

DOLLAR GENERAL CORP

FORM 8-K (Current report filing)

Filed 05/29/03 for the Period Ending 05/29/03

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|-------------|--|
| 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 |

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): May 29, 2003

Dollar General Corporation

(Exact Name of Registrant as Specified in Charter)

Tennessee

001-11421

61-0502302

(State or Other Jurisdiction
of Incorporation)

(Commission File Number)

(I.R.S. Employer
Identification No.)

100 Mission Ridge
Goodlettsville, Tennessee

37072

(Address of Principal Executive Offices)

(Zip Code)

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

ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS

- (a) Financial Statements. None.
- (b) Pro Forma Financial Information. None.
- (c) Exhibits. See Exhibit Index immediately following the signature page hereto.

ITEM 9. REGULATION FD DISCLOSURE

The following information is being furnished pursuant to both Item 9 and Item 12 of Form 8-K.

On May 29, 2003, Dollar General Corporation issued a news release regarding results of operations for the first quarter ended May 2, 2003, and other matters. The news release is attached hereto as Exhibit 99 and incorporated by reference as if fully set forth herein.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The information set forth in Item 9 above is incorporated herein by this reference.

SIGNATURES

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 thereunto duly authorized.

Date: May 29, 2003

DOLLAR GENERAL CORPORATION

By: /s/ Susan S. Lanigan

Susan S. Lanigan
Vice President, General Counsel and Corporate Secretary

EXHIBIT INDEX

Exhibit No.

Description

99

News release dated May 29, 2003

Investor Contact:
Emma Jo Kauffman
(615) 855-5525

Media Contact:
Andrea Ewin Turner
(615) 855-5209

DOLLAR GENERAL REPORTS INCREASED EARNINGS FOR THE FIRST QUARTER OF 2003

GOODLETTSVILLE, Tenn. – May 29, 2003 – Dollar General Corporation (NYSE: DG) today reported that net income for the first quarter of fiscal 2003 increased 31.4 percent to \$60.3 million, or \$0.18 per diluted share, compared with \$45.9 million, or \$0.14 per diluted share, in the first quarter of fiscal 2002. The Company incurred approximately \$0.3 million and \$5.3 million in restatement-related expenses in the first quarters of 2003 and 2002, respectively.

Excluding the restatement-related expenses from both years, net income during the current year period increased by 22.8 percent to \$60.5 million, or \$0.18 per diluted share, as compared against net income of \$49.3 million, or \$0.15 per diluted share, in the comparable prior year period.

“I am pleased to report the results of our first quarter. These results are the culmination of a lot of hard work over the last two years,” said David A. Perdue, chief executive officer. “I am particularly encouraged by some of the systems improvements that have been made, giving us better information, which should help us improve gross margin and inventory management.”

Net sales during the first quarter of 2003 were \$1.57 billion as compared against \$1.39 billion in the first quarter of 2002, an increase of 12.9 percent. The increase resulted primarily from 598 net new stores and a same-store sales increase of 4.2 percent.

Gross profit during the current year period was \$451.9 million, or 28.8 percent of sales, versus \$380.3 million, or 27.4 percent of sales, during the comparable period in the prior year. The improvement in gross margin is primarily the result of a higher average markup on inventory purchases and, to a lesser extent, a reduction in damaged product markdowns in the current year period. The higher average markup was due to a number of factors, including increased purchases of higher margin merchandise, including seasonal items and housewares, a decrease in the percentage of lower margin items purchased, including paper and home cleaning products, and the shifting of the purchase of certain products from domestic to imported sources. Inventory shrinkage, calculated at the retail value of the inventory, as a percentage of net sales, was approximately 3.1 percent in the first quarters of 2003 and 2002.

Selling, general and administrative expenses (“SG&A”) during the current year period were \$349.0 million, or 22.2 percent of sales, versus \$297.3 million, or 21.4 percent of sales, during the comparable period in the prior year.

Excluding the restatement-related expenses noted above, SG&A would have been \$348.6 million, or 22.2 percent of sales, in the current year period versus \$292.0 million, or 21.0 percent of sales, in the prior year period. The increase in SG&A, excluding restatement-related expenses, is primarily the result of increases in various store-related expenses, including labor, occupancy, repairs and maintenance, and utility costs. The increased store labor costs were incurred in connection with the Company’s initiatives to improve store conditions.

Net interest expense during the current year period was \$9.4 million versus \$10.4 million in the prior year. The Company’s effective tax rate was 35.5 percent in the current year period versus 36.7 percent in the comparable prior year period. The decrease in the Company’s tax rate in the current year period is primarily the result of a \$0.8 million adjustment to state income tax valuation reserves resulting from a tax law change. Absent this adjustment, the Company’s tax rate would have been 36.4 percent.

Merchandise inventories at May 2, 2003 increased 5.8 percent over the prior year quarter end, with the increase primarily in spring and summer seasonal merchandise. The Company has made improving its inventory productivity a priority and, as a result, inventory turns on a rolling twelve-month basis increased to 3.9 times versus 3.5 times in the prior twelve-month period.

2003 Outlook

The Company projects total revenues in 2003 to increase 13 to 15 percent and earnings, excluding restatement-related items, to increase 11 to 15 percent. In 2003, the Company expects same-store sales to increase 4 to 6 percent. In fiscal 2003, the Company anticipates opening a total of approximately 650 new stores in the current 27-state market area, closing 50 to 70 stores, and remodeling or relocating approximately 145 stores.

Non-GAAP Disclosures

This release refers to certain historical and future financial information not derived in accordance with generally accepted accounting principles (“GAAP”), such as selling, general and administrative expenses, diluted earnings per share and net income, which exclude the impact of restatement-related items, and the Company’s adjusted effective tax rate. The Company believes that this information is useful to investors as it indicates more clearly the Company’s comparative year-to-year operating results. The Compensation Committee of the Company’s Board of Directors may use this information for compensation purposes to ensure that employees are not inappropriately penalized or rewarded as a result of unusual items affecting the Company’s financial statements. Management may also use this information to better understand the Company’s underlying operating results. We have included a reconciliation of this information to the most comparable GAAP measures, either in this release or in the accompanying reconciliation tables.

Conference Call

The Company will host a conference call on Thursday, May 29, 2003, at 10 a.m., EDT to discuss the quarter’s results. The passcode for the conference call is “Dollar General.” If you wish to participate, please call (816) 650-0741 at least 10 minutes before the conference call is scheduled to begin. The call will also be broadcast live online at www.dollargeneral.com. A replay of the conference call will be available until 5 p.m., EDT on Thursday, June 5, online or by calling (402) 220-2491. The access number for the replay is #16900513.

Webcast of Annual Meeting

Dollar General also intends to webcast its Annual Meeting of Shareholders on Monday, June 2, 2003, at 11:00 a.m., EDT. The webcast will be available live on the Company’s Web site at www.dollargeneral.com with a replay available until 5 p.m., EDT on June 9, 2003.

Dollar General is a Fortune 500[®] discount retailer with 6,329 neighborhood stores in 27 states as of May 2, 2003.

Dollar General stores offer convenience and value to customers, by providing consumable basics, items that are frequently used and replenished, such as food, snacks, health and beauty aids and cleaning supplies, as well as an appealing selection of basic apparel, housewares and seasonal items at everyday low prices. The typical Dollar General store has 6,700 square feet of selling space and is located within five miles of its target customers.

This press release contains forward-looking information, including information regarding the Company’s future sales and earnings outlook. The words “believe,” “anticipate,” “project,” “plan,” “expect,” “estimate,” “objective,” “forecast,” “goal,” “intend,” “will likely result,” or “will continue” and similar expressions generally identify forward-looking statements. The Company believes the assumptions underlying these forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected by, or implied in, the forward-looking statements. A number of factors may result in actual results differing from such forward-looking information, including, but not limited to: the Company's ability to maintain adequate liquidity through its cash resources and credit facilities; the Company's ability to comply with the terms of the Company's credit facilities (or obtain waivers for non-compliance); transportation and distribution delays

or interruption; our ability to negotiate effectively the cost and purchase of merchandise; inventory risks due to shifts in market demand; changes in product mix; interruptions in suppliers' businesses; costs and potential problems and interruptions associated with implementation of new or upgraded systems and technology; fuel price and interest rate fluctuations; a deterioration in general economic conditions caused by acts of war or terrorism; temporary changes in demand due to weather patterns; seasonality of the company's business; delays associated with building, opening and operating new stores; the impact of the SEC inquiry related to the restatement of certain of the Company's financial statements; and other risk factors discussed in our SEC filings, including in our most recent Annual Report on Form 10-K.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this release. The Company disclaims any obligation to publicly update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this release or to reflect the occurrence of unanticipated events.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(In thousands)

| | May 2, <u>2003</u> (Unaudited) | May 3, <u>2002</u> (Unaudited) | January 31, <u>2003</u> |
|--|--------------------------------------|--------------------------------------|----------------------------|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 75,946 | \$ 287,424 | \$ 121,318 |
| Merchandise inventories | 1,200,701 | 1,134,449 | 1,123,031 |
| Deferred income taxes | 26,664 | 80,974 | 33,860 |
| Other current assets | 52,080 | 85,419 | 45,699 |
| | <hr/> | <hr/> | <hr/> |
| Total current assets | 1,355,391 | 1,588,266 | 1,323,908 |
| | <hr/> | <hr/> | <hr/> |
| Property and equipment, at cost | 1,606,447 | 1,507,414 | 1,577,823 |
| Less accumulated depreciation and amortization | 618,336 | 515,937 | 584,001 |
| | <hr/> | <hr/> | <hr/> |
| Net property and equipment | 988,111 | 991,477 | 993,822 |
| | <hr/> | <hr/> | <hr/> |
| Other assets | 12,465 | 8,989 | 15,423 |
| | <hr/> | <hr/> | <hr/> |
| Total assets | <u>\$ 2,355,967</u> | <u>\$ 2,588,732</u> | <u>\$ 2,333,153</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Current portion of long-term obligations | \$ 16,560 | \$ 395,877 | \$ 16,209 |

| | | | |
|--|--------------|--------------|--------------|
| Accounts payable | 357,224 | 341,134 | 341,303 |
| Accrued expenses and other | 230,288 | 212,590 | 239,898 |
| Income taxes payable | 36,536 | – | 67,091 |
| Litigation settlement payable | – | 161,000 | – |
| | | | |
| Total current liabilities | 640,608 | 1,110,601 | 664,501 |
| | | | |
| Long-term obligations | 326,028 | 336,083 | 330,337 |
| Deferred income taxes | 51,584 | 53,388 | 50,247 |
| Total liabilities | 1,018,220 | 1,500,072 | 1,045,085 |
| | | | |
| Shareholders' equity: | | | |
| Preferred stock | – | – | – |
| Common stock | 166,762 | 166,462 | 166,670 |
| Additional paid-in capital | 314,973 | 302,200 | 313,269 |
| Retained earnings | 860,879 | 625,193 | 812,220 |
| Accumulated other comprehensive loss | (1,311) | (2,677) | (1,349) |
| | 1,341,303 | 1,091,178 | 1,290,810 |
| Less other shareholders' equity | 3,556 | 2,518 | 2,742 |
| | | | |
| Total shareholders' equity | 1,337,747 | 1,088,660 | 1,288,068 |
| | | | |
| Total liabilities and shareholders' equity | \$ 2,355,967 | \$ 2,588,732 | \$ 2,333,153 |

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Income
(Amounts in thousands except per share amounts)
(Unaudited)

| | 13 Weeks Ended | | | |
|--|----------------|-------------------|----------------|-------------------|
| | May 2, 2003 | % of Net Sales | May 3, 2002 | % of Net Sales |
| Net sales | \$ 1,569,064 | 100.0% | \$ 1,389,412 | 100.0% |
| Cost of goods sold | 1,117,158 | 71.2 | 1,009,120 | 72.6 |
| Gross profit | 451,906 | 28.8 | 380,292 | 27.4 |
| Selling, general and administrative expenses | 348,955 | 22.2 | 297,304 | 21.4 |
| Operating profit | 102,951 | 6.6 | 82,988 | 6.0 |

| | | | | |
|-------------------------------|------------------|-------------|------------------|-------------|
| Interest expense, net | 9,411 | 0.6 | 10,432 | 0.8 |
| Income before income taxes | 93,540 | 6.0 | 72,556 | 5.2 |
| Provision for taxes on income | 33,208 | 2.1 | 26,628 | 1.9 |
| Net income | <u>\$ 60,332</u> | <u>3.8%</u> | <u>\$ 45,928</u> | <u>3.3%</u> |
| Diluted earnings per share | <u>\$ 0.18</u> | | <u>\$ 0.14</u> | |
| Diluted shares outstanding | <u>334,597</u> | | <u>334,834</u> | |
| Dividends per share | <u>\$ 0.035</u> | | <u>\$ 0.032</u> | |

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | 13 Weeks Ended | |
|---|-----------------|-----------------|
| | May 2, 2003 | May 3, 2002 |
| Cash flows from operating activities: | | |
| Net income | \$ 60,332 | \$ 45,928 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 36,756 | 32,004 |
| Deferred income taxes | 8,500 | 39,859 |
| Tax benefit from stock option exercises | 224 | 689 |
| Change in operating assets and liabilities: | | |
| Merchandise inventories | (77,670) | (3,426) |
| Other current assets | (6,381) | 1,500 |
| Accounts payable | 15,921 | 18,671 |
| Accrued expenses and other | (9,198) | (19,775) |
| Income taxes | (30,555) | (39,464) |
| Other | 1,763 | (1,166) |
| Net cash provided by (used in) operating activities | <u>(308)</u> | <u>74,820</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (30,129) | (34,812) |
| Proceeds from sale of property and equipment | 66 | 58 |
| Net cash used in investing activities | <u>(30,063)</u> | <u>(34,754)</u> |

Cash flows from financing activities:

| | | |
|---|----------|----------|
| Repayments of long-term obligations | (4,086) | (3,196) |
| Payment of cash dividends | (11,673) | (10,646) |
| Proceeds from exercise of stock options | 694 | 1,374 |
| Other financing activities | 64 | (1,699) |

Net cash used in financing activities

| | |
|----------|----------|
| (15,001) | (14,167) |
|----------|----------|

Net increase (decrease) in cash and cash equivalents

| | |
|----------|--------|
| (45,372) | 25,899 |
|----------|--------|

Cash and cash equivalents, beginning of period

| | |
|---------|---------|
| 121,318 | 261,525 |
|---------|---------|

Cash and cash equivalents, end of period

| | |
|-----------|------------|
| \$ 75,946 | \$ 287,424 |
|-----------|------------|

Supplemental schedule of noncash investing and financing activities:

| | | |
|--|--------|------|
| Purchase of property and equipment under capital lease obligations | \$ 117 | \$ - |
|--|--------|------|

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Reconciliation of Non-GAAP Disclosures
(In thousands, except per share amounts)
(Unaudited)

| | 13 Weeks Ended | |
|---|----------------|-------------|
| | May 2, 2003 | May 3, 2002 |
| <u>Net Income and Earnings Per Share</u> | | |
| Net income in accordance with GAAP | \$ 60,332 | \$ 45,928 |
| Restatement-related expenses in SG&A | 329 | 5,319 |
| Tax effect of restatement-related expenses | (120) | (1,952) |
| Total restatement-related items, net of tax | 209 | 3,367 |
| Net income, excluding restatement-related items | \$ 60,541 | \$ 49,295 |
| Weighted average diluted shares outstanding | 334,597 | 334,834 |
| Diluted earnings per share, excluding restatement-related items | \$ 0.18 | \$ 0.15 |
| <u>Selling, General and Administrative Expenses</u> | | |
| SG&A in accordance with GAAP | \$ 348,955 | \$ 297,304 |
| Less restatement-related expenses | 329 | 5,319 |
| SG&A, excluding restatement-related expenses | \$ 348,626 | \$ 291,985 |

SG&A, excluding restatement-related expenses % to sales

22.2%

21.0%

| | Fiscal 2002 | Guidance Range | |
|---|----------------|----------------|----------------|
| | | Fiscal 2003 | Fiscal 2003 |
| Net income in accordance with GAAP | \$ 264,946 | \$ 276,585 | \$ 288,585 |
| Restatement-related items: | | | |
| Litigation settlement and related proceeds | (29,541) | — | — |
| Restatement-related items in SG&A | 6,395 | 1,500 | 1,500 |
| | (23,146) | 1,500 | 1,500 |
| Tax effect | 9,073 | (585) | (585) |
| Total restatement-related items, net of tax | (14,073) | 915 | 915 |
| Net income, excluding restatement-related items | \$ 250,873 | \$ 277,500 | \$ 289,500 |
| % increase over 2002, excluding restatement-related items | | 11% | 15% |
| Weighted average diluted shares outstanding | 335,050 | | |
| Net income per share, excluding restatement-related items | \$ 0.75 | | |

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Selected Additional Information

Sales by Category (in thousands)
(Unaudited)

| | 13 Weeks Ended | | |
|-------------------|----------------|--------------|----------|
| | May 2, 2003 | May 3, 2002 | % Change |
| Highly consumable | \$ 990,030 | \$ 851,236 | 16.3% |
| Seasonal | 237,119 | 204,763 | 15.8% |
| Home products | 199,469 | 191,112 | 4.4% |
| Basic clothing | 142,446 | 142,301 | 0.1% |
| Total sales | \$ 1,569,064 | \$ 1,389,412 | 12.9% |

New Store Activity
(Unaudited)

| | 13 Weeks Ended | |
|-----------------------|----------------|-------------|
| | May 2, 2003 | May 3, 2002 |
| Beginning store count | 6,113 | 5,540 |

| | | |
|--------------------------------------|--------|--------|
| New store openings | 223 | 200 |
| Store closings | 7 | 9 |
| Net new stores | 216 | 191 |
| Ending store count | 6,329 | 5,731 |
| Total selling square footage (000's) | 42,761 | 38,640 |

Customer Transaction Data
(Unaudited)

13 Weeks Ended

| | May 2, <u>2003</u> | May 3, <u>2002</u> |
|-------------------------------------|-------------------------------|-------------------------------|
| Same-store customer transactions | +3.5% | +5.5% |
| Average customer transaction amount | \$8.42 | \$8.31 |

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