairman and Chief Executive Officer. "For Dollar General shareholders, the proposed combination of Dollar General and Family Dollar would be a significant strategic opportunity to create immediate and lasting shareholder value. For both Dollar General and Family Dollar customers, we would be able to provide better value and greater selection.

"We have the utmost respect for Family Dollar, its leadership and its employees. We look forward to expeditiously entering into constructive discussions with Family Dollar in order to sign a definitive merger agreement that provides enhanced value to Family Dollar shareholders and enables Dollar General to realize the benefits of this combination," Dreiling continued.

Strategic Benefits

Dollar General believes the highly complementary nature of the two companies would create a unique opportunity to deliver value to shareholders and customers:

- **Solidify position as the leading small-box discount retailer.** The transaction would create the preeminent small-box retailer in the U.S. based on store locations, delivering convenience and everyday low prices to customers through nearly 20,000 stores in 46 states with sales exceeding \$28 billion and over 160,000 employees.
 - **Complementary business models.** The business models and product mixes of Dollar General
-

and Family Dollar are highly complementary. There is opportunity to more efficiently and effectively manage the Family Dollar portfolio of stores given Dollar General's strong track record of success in improving its own profitability since 2008.

- **Clear operational synergies and integration plan.** The proposed transaction would be expected to generate significant synergies of \$550 million to \$600 million on an annual run-rate three years post-closing. Dollar General has developed extensive integration plans across work streams. The expected synergies would be derived from sales growth driven by an improved merchandise offering and store presentation, purchasing and sourcing efficiencies, distribution and transportation optimization and administrative savings. The scale that would be created by a combination would allow Dollar General to continue to help customers Save time. Save money. Every day!® through better value and greater selection to customers of both Dollar General and Family Dollar.
- **Tenured management team with a proven track record.** Rick Dreiling, who led the management team that transformed Dollar General starting in 2008, has agreed to postpone his previously-announced retirement and remain in the role of Chairman and Chief Executive Officer of the combined company until May 2016, if a merger agreement is signed, in order to oversee the successful integration of the two companies. Beyond that date, Dreiling has also agreed that, if asked by the Board and elected by shareholders, he would remain as a Board member and would be willing to serve as Chairman.
- **Significant earnings accretion through synergies.** The proposed transaction would be low double-digit accretive on a percentage basis to earnings in the first full year excluding implementation and transaction costs. The combined company would continue to generate significant cash flow and would be expected to return to investment grade ratios within approximately three years from the closing of the proposed transaction.

Transaction Details

The proposed transaction values Family Dollar at an enterprise value of approximately \$9.7 billion, and it represents an enterprise value to EBITDA (for the last 12 months ending May 31, 2014) multiple of 11.6x. The proposal has the unanimous approval of the Board of Directors of Dollar General.

Goldman Sachs and Citigroup Global Markets Inc. have agreed to provide committed financing for all of the financing necessary to consummate the transaction. The financing includes estimated fees and expenses, including the \$305 million termination fee payable to Dollar Tree in the event Family Dollar terminates the existing merger agreement to enter into a merger agreement with Dollar General.

Dollar General has undertaken significant economic and antitrust analysis with respect to the transaction and is confident it can quickly and effectively address any potential antitrust issues. Dollar General is prepared to commit to divest up to 700 retail stores in order to achieve the requisite approvals, which is approximately the same percentage of the total combined stores represented by the 500 U.S. store divestiture commitment in the Dollar Tree merger agreement.

Dollar General is prepared to enter into a definitive merger agreement that would be substantially similar to the one entered into between Dollar Tree and Family Dollar, modified as necessary to accommodate Dollar General's all-cash proposal, the antitrust matters described above and to provide a time period to close the proposed transaction consistent with that set forth in the existing agreement. In addition, Dollar General is prepared to revise the agreement to permit Family Dollar to continue to pay its regular quarterly cash dividend through closing on terms consistent with past practice.

Goldman, Sachs & Co. is acting as financial advisor to Dollar General and Simpson Thacher & Bartlett LLP

is acting as its legal counsel.

Below is the text of the letter that was sent today to Howard Levine, Family Dollar's Chairman and Chief Executive Officer:

August 18, 2014

Board of Directors
Family Dollar Stores, Inc.
10401 Monroe Road
Matthews, North Carolina 28201
Attn: Howard R. Levine, Chairman of the Board

Dear Howard:

As you know, we at Dollar General admire your company and its attractive footprint and business prospects. We have respect for Family Dollar, its employees and its leadership, and both Dollar General and Family Dollar share a commitment to serving customers in the communities in which we operate. As such, we were surprised and disappointed to find out you had entered into a merger agreement with Dollar Tree.

The Board of Directors of Dollar General is pleased to submit a proposal to you and the Board of Directors of Family Dollar that offers Family Dollar shareholders \$78.50 per share in cash for all outstanding shares, providing them with superior value and immediate and certain liquidity for their shares. Not only is our offer superior in price, it is 100% cash, as compared to the mix of cash and stock being offered by Dollar Tree.

Our proposal provides Family Dollar's shareholders with approximately \$466 million of additional aggregate value over Dollar Tree's offer and represents a premium of 29.4% over the closing price of \$60.66 for Family Dollar stock on the day prior to the Dollar Tree announcement.

Our proposal is not subject to any financing condition. Goldman Sachs and Citigroup Global Markets Inc. have agreed to provide committed financing for all of the financing necessary to consummate the transaction .

We have conducted a thorough review and analysis of the antitrust issues that may be raised by our proposed transaction, including engaging experienced antitrust counsel and a team from Compass Lexecon as our economist to assist us with our analysis. As a result of our review and analysis, coupled with the numerous econometric studies Compass Lexecon has performed utilizing extensive information and data supplied by Dollar General, we are prepared to commit to divest up to 700 retail stores in order to achieve the requisite antitrust approvals, which is approximately the same percentage of the total combined stores represented by the 500 store divestiture commitment in the Dollar Tree merger agreement. We are confident that, with this commitment, we will be able to quickly and efficiently resolve any potential antitrust issues and that our transaction is capable of being completed. We look forward to having the opportunity to share with your counsel the conclusions of our extensive antitrust work once you have taken the appropriate steps under your existing merger agreement with Dollar Tree to enable us to begin discussions.

The Board of Directors of Dollar General has unanimously approved this proposal and has authorized us to proceed expeditiously. We are prepared, promptly following the termination of your

merger agreement with Dollar Tree, to enter into a merger agreement that would provide greater value to your shareholders and would otherwise be substantially similar to the one that you entered into with Dollar Tree, modified as necessary to accommodate our all-cash proposal, as described above with respect to antitrust matters and to provide a time period to close the proposed transaction consistent with that set forth in the existing agreement. In addition, we are prepared to revise the agreement to permit Family Dollar to continue to pay its regular quarterly cash dividend through closing on terms consistent with past practice. Dollar General would also agree to fund the \$305 million break-up fee should you become obligated to pay that fee to Dollar Tree upon termination of the existing agreement in order to enter into an agreement with Dollar General.

In addition, I have committed to our Board of Directors to remain as Chief Executive Officer of Dollar General through May 2016 if this combination occurs in order to oversee the successful integration of our two companies. Beyond that date, if asked by the Board and elected by shareholders, I have agreed to continue to serve as a Board member and as Chairman.

We have engaged Goldman, Sachs & Co. as our financial advisor and Simpson Thacher & Bartlett LLP as our legal advisor in connection with this transaction. Our proposal is subject to completion of a confirmatory due diligence review of your company, and we and our advisors are available to commence our due diligence review immediately.

Please note that this letter is not meant to, and does not, create or constitute any legally-binding obligation, liability or commitment by us concerning a proposed transaction, and, other than any confidentiality agreement we may enter into with you, there will be no legally-binding agreement between us regarding the proposed transaction unless and until we enter into a definitive merger agreement with you.

We are confident that after you have considered our offer, you will agree that our proposal constitutes a “Company Superior Proposal” under the terms of the Dollar Tree merger agreement and that our proposal presents a compelling opportunity for your shareholders. This matter has my highest priority and I look forward to hearing from you.

Sincerely,

Rick Dreiling
Dollar General
Chairman and Chief Executive Officer

Conference Call Information

The Company will hold a conference call today for 45 minutes starting at 7:00 a.m. CT/8:00 a.m. ET, hosted by Rick Dreiling, Chairman and Chief Executive Officer, and David Tehle, Chief Financial Officer. If you wish to participate, please call (855) 576-2641 at least 10 minutes before the conference call is scheduled to begin. The conference ID is 90102644. For callers outside of the U.S. and Canada, please call (678) 967-4559. The call will also be broadcast live online at www.dollargeneral.com under “Investor Information, Conference Calls and Investor Events.” A replay of the conference call will be available through September 1, 2014, and will be accessible online or by calling (855) 859-2056. The conference ID for the replay is 90102644.

Forward-Looking Statements

Dollar General includes “forward-looking statements” within the meaning of the federal securities laws throughout this release, particularly under the headings “Strategic Benefits” and “Transaction Details.” A reader can identify forward-looking statements because they are not limited to historical fact or they use words such as “may,” “will,” “should,” “would,” “expect,” “believe,” “anticipate,” “project,” “plan,” “estimate,” “forecast,” “goal,” “objective,” “committed,” “intend,” “continue,” “will likely result” or “could,” and similar expressions that concern Dollar General’s strategy, plans, intentions or beliefs about future occurrences or results, including by way of example and without limitation plans, intentions and expectations regarding Dollar General’s proposal to acquire Family Dollar, the financing of a potential transaction, and the anticipated results, benefits, synergies, earnings accretion, costs, timing and other expectations of the benefits of a potential transaction.

Forward-looking statements are subject to risks, uncertainties and other factors that may change at any time and may cause actual results to differ materially from those that Dollar General expected. Many of these statements are derived from Dollar General’s operating budgets and forecasts, which are based on many detailed assumptions that Dollar General believes are reasonable, or are based on various assumptions about certain plans, activities or events which we expect will or may occur in the future. However, it is very difficult to predict the effect of known factors, and Dollar General cannot anticipate all factors that could affect actual results that may be important to an investor. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors, including those factors disclosed under “Risk Factors” in Dollar General’s most recent Annual Report on Form 10-K and any subsequent quarterly filings on Form 10-Q filed with the Securities and Exchange Commission.

All forward-looking statements are qualified in their entirety by the cautionary statements that Dollar General makes from time to time in its SEC filings and public communications. Dollar General cannot assure the reader that it will realize the results or developments Dollar General anticipates, including, without limitation, the expected synergies, earnings accretion or benefits from a potential transaction, or, even if substantially realized, that they will result in the consequences or affect Dollar General or its operations in the way Dollar General expects. Forward-looking statements speak only as of the date made. Dollar General undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances arising after the date on which they were made, except as otherwise required by law. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements included herein or that may be made elsewhere from time to time by, or on behalf of, Dollar General.

About Dollar General Corporation

Dollar General Corporation has been delivering value to shoppers for 75 years. Dollar General helps shoppers Save time. Save money. Every day!® by offering products that are frequently used and replenished, such as food, snacks, health and beauty aids, cleaning supplies, basic apparel, house wares and seasonal items at low everyday prices in convenient neighborhood locations. With more than 11,500 stores in 40 states, Dollar General has more retail locations than any retailer in America. In addition to high quality private brands, Dollar General sells products from America’s most-trusted manufacturers such as Clorox, Energizer, Procter & Gamble, Hanes, Coca-Cola, Mars, Unilever, Nestle, Kimberly-Clark, Kellogg’s, General Mills, and PepsiCo. For more information on Dollar General, please visit www.dollargeneral.com.

Contact Information:

Investors:

Mary Winn Pilkington (615) 855-5536
Emma Jo Kauffman (615) 855-5525

Media:

Brunswick Group:
Steve Lipin or Shahed Larson (212) 333-3810

Dollar General Corporation:

Media Hotline (877) 944-DGPR (3477)
Dan MacDonald (615) 855-5209
Crystal Ghassemi (615) 855-5210

Dollar General Proposal to Acquire Family Dollar

AUGUST 18, 2014



This presentation contains forward-looking information within the meaning of the federal securities laws. A reader can identify forward-looking statements because they are not limited to historical fact or they use words such as "outlook," "may," "should," "could," "believe," "anticipate," "plan," "expect," "estimate," "forecast," "project," "goal," "objective," "intend," "committed," "continue," or "would," and similar expressions that concern Dollar General Corporation's (the "Company") strategy, plans, intentions or beliefs about future occurrences or results, including by way of example and not limitation, plans, intentions and expectations regarding the Company's proposal to acquire Family Dollar Stores, Inc. ("Family Dollar"), the financing of a potential transaction, and the anticipated results, benefits, synergies, earnings accretion, costs, timing and other expectations of the benefits of a potential transaction. These matters involve risks, uncertainties and other factors that may cause the actual results or the actual performance of the Company to differ materially from that which the Company expected. Many of these statements are derived from the Company's operating budgets and forecasts, which are based on many detailed assumptions that the Company believes are reasonable or are based on various assumptions about certain plans, activities, or events which the Company expects will or may occur in the future. However, it is very difficult to predict the effect of known factors, and the Company cannot anticipate all factors that could affect actual results that may be important to an investor. All forward-looking information should be evaluated in the context of these risks, uncertainties and other factors, including those factors disclosed under "Risk Factors" in the Company's most recent Annual Report on Form 10-K and any subsequent quarterly filings on Form 10-Q filed with the Securities and Exchange Commission and such other factors as may be discussed in this presentation.

All forward-looking statements are qualified in their entirety by these and other cautionary statements that the Company makes from time to time in its SEC filings and public communications. The Company cannot assure the reader that it will realize the results or developments the Company anticipates, including, without limitation, the expected synergies, earnings accretion or benefits from a potential transaction or, even if substantially realized, that they will result in the consequences or affect the Company or its operations in the way the Company expects. Forward-looking statements speak only as of the date made. The Company undertakes no obligation to update or revise any forward-looking statements to reflect events or circumstances arising after the date on which they were made, except as otherwise required by law. As a result of these risks and uncertainties, readers are cautioned not to place undue reliance on any forward-looking statements included herein or that may be made elsewhere from time to time by, or on behalf of, the Company.



- **Solidify** position as the **leading small-box discount retailer**
- **Highly complementary** business models
- **Clear operational synergies** and integration plan
- **Committed management team** with a proven track record of success to drive integration
- **Significant earnings accretion** through synergies



CONSIDERATION	<ul style="list-style-type: none">• \$78.50 per Family Dollar share• 100% cash offer
VALUATION	<ul style="list-style-type: none">• Valuation represents an LTM Q3 2014 EBITDA multiple of 11.6x• Price represents a 5.4% premium to the alternative transaction and a 29.4% premium to the July 25 Family Dollar share price of \$60.66
FINANCING	<ul style="list-style-type: none">• Bank agreement to provide committed financing of \$12.3 billion• Expected financing structure includes a revolver, term loan and notes
SYNERGIES	<ul style="list-style-type: none">• Estimated run-rate synergies of \$550 to \$600 million• One-time implementation costs estimated at \$300 to \$400 million
FINANCIAL IMPACT	<ul style="list-style-type: none">• Low double-digit accretion to earnings in the first year after closing, excluding implementation and transaction costs
TIMING	<ul style="list-style-type: none">• Prepared to move immediately to complete diligence with Family Dollar management• Estimated closing consistent with the time period in existing agreement
LEADERSHIP	<ul style="list-style-type: none">• Rick Dreiling will remain CEO through May 2016 to drive integration of the companies• Tenured management team at Dollar General to lead integration and transition



- **Higher value and certainty of 100% cash offer**
- Goldman Sachs and Citigroup Global Markets Inc. agreement to provide **committed financing**
- **Extensive economic analysis** completed on potential regulatory impacts
- **Dollar General management** ready to move immediately on completing diligence of Family Dollar
- **Terms and conditions** consistent with alternative transaction, modified for all-cash proposal, antitrust matters and permitted dividend payments



Solidify Position as the Leading Small-Box Discount Retailer

DOLLAR GENERAL

	DOLLAR GENERAL	FAMILY DOLLAR <small>By Selling Big Savings Small</small>	Combined
STORES	11,338	8,246	19,584
STATES	40	46	46
REVENUE (LTM)	\$ 17,793	\$ 10,378	\$ 28,171
Adjusted EBITDA (LTM) (excluding synergies)	\$ 2,083	\$ 834	\$ 2,917

Note: See Non-GAAP reconciliations

States and store count are as of most recent quarter end 2014. Financials are as of Q12014 ending May 2, 2014 for DG and Q32014 ending May 31, 2014 for FDO, on an LTM basis.



DOLLAR GENERAL

FAMILY DOLLAR

STORE SIZE

~7,400 square feet

~7,200 square feet

PRICING FORMAT

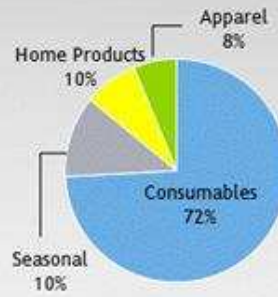
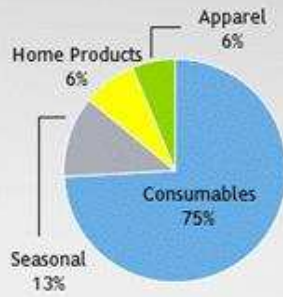
100% Multi Price-Point

- Most items priced at \$10 or less
- ~25% priced at \$1 or less

100% Multi Price-Point

- Most items priced at \$10 or less
- ~27% priced at \$1 or less

PRODUCT MIX



Source: Family Dollar 2013 Form 10K



SIGNIFICANT OPERATIONAL SYNERGIES



\$550-600 million of run-rate synergies by year 3

EXTENSIVE PLANS

- Detailed integration plans developed across work streams:
 - Store Operations
 - Merchandising
 - Supply Chain
 - Administration

INTEGRATION COSTS

- Approximately \$300 to \$400 million in one-time costs to capture synergies
- Investment of \$400 million in capital expenditures



- ✓ CEO Rick Dreiling committed through May 2016
- ✓ Management team has led transformation and improved performance at Dollar General over the last few years
- ✓ Exceptional corporate culture focused on value and convenience for consumers

REVENUE



ADJUSTED EBITDA



Note: See Non-GAAP reconciliations
Data is for fiscal years.



METRIC	DG LTM	Combined LTM
Sales	\$ 17,793	\$28,171
Adjusted EBITDA	\$2,083	\$2,917
Pro Forma Adjusted EBITDA (midpoint synergies)(1)	--	\$3,492

Low double-digit percentage accretive in year one, excluding integration and transaction costs

Note: See Non-GAAP reconciliations

(1) Represents combined last twelve months Adjusted EBITDA plus \$575 million of expected synergies (representing the mid-point of expected transaction synergies). Does not reflect the pro forma impact of other costs expected to be incurred as a result of the potential transaction, including the full year impact of increased interest expense and other integration costs. Accordingly, we have not presented a reconciliation of Pro Forma Combined Adjusted EBITDA.



EXPECTED SOURCES OF FUNDS

Agreement by Goldman Sachs and Citi to provide committed financing, consisting of a combination of the following:

- Cash on balance sheet
- Revolver
- Term Loan
- Notes

KEY CREDIT CONSIDERATIONS

- Pro forma adjusted debt to LTM EBITDAR of 5.5x
- Compelling long-term financial model allowing for continued strong liquidity and consistent cash flow
- Significant debt reduction in the near term
- Commitment to return to investment grade credit profile – anticipated three years post closing

Note: See Non-GAAP reconciliations



- **Solidify** position as the **leading small-box discount retailer**
- **Highly complementary** business models
- **Clear operational synergies** and integration plan
- **Committed management team** with a proven track record of success to drive integration
- **Significant earnings accretion** through synergies



Certain information provided in this presentation has not been derived in accordance with U.S. generally accepted accounting principles ("GAAP"), including Adjusted EBITDA for Dollar General's 2008 and 2013 fiscal years and calculations of Sales and Adjusted EBITDA for both Dollar General and Family Dollar and their combined totals based on their respective latest reported 52 weeks. In addition, Adjusted EBITDAR, a non-GAAP measure, is utilized in calculating a pro forma ratio of Adjusted Debt to Adjusted EBITDAR referenced herein. Reconciliations of these non-GAAP measures are provided in the following slides.

The Company believes that the presentation of EBITDA, Adjusted EBITDA, and the ratio of Adjusted Debt to Adjusted EBITDAR is useful to investors because these or similar measures are frequently used by securities analysts, investors and other interested parties in the evaluation of the operating performance and financial leverage of companies in industries similar to Dollar General's and that the combined data is useful in evaluating the financial impact of the transaction being discussed in this presentation.

EBITDA is defined as income (loss) from continuing operations before cumulative effect of changes in accounting principles plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Adjusted EBITDA is defined as EBITDA, further adjusted to give effect to adjustments noted in the accompanying non-GAAP reconciliation tables. Adjusted EBITDAR is defined as Adjusted EBITDA plus total rent expense and Adjusted Debt is defined as total long-term obligations, including the current portion, plus total rent expense multiplied by eight, which is an estimate of the hypothetical capitalization of operating leases, consistent with practices used by the Company's rating agencies.

The non-GAAP measures discussed above are not measures of financial performance or condition, liquidity or profitability in accordance with GAAP, and should not be considered alternatives to net income, diluted earnings per share, operating income, cash flows from operations or any other performance measures determined in accordance with GAAP. These non-GAAP measures have limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the Company's financial results as reported under GAAP. Because not all companies use identical calculations, these presentations may not be comparable to other similarly titled measures of other companies.



Reconciliation of Net Income to EBITDA, Adjusted EBITDA and Adjusted EBITDAR and Calculation of Net Sales
For the Latest Reported 52 Week Periods

(In millions)	Dollar General				Family Dollar (1)				Combined Most Recent 52 Weeks
	Fiscal Year Ended January 31, 2014	13 Weeks Ended May 3, 2013	13 Weeks Ended May 2, 2014	52 Weeks Ended May 2, 2014	Fiscal Year Ended August 31, 2013	39 Weeks Ended June 1, 2013	39 Weeks Ended May 31, 2014	52 Weeks Ended May 31, 2014	
	Net Sales	\$ 17,504	\$ 4,294	\$ 4,522	\$ 17,793	\$ 10,391	\$ 7,889	\$ 7,875	
Net income	1,025	220	222	1,027	444	341	250	352	1,380
Add (subtract):									
Interest expense	89	25	22	87	26	20	22	28	115
Depreciation and amortization	327	78	83	331	224	166	183	242	573
Income taxes	603	132	135	607	247	192	133	187	794
EBITDA	2,044	455	463	2,052	941	719	588	809	2,961
Adjustments:									
(Gain) loss on debt retirement, net	19	19	-	-	-	-	-	-	-
Non-cash expense for share-based awards	21	5	9	25	-	-	-	-	25
Litigation settlement and related costs, net	9	-	-	9	-	-	-	-	9
Indirect costs related to merger and stock offering	1	1	-	0	-	-	-	-	-
Other non-cash charges (including UFO)	(5)	1	1	(5)	-	-	-	-	(5)
Other	1	-	1	2	-	-	-	-	2
Cost of sales - restructuring	-	-	-	-	-	-	1	1	1
Selling, general and administrative - restructuring	-	-	-	-	-	-	23	23	23
Total Adjustments	46	26	11	31	-	-	24	24	55
Adjusted EBITDA	2,090	480	473	2,083	941	719	612	834	2,917
Rent Expense	687	164	188	711				564	1,275
Adjusted EBITDAR	\$ 2,776	\$ 644	\$ 662	\$ 2,794				\$ 1,398	\$ 4,192

(1) Family Dollar information derived from 2013 Annual Report and quarterly earnings releases.
Assumed rent expense for latest twelve months to approximate rent expense for FDO's fiscal 2013 full year.



Dollar General
Reconciliation of Net Income to EBITDA and Adjusted EBITDA

(In millions)	For the Fiscal Year (52 Weeks) Ended	
	January 30, 2009	January 31, 2014
Net income	\$ 108.2	\$ 1,025.1
Add (subtract):		
Interest expense	388.8	89.0
Depreciation and amortization	235.1	326.7
Income taxes	86.2	603.2
EBITDA	818.3	2,044.0
Adjustments:		
(Gain) loss on debt retirement, net	(3.8)	18.9
(Gain) loss on hedging instruments	1.1	-
Contingent gain on distribution center leases	(5.0)	-
Impact of markdowns related to clearance activities, net of purchase accounting adjustments	(24.9)	-
Non-cash expense for share-based awards	10.0	21.0
Litigation settlement and related costs, net	32.0	8.5
Indirect costs related to merger and stock offering	20.7	0.8
Advisory and consulting fees to affiliates	8.6	-
Other non-cash charges (including UFO)	54.7	(4.8)
Other	2.2	1.1
Total Adjustments	95.6	45.5
Adjusted EBITDA	\$ 913.9	\$ 2,089.5

