

DOLLAR GENERAL CORP

FORM 10-Q (Quarterly Report)

Filed 12/05/19 for the Period Ending 11/01/19

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 10-Q

(Mark One)

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

For the quarterly period ended November 1, 2019

or

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

For the transition period from _____ to _____

Commission File Number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of Registrant as specified in its charter)

TENNESSEE
(State or other jurisdiction of
incorporation or organization)

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

100 MISSION RIDGE
GOODLETTSVILLE, TN 37072

(Address of principal executive offices, zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.875 per share	DG	New York Stock Exchange

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The Registrant had 254,600,137 shares of common stock outstanding on November 29, 2019.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

**DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	November 1, 2019	February 1, 2019
	(Unaudited)	(see Note 1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 276,076	\$ 235,487
Merchandise inventories	4,496,377	4,097,004
Income taxes receivable	103,188	57,804
Prepaid expenses and other current assets	192,901	272,725
Total current assets	5,068,542	4,663,020
Net property and equipment	3,131,073	2,970,806
Operating lease assets	8,639,378	—
Goodwill	4,338,589	4,338,589
Other intangible assets, net	1,200,059	1,200,217
Other assets, net	35,149	31,406
Total assets	<u>\$ 22,412,790</u>	<u>\$ 13,204,038</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 555	\$ 1,950
Current portion of operating lease liabilities	940,504	—
Accounts payable	2,844,171	2,385,469
Accrued expenses and other	717,467	618,405
Income taxes payable	3,341	10,033
Total current liabilities	4,506,038	3,015,857
Long-term obligations	2,762,490	2,862,740
Long-term operating lease liabilities	7,688,923	—
Deferred income taxes	634,041	609,687
Other liabilities	173,003	298,361
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	—	—
Common stock	222,775	227,072
Additional paid-in capital	3,308,160	3,252,421
Retained earnings	3,120,738	2,941,107
Accumulated other comprehensive loss	(3,378)	(3,207)
Total shareholders' equity	6,648,295	6,417,393
Total liabilities and shareholders' equity	<u>\$ 22,412,790</u>	<u>\$ 13,204,038</u>

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	For the 13 weeks ended		For the 39 weeks ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Net sales	\$ 6,991,393	\$ 6,417,462	\$ 20,596,331	\$ 18,975,234
Cost of goods sold	4,926,307	4,522,403	14,380,033	13,243,053
Gross profit	2,065,086	1,895,059	6,216,298	5,732,181
Selling, general and administrative expenses	1,573,669	1,452,916	4,634,869	4,254,378
Operating profit	491,417	442,143	1,581,429	1,477,803
Interest expense	24,264	24,586	75,007	74,810
Other (income) expense	—	—	—	1,019
Income before income taxes	467,153	417,557	1,506,422	1,401,974
Income tax expense	101,603	83,415	329,304	295,743
Net income	<u>\$ 365,550</u>	<u>\$ 334,142</u>	<u>\$ 1,177,118</u>	<u>\$ 1,106,231</u>
Earnings per share:				
Basic	\$ 1.43	\$ 1.26	\$ 4.57	\$ 4.15
Diluted	\$ 1.42	\$ 1.26	\$ 4.54	\$ 4.14
Weighted average shares outstanding:				
Basic	256,041	264,490	257,618	266,404
Diluted	257,699	265,522	259,022	267,294
Dividends per share	\$ 0.32	\$ 0.29	\$ 0.96	\$ 0.87

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)
(In thousands)

	<u>For the 13 weeks ended</u>		<u>For the 39 weeks ended</u>	
	<u>November 1, 2019</u>	<u>November 2, 2018</u>	<u>November 1, 2019</u>	<u>November 2, 2018</u>
Net income	\$ 365,550	\$ 334,142	\$ 1,177,118	\$ 1,106,231
Unrealized net gain (loss) on hedged transactions, net of related income tax expense (benefit) of \$86, \$86, \$258, and \$258, respectively	243	243	730	730
Comprehensive income	<u>\$ 365,793</u>	<u>\$ 334,385</u>	<u>\$ 1,177,848</u>	<u>\$ 1,106,961</u>

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands, except per share amounts)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, August 2, 2019	257,068	\$ 224,935	\$ 3,292,902	\$ 3,234,944	\$ (3,621)	\$ 6,749,160
Net income	—	—	—	365,550	—	365,550
Dividends paid, \$0.32 per common share	—	—	—	(81,640)	—	(81,640)
Unrealized net gain (loss) on hedged transactions	—	—	—	—	243	243
Share-based compensation expense	—	—	11,100	—	—	11,100
Repurchases of common stock	(2,527)	(2,211)	—	(398,116)	—	(400,327)
Other equity and related transactions	59	51	4,158	—	—	4,209
Balances, November 1, 2019	<u>254,600</u>	<u>\$ 222,775</u>	<u>\$ 3,308,160</u>	<u>\$ 3,120,738</u>	<u>\$ (3,378)</u>	<u>\$ 6,648,295</u>
Balances, August 3, 2018	265,532	\$ 232,340	\$ 3,222,233	\$ 2,928,064	\$ (3,695)	\$ 6,378,942
Net income	—	—	—	334,142	—	334,142
Dividends paid, \$0.29 per common share	—	—	—	(76,519)	—	(76,519)
Unrealized net gain (loss) on hedged transactions	—	—	—	—	243	243
Share-based compensation expense	—	—	9,412	—	—	9,412
Repurchases of common stock	(2,771)	(2,424)	—	(295,540)	—	(297,964)
Other equity and related transactions	121	106	7,525	—	1	7,632
Balances, November 2, 2018	<u>262,882</u>	<u>\$ 230,022</u>	<u>\$ 3,239,170</u>	<u>\$ 2,890,147</u>	<u>\$ (3,451)</u>	<u>\$ 6,355,888</u>
Balances, February 1, 2019	259,511	\$ 227,072	\$ 3,252,421	\$ 2,941,107	\$ (3,207)	\$ 6,417,393
Net income	—	—	—	1,177,118	—	1,177,118
Dividends paid, \$0.96 per common share	—	—	—	(246,787)	—	(246,787)
Unrealized net gain (loss) on hedged transactions	—	—	—	—	730	730
Share-based compensation expense	—	—	35,605	—	—	35,605
Repurchases of common stock	(5,566)	(4,870)	—	(780,431)	—	(785,301)
Transition adjustment upon adoption of leases accounting standard (see Note 1)	—	—	—	28,830	—	28,830
Other equity and related transactions	655	573	20,134	901	(901)	20,707
Balances, November 1, 2019	<u>254,600</u>	<u>\$ 222,775</u>	<u>\$ 3,308,160</u>	<u>\$ 3,120,738</u>	<u>\$ (3,378)</u>	<u>\$ 6,648,295</u>
Balances, February 2, 2018	268,733	\$ 235,141	\$ 3,196,462	\$ 2,698,352	\$ (4,181)	\$ 6,125,774
Net income	—	—	—	1,106,231	—	1,106,231
Dividends paid, \$0.87 per common share	—	—	—	(231,267)	—	(231,267)
Unrealized net gain (loss) on hedged transactions	—	—	—	—	730	730
Share-based compensation expense	—	—	31,191	—	—	31,191
Repurchases of common stock	(6,456)	(5,649)	—	(641,853)	—	(647,502)
Transition adjustment upon adoption of intra-entity transfers accounting standard (see Note 1)	—	—	—	(41,316)	—	(41,316)
Other equity and related transactions	605	530	11,517	—	—	12,047
Balances, November 2, 2018	<u>262,882</u>	<u>\$ 230,022</u>	<u>\$ 3,239,170</u>	<u>\$ 2,890,147</u>	<u>\$ (3,451)</u>	<u>\$ 6,355,888</u>

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
(In thousands)

	For the 39 weeks ended	
	November 1, 2019	November 2, 2018
<i>Cash flows from operating activities:</i>		
Net income	\$ 1,177,118	\$ 1,106,231
<i>Adjustments to reconcile net income to net cash from operating activities:</i>		
Depreciation and amortization	372,378	336,363
Deferred income taxes	14,308	25,790
Loss on debt retirement	—	1,019
Noncash share-based compensation	35,605	31,191
Other noncash (gains) and losses	10,531	26,623
<i>Change in operating assets and liabilities:</i>		
Merchandise inventories	(401,006)	(388,113)
Prepaid expenses and other current assets	(24,345)	(13,559)
Accounts payable	425,414	310,552
Accrued expenses and other liabilities	108,906	84,008
Income taxes	(52,076)	(5,649)
Other	(5,723)	(339)
Net cash provided by (used in) operating activities	<u>1,661,110</u>	<u>1,514,117</u>
<i>Cash flows from investing activities:</i>		
Purchases of property and equipment	(518,051)	(550,916)
Proceeds from sales of property and equipment	1,910	1,835
Net cash provided by (used in) investing activities	<u>(516,141)</u>	<u>(549,081)</u>
<i>Cash flows from financing activities:</i>		
Issuance of long-term obligations	—	499,495
Repayments of long-term obligations	(525)	(576,977)
Net increase (decrease) in commercial paper outstanding	(90,800)	(23,200)
Costs associated with issuance and retirement of debt	(1,675)	(4,384)
Repurchases of common stock	(785,301)	(647,502)
Payments of cash dividends	(246,776)	(231,228)
Other equity and related transactions	20,697	12,007
Net cash provided by (used in) financing activities	<u>(1,104,380)</u>	<u>(971,789)</u>
Net increase (decrease) in cash and cash equivalents	40,589	(6,753)
Cash and cash equivalents, beginning of period	235,487	267,441
Cash and cash equivalents, end of period	<u>\$ 276,076</u>	<u>\$ 260,688</u>
<i>Supplemental schedule of noncash investing and financing activities:</i>		
Right of use assets obtained in exchange for new operating lease liabilities	\$ 1,311,734	\$ —
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	\$ 96,950	\$ 79,627

See notes to condensed consolidated financial statements.

DOLLAR GENERAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of presentation

The accompanying unaudited condensed consolidated financial statements of Dollar General Corporation and its subsidiaries (the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and are presented in accordance with the requirements of Form 10-Q and Rule 10-01 of Regulation S-X. Such financial statements consequently do not include all of the disclosures normally required by U.S. GAAP for annual financial statements or those normally made in the Company’s Annual Report on Form 10-K, including the condensed consolidated balance sheet as of February 1, 2019 which was derived from the audited consolidated financial statements at that date. Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Company’s Annual Report on Form 10-K for the fiscal year ended February 1, 2019 for additional information.

The Company’s fiscal year ends on the Friday closest to January 31. Unless the context requires otherwise, references to years contained herein pertain to the Company’s fiscal year. The Company’s 2019 fiscal year is scheduled to be a 52-week accounting period ending on January 31, 2020, and the 2018 fiscal year was a 52-week accounting period that ended on February 1, 2019.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the Company’s customary accounting practices. In management’s opinion, all adjustments (which are of a normal recurring nature) necessary for a fair presentation of the consolidated financial position as of November 1, 2019 and results of operations for the 13-week and 39-week accounting periods ended November 1, 2019 and November 2, 2018 have been made.

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Because the Company’s business is moderately seasonal, the results for interim periods are not necessarily indicative of the results to be expected for the entire year.

The Company uses the last-in, first-out (“LIFO”) method of valuing inventory. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management’s estimates of expected year-end inventory levels, sales for the year and the expected rate of inflation or deflation for the year. The interim LIFO calculations are subject to adjustment in the final year-end LIFO inventory valuation. The Company recorded a LIFO provision of \$3.2 million and \$12.5 million in the respective 13-week periods, and \$9.7 million and \$18.0 million in the respective 39-week periods, ended November 1, 2019 and November 2, 2018. In addition, ongoing estimates of inventory shrinkage and initial markups and markdowns are included in the interim cost of goods sold calculation.

The Company adopted new accounting guidance related to leases as of February 2, 2019, using the modified retrospective approach. Under this approach, existing leases were recorded at the adoption date, and comparative periods were not restated and are presented under previously existing guidance. In addition, the Company elected the package of practical expedients permitted under the transition guidance in the standard, which among other things, allowed the carry forward of historical conclusions for lease identification, lease classification, and initial direct costs. The Company is accounting for leases with a term of less than one year under the short-term policy election. The Company also elected the practical expedient to not separate lease components from the non-lease components (typically fixed common-area maintenance costs at its retail store locations) for all classes of leased assets. The Company chose not to elect the hindsight practical expedient. Factors incorporated into the calculation of lease discount rates include the valuations and yields of the Company’s senior notes, their credit spread over comparable U.S. Treasury rates, and an index of the credit spreads for all North American investment grade companies by rating. To determine an indicative secured rate, the Company uses the estimated credit spread improvement that would result from an upgrade of one ratings classification by tenor.

Adoption of the leasing standard resulted in right of use operating lease assets and operating lease liabilities of approximately \$8.0 billion each as of February 2, 2019. The cumulative effect of applying the standard resulted in an adjustment to retained earnings of \$28.8 million at February 2, 2019, primarily for the elimination of deferred gain on a 2013 sale-leaseback transaction. Because the standard was adopted under the modified retrospective approach, it did not impact the Company's historical consolidated net income or cash flows.

In February 2018, the FASB issued new accounting guidance for the reclassification of certain tax effects from accumulated other comprehensive income which gives entities the option to reclassify to retained earnings tax effects related to items that have been stranded in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act ("TCJA"). An entity that elects to reclassify these amounts must reclassify stranded tax effects related to the TCJA's change in US federal tax rate for all items accounted for in other comprehensive income. These entities can also elect to reclassify other stranded effects that relate to the TCJA but do not directly relate to the change in the federal tax rate. The Company adopted this standard in the first quarter of 2019 and recorded a transition adjustment of \$0.9 million, which is reflected as a reclassification from accumulated other comprehensive loss to retained earnings in the accompanying condensed consolidated financial statements.

In October 2016, the FASB issued amendments to existing guidance related to accounting for intra-entity transfers of assets other than inventory, which affected the Company's historical accounting for intra-entity transfers of certain intangible assets. This guidance was effective for the Company in 2018. The amendments were applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted this guidance effective February 3, 2018 which resulted in an increase in deferred income tax liabilities and a decrease in retained earnings of \$41.3 million.

In January 2017, the FASB issued amendments to existing guidance related to the subsequent measurement of goodwill. These amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Subsequent to adoption, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments should be applied on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. The Company currently does not anticipate a material effect on its consolidated results of operations, financial position or cash flows to result from the adoption of this guidance.

2. Earnings per share

Earnings per share is computed as follows (in thousands, except per share data):

	13 Weeks Ended November 1, 2019			13 Weeks Ended November 2, 2018		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	\$ 365,550	256,041	\$ 1.43	\$ 334,142	264,490	\$ 1.26
Effect of dilutive share-based awards		1,658			1,032	
Diluted earnings per share	<u>\$ 365,550</u>	<u>257,699</u>	<u>\$ 1.42</u>	<u>\$ 334,142</u>	<u>265,522</u>	<u>\$ 1.26</u>
	39 Weeks Ended November 1, 2019			39 Weeks Ended November 2, 2018		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	\$ 1,177,118	257,618	\$ 4.57	\$ 1,106,231	266,404	\$ 4.15
Effect of dilutive share-based awards		1,404			890	
Diluted earnings per share	<u>\$ 1,177,118</u>	<u>259,022</u>	<u>\$ 4.54</u>	<u>\$ 1,106,231</u>	<u>267,294</u>	<u>\$ 4.14</u>

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is determined based on the dilutive effect of share-based awards using the treasury stock method.

Share-based awards that were outstanding at the end of the respective periods, but were not included in the computation of diluted earnings per share because the effect of exercising such awards would be antidilutive, were 0.1 million and 0.7 million in the respective 13-week periods, and 0.4 million and 0.8 million in the respective 39-week periods, ended November 1, 2019 and November 2, 2018.

3. Income taxes

Under the accounting standards for income taxes, the asset and liability method is used for computing the future income tax consequences of events that have been recognized in the Company's consolidated financial statements or income tax returns.

Income tax reserves are determined using the methodology established by accounting standards for income taxes which require companies to assess each income tax position taken using the following two-step approach. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position.

The Company's 2015 and earlier tax years are not open for further examination by the Internal Revenue Service ("IRS"). The IRS, at its discretion, may choose to examine the Company's 2016 through 2018 fiscal year income tax filings. The Company has various state income tax examinations that are currently in progress. Generally, with few exceptions, the Company's 2016 and later tax years remain open for examination by the various state taxing authorities.

As of November 1, 2019, the total reserves for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were \$5.0 million, \$0.4 million and \$0.0 million, respectively, for a total of \$5.4 million. This total amount is reflected in noncurrent other liabilities in the condensed consolidated balance sheet.

The Company's reserve for uncertain tax positions is not expected to be reduced in the coming twelve months as a result of expiring statutes of limitations. As of November 1, 2019, approximately \$5.0 million of the reserve for uncertain tax positions would impact the Company's effective income tax rate if the Company were to recognize the tax benefit for these positions.

The effective income tax rates for the 13-week and 39-week periods ended November 1, 2019 were 21.7% and 21.9%, respectively, compared to rates of 20.0% and 21.1%, respectively, for the 13-week and 39-week periods ended November 2, 2018. The tax rates for the 13-week and 39-week periods in 2019 were higher than the comparable 13-week and 39-week periods in 2018 primarily due to an increase in income taxes resulting from changes in state income tax laws and a federal income tax benefit arising from the TCJA in the 2018 periods that did not reoccur in the comparable 2019 periods. Partially offsetting these factors were greater tax benefits associated with share-based compensation in the 2019 39-week period compared to the same period in 2018, which reduced the income tax rate.

4. Leases

As of November 1, 2019, the Company's primary leasing activities were real estate leases for most of its retail store locations and certain of its distribution facilities. Many of the Company's store locations are subject to build-to-suit arrangements with landlords which typically carry a primary lease term of up to 15 years. The Company does not control build-to-suit properties during the construction period. Store locations not subject to build-to-suit arrangements are typically shorter-term leases. Certain of the Company's leased store locations have variable payments based upon actual costs of common area maintenance, real estate taxes and property and liability insurance. In addition, some of the Company's leased store locations have provisions for variable payments based upon a specified percentage of defined sales volume. The Company's leased distribution facilities are subject to operating lease agreements, with the exception of one distribution facility which is subject to a financing transaction. The Company's lease agreements generally do not contain material restrictive covenants.

Most of the Company's leases include one or more options to renew and extend the lease term. The exercise of lease renewal options is at the Company's sole discretion. Generally, a renewal option is not deemed to be reasonably certain to be exercised until such option is legally executed. The Company's leases do not include purchase options or residual value guarantees on the leased property. The depreciable life of leasehold improvements are limited by the expected lease term.

All of the Company's leases are classified as operating leases and the associated assets and liabilities are presented as separate captions in the condensed consolidated balance sheet. At November 1, 2019, the weighted-average remaining lease term for the Company's leases is 10.2 years, and the weighted average discount rate is 4.3%. For the 39-week period ended November 1, 2019, operating lease cost of \$944.8 million and variable lease cost of \$180.7 million were reflected as selling, general and administrative expenses in the condensed consolidated statement of income. Cash paid for amounts included in the measurement of operating lease liabilities of \$949.0 million was reflected in cash flows from operating activities in the condensed consolidated statement of cash flows for the 39-week period ended November 1, 2019.

The scheduled maturity of the Company's operating lease liabilities is as follows:

(In thousands)	
2019	\$ 324,865
2020	1,276,770
2021	1,224,926
2022	1,158,951
2023	1,089,967
Thereafter	5,551,316
Total lease payments (a)	10,626,795
Less imputed interest	(1,997,368)
Present value of lease liabilities	<u>\$ 8,629,427</u>

- a) Excludes approximately \$0.7 billion of legally binding minimum lease payments for leases signed which have not yet commenced.

5. Current and long-term obligations

Current and long-term obligations consist of the following:

(In thousands)	November 1, 2019	February 1, 2019
Revolving Facility	\$ —	\$ —
3.250% Senior Notes due April 15, 2023 (net of discount of \$900 and \$1,084)	899,100	898,916
4.150% Senior Notes due November 1, 2025 (net of discount of \$507 and \$562)	499,493	499,438
3.875% Senior Notes due April 15, 2027 (net of discount of \$346 and \$375)	599,654	599,625
4.125% Senior Notes due May 1, 2028 (net of discount of \$439 and \$471)	499,561	499,529
Unsecured commercial paper notes	276,100	366,900
Capital lease obligations	—	10,977
Tax increment financing due February 1, 2035	5,835	6,360
Debt issuance costs, net	<u>(16,698)</u>	<u>(17,055)</u>
	2,763,045	2,864,690
Less: current portion	<u>(555)</u>	<u>(1,950)</u>
Long-term portion	<u>\$ 2,762,490</u>	<u>\$ 2,862,740</u>

On September 10, 2019, the Company entered into an amended and restated credit agreement, providing for a \$1.25 billion unsecured five-year revolving credit facility (the "Revolving Facility") of which up to \$175.0 million is available for letters of credit.

Borrowings under the Revolving Facility bear interest at a rate equal to an applicable interest rate margin plus, at the Company's option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable interest rate margin for borrowings as of November 1, 2019 was 1.015% for LIBOR borrowings and 0.015% for base-

rate borrowings. The Company is also required to pay a facility fee, payable on any used and unused commitment amounts of the Revolving Facility, and customary fees on letters of credit issued under the Revolving Facility. As of November 1, 2019, the facility fee rate was 0.11%. The applicable interest rate margins for borrowings, the facility fees and the letter of credit fees under the Revolving Facility are subject to adjustment from time to time based on the Company's long-term senior unsecured debt ratings.

The Revolving Facility contains a number of customary affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, the Company's ability to: incur additional liens; sell all or substantially all of the Company's assets; consummate certain fundamental changes or change in the Company's lines of business; and incur additional subsidiary indebtedness. The Revolving Facility also contains financial covenants which require the maintenance of a minimum fixed charge coverage ratio and a maximum leverage ratio. As of November 1, 2019, the Company was in compliance with all such covenants. The Revolving Facility also contains customary events of default.

As of November 1, 2019, the Company had no outstanding borrowings, outstanding letters of credit of \$6.7 million, and borrowing availability of \$1.24 billion under the Revolving Facility that, due to its intention to maintain borrowing availability related to the commercial paper program described below, could contribute incremental liquidity of \$786.2 million. In addition, as of November 1, 2019, the Company had outstanding letters of credit of \$43.1 million which were issued pursuant to separate agreements.

As of November 1, 2019, the Company had a commercial paper program under which the Company may issue unsecured commercial paper notes (the "CP Notes") from time to time in an aggregate amount not to exceed \$1.0 billion outstanding at any time. The CP Notes may have maturities of up to 364 days from the date of issue and rank equal in right of payment with all of the Company's other unsecured and unsubordinated indebtedness. The Company intends to maintain available commitments under the Revolving Facility in an amount at least equal to the amount of CP Notes outstanding at any time. As of November 1, 2019, the Company's condensed consolidated balance sheet reflected outstanding unsecured CP Notes of \$276.1 million classified as long-term obligations due to its intent and ability to refinance these obligations as long-term debt. An additional \$181.0 million of outstanding CP Notes were held by a wholly-owned subsidiary of the Company and are therefore not reflected on the condensed consolidated balance sheet. As of November 1, 2019, the outstanding CP Notes had a weighted average borrowing rate of 1.9%.

On April 10, 2018, the Company issued \$500.0 million aggregate principal amount of 4.125% senior notes due 2028 (the "2028 Senior Notes"), net of discount of \$0.5 million, which are scheduled to mature on May 1, 2028. Interest on the 2028 Senior Notes is payable in cash on May 1 and November 1 of each year. The Company incurred \$4.4 million of debt issuance costs associated with the issuance of the 2028 Senior Notes.

Effective April 15, 2018, the Company redeemed \$400.0 million aggregate principal amount of outstanding 1.875% senior notes due 2018 (the "2018 Senior Notes"). There was no gain or loss associated with the redemption. The Company funded the redemption price for the 2018 Senior Notes with proceeds from the issuance of the 2028 Senior Notes.

6. Assets and liabilities measured at fair value

Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Company does not have any fair value measurements categorized within Level 3 as of November 1, 2019.

The following table presents the Company's liabilities required to be measured at fair value as of November 1, 2019, aggregated by the level in the fair value hierarchy within which those measurements are classified.

<u>(In thousands)</u>	<u>Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Total Fair Value at November 1, 2019</u>
<u>Liabilities:</u>				
Long-term obligations (a)	\$ 2,678,489	\$ 281,935	\$ —	\$ 2,960,424
Deferred compensation (b)	27,689	—	—	27,689

- (a) Included in the condensed consolidated balance sheet at book value as Current portion of long-term obligations of \$555 and Long-term obligations of \$2,762,490.
- (b) Reflected at fair value in the condensed consolidated balance sheet as Accrued expenses and other current liabilities of \$2,889 and noncurrent Other liabilities of \$24,800.

7. Commitments and contingencies

Legal proceedings

From time to time, the Company is a party to various legal matters in the ordinary course of its business, including actions by employees, consumers, suppliers, government agencies, or others. The Company has recorded accruals with respect to these matters, where appropriate, which are reflected in the Company's consolidated financial statements. For some matters, a liability is not probable or the amount cannot be reasonably estimated and therefore an accrual has not been made. In the 13-week period ended August 2, 2019, the Company recorded an accrual of \$31.0 million for losses the Company believes are both probable and reasonably estimable relating to certified class actions and associated matters in Wage and Hour/Employment Litigation and Consumer/Product Litigation.

Except as described below and based on information currently available, the Company believes that its pending legal matters, both individually and in the aggregate, will be resolved without a material adverse effect on the Company's consolidated financial statements as a whole. However, litigation and other legal matters involve an element of uncertainty. Adverse decisions and settlements, including any required changes to the Company's business, or other developments in such matters, including without limitation those matters disclosed in Note 6 to the audited consolidated financial statements contained in the Company's Annual Report on Form 10-K filed with the SEC on March 22, 2019 under "*Wage and Hour/Employment Litigation*," could affect our consolidated operating results in future periods or could result in liability or other amounts material to the Company's annual consolidated financial statements.

Consumer/Product Litigation

In December 2015 the Company was first notified of several lawsuits in which plaintiffs allege violation of state law, including state consumer protection laws, relating to the labeling, marketing and sale of certain Dollar General private-label motor oil. Each of these lawsuits, as well as additional, similar lawsuits filed after December 2015, was filed in, or removed to, various federal district courts of the United States (collectively "the Motor Oil Lawsuits").

On June 2, 2016, the United States Judicial Panel on Multidistrict Litigation ("JPML") granted the Company's motion to centralize the Motor Oil Lawsuits in a matter styled *In re Dollar General Corp. Motor Oil Litigation*, Case MDL No. 2709, before the United States District Court for the Western District of Missouri ("Motor Oil MDL"). Subsequently, plaintiffs in the Motor Oil MDL filed a consolidated amended complaint, in which they sought to certify two nationwide classes and multiple statewide sub-classes and for each putative class member some or all of the following relief: compensatory damages, injunctive relief, statutory damages, punitive damages and attorneys' fees. The Company's motion to dismiss the allegations raised in the consolidated amended complaint was granted in part and denied in part on August 3, 2017. To the extent additional consumer lawsuits alleging violation of laws relating to the labeling, marketing and sale of Dollar General private-label motor oil have been or will be filed, the Company expects that such lawsuits will be transferred to the Motor Oil MDL.

In May 2017, the Company received a Notice of Proposed Action from the Office of the New Mexico Attorney General (the "New Mexico AG") which alleges that the Company's labeling, marketing and sale of certain Dollar

General private-label motor oil violated New Mexico law (the “New Mexico Motor Oil Matter”). The State is represented in connection with this matter by counsel for plaintiffs in the Motor Oil MDL.

On June 20, 2017, the New Mexico AG filed an action in the First Judicial District Court, County of Santa Fe, New Mexico pertaining to the New Mexico Motor Oil Matter. (*Hector H. Balderas v. Dolgencorp, LLC*, Case No. D-101-cv-2017-01562). The Company removed this matter to New Mexico federal court on July 26, 2017, and it was transferred to the Motor Oil MDL. (*Hector H. Balderas v. Dolgencorp, LLC*, D.N.M., Case No. 1:17-cv-772). On April 23, 2019, the matter was remanded to state court, and on May 3, 2019, the Company moved to dismiss the action.

On September 1, 2017, the Mississippi Attorney General (the “Mississippi AG”), who also is represented by the counsel for plaintiffs in the Motor Oil MDL, filed an action in the Chancery Court of the First Judicial District of Hinds County, Mississippi in which the Mississippi AG alleges that the Company’s labeling, marketing and sale of certain Dollar General private-label motor oil violated Mississippi law. (*Jim Hood v. Dollar General Corporation*, Case No. G2017-1229 T/1) (the “Mississippi Motor Oil Matter”). The Company removed this matter to Mississippi federal court on October 5, 2017, and filed a motion to dismiss the action. The matter was transferred to the Motor Oil MDL and the Mississippi AG moved to remand it to state court. (*Jim Hood v. Dollar General Corporation*, N.D. Miss., Case No. 3:17-cv-801-LG-LRA). On May 7, 2019, the Mississippi AG renewed its motion to remand. The Company’s and the Mississippi AG’s above-referenced motions are pending.

On January 30, 2018, the Company received a Civil Investigative Demand (“CID”) from the Office of the Louisiana Attorney General requesting information concerning the Company’s labeling, marketing and sale of certain Dollar General private-label motor oil (the “Louisiana Motor Oil Matter”). In response to the CID, the Company filed a petition for a protective order on February 20, 2018 in the 19th Judicial District Court for the Parish of East Baton Rouge, Louisiana seeking to set aside the CID. (*In re Dollar General Corp. and Dolgencorp, LLC*, Case No. 666499). The Company’s petition is pending.

On August 20, 2018, plaintiffs moved to certify two nationwide classes relating to their claims of alleged unjust enrichment and breach of implied warranties. In addition, plaintiffs moved to certify a multi-state class relating to their claims of breach of implied warranties and multiple statewide classes relating to alleged unfair trade practices/consumer fraud, unjust enrichment and breach of implied warranty claims. The Company opposed the plaintiffs’ certification motion. On March 21, 2019, the court granted the plaintiffs’ certification motion as to 16 statewide classes regarding claims of unjust enrichment and 16 statewide classes regarding state consumer protection laws. Subsequently, the court certified an additional class, bringing the total to 17 statewide classes. The court denied plaintiffs’ certification motion in all other respects. On June 25, 2019, the United States Court of Appeals for the Eighth Circuit granted the Company’s Petition to Appeal the lower court’s certification rulings.

The Company is vigorously defending these matters and believes that the labeling, marketing and sale of its private-label motor oil comply with applicable federal and state requirements and are not misleading. The Company further believes that these matters are not appropriate for class or similar treatment. At this time, however, it is not possible to predict whether these matters ultimately will be permitted to proceed as a class or in a similar fashion or the size of any putative class or classes. Likewise, no assurances can be given that the Company will be successful in its defense of these matters on the merits or otherwise. Based on its belief that a loss in this matter is both probable and reasonably estimable, during the 13-week period ended August 2, 2019, the Company recorded an accrual for an amount that is immaterial to the Company’s consolidated financial statements as a whole.

8. Segment reporting

The Company manages its business on the basis of one reportable operating segment. As of November 1, 2019, all of the Company’s operations were located within the United States with the exception of certain product sourcing operations in Hong Kong and China, which collectively are not material with regard to assets, results of operations or

otherwise to the condensed consolidated financial statements. The following net sales data is presented in accordance with accounting standards related to disclosures about segments of an enterprise.

(in thousands)	13 Weeks Ended		39 Weeks Ended	
	November 1, 2019	November 2, 2018	November 1, 2019	November 2, 2018
Classes of similar products:				
Consumables	\$ 5,523,157	\$ 5,058,839	\$ 16,164,317	\$ 14,819,290
Seasonal	750,843	687,640	2,341,914	2,171,184
Home products	400,934	371,833	1,151,715	1,071,627
Apparel	316,459	299,150	938,385	913,133
Net sales	<u>\$ 6,991,393</u>	<u>\$ 6,417,462</u>	<u>\$ 20,596,331</u>	<u>\$ 18,975,234</u>

9. Common stock transactions

On August 29, 2012, the Company's Board of Directors authorized a common stock repurchase program, which the Board has since increased on several occasions. Most recently, on December 3, 2019, the Company's Board of Directors authorized a \$1.0 billion increase to the existing common stock repurchase program and as of that date, a cumulative total of \$8.0 billion had been authorized under the program since its inception and approximately \$1.6 billion remained available for repurchase. The repurchase authorization has no expiration date and allows repurchases from time to time in the open market or in privately negotiated transactions. The timing and number of shares purchased depends on a variety of factors, such as price, market conditions, compliance with the covenants and restrictions under the Company's debt agreements and other factors. Repurchases under the program may be funded from available cash or borrowings, including under the Company's Revolving Facility and issuance of CP Notes discussed in further detail in Note 5.

Pursuant to its common stock repurchase program, during the 39-week periods ended November 1, 2019 and November 2, 2018, the Company repurchased in the open market approximately 5.6 million shares of its common stock at a total cost of \$785.3 million and approximately 6.5 million shares of its common stock at a total cost of \$647.5 million, respectively.

The Company paid a quarterly cash dividend of \$0.32 per share during each of the first three quarters of 2019. On December 4, 2019, the Company's Board of Directors declared a quarterly cash dividend of \$0.32 per share, which is payable on or before January 21, 2020 to shareholders of record on January 7, 2020. The amount and declaration of future cash dividends is subject to the sole discretion of the Company's Board of Directors and will depend upon, among other things, the Company's results of operations, cash requirements, financial condition, contractual restrictions and other factors that the Board may deem relevant in its sole discretion.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Dollar General Corporation

Results of Review of Interim Financial Statements

We have reviewed the accompanying condensed consolidated balance sheet of Dollar General Corporation and subsidiaries (the Company) as of November 1, 2019, the related condensed consolidated statements of income, comprehensive income, and shareholders' equity for the thirteen and thirty-nine week periods ended November 1, 2019 and November 2, 2018, the condensed consolidated statements of cash flows for the thirty-nine week periods ended November 1, 2019 and November 2, 2018, and the related notes (collectively referred to as the "condensed consolidated interim financial statements"). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of February 1, 2019, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the year then ended, and the related notes (not presented herein); and in our report dated March 22, 2019, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of February 1, 2019, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for Review Results

These financial statements are the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the SEC and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Ernst & Young LLP

December 5, 2019
Nashville, Tennessee

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

General

This discussion and analysis is based on, should be read with, and is qualified in its entirety by, the accompanying unaudited condensed consolidated financial statements and related notes, as well as our consolidated financial statements and the related Management's Discussion and Analysis of Financial Condition and Results of Operations as contained in our Annual Report on Form 10-K for the fiscal year ended February 1, 2019. It also should be read in conjunction with the disclosure under "Cautionary Disclosure Regarding Forward-Looking Statements" in this report.

Executive Overview

We are among the largest discount retailers in the United States by number of stores, with 16,094 stores located in 44 states as of November 1, 2019, with the greatest concentration of stores in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home decor and domestics, and basic apparel. Our merchandise includes national brands from leading manufacturers, as well as our own private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically \$10 or less) in our convenient small-box locations.

We believe our convenient store formats, locations, and broad selection of high-quality products at compelling values have driven our substantial growth and financial success over the years and through a variety of economic cycles. We are mindful that the majority of our customers are value-conscious, and many have low and/or fixed incomes. As a result, we are intensely focused on helping our customers make the most of their spending dollars. Our core customers are often among the first to be affected by negative or uncertain economic conditions and among the last to feel the effects of improving economic conditions particularly when trends are inconsistent and of an uncertain duration. The primary macroeconomic factors that affect our core customers include the unemployment and underemployment rates, wage growth, changes in U.S. and global trade policy (including price increases from tariffs), and changes to certain government assistance programs, such as the Supplemental Nutrition Assistance Program. Additionally, our customers are impacted by increases in those expenses that generally comprise a large portion of their household budget, such as rent, healthcare and fuel prices. Finally, significant unseasonable or unusual weather patterns can impact customer shopping behaviors.

We remain committed to the following long-term operating priorities as we consistently strive to improve our performance while retaining our customer-centric focus: 1) driving profitable sales growth, 2) capturing growth opportunities, 3) enhancing our position as a low-cost operator, and 4) investing in our people as a competitive advantage.

We seek to drive profitable sales growth through initiatives aimed at increasing customer traffic and average transaction amount. As we work to provide everyday low prices and meet our customers' affordability needs, we remain focused on enhancing our margins through effective category management, inventory shrink reduction initiatives, private brands penetration, distribution and transportation efficiencies, global sourcing, and pricing and markdown optimization. Several of our sales-driving initiatives are also designed to capture growth opportunities and are discussed in more detail below.

Historically, our sales of consumables, which tend to have lower gross margins, have been the key drivers of net sales and customer traffic, while sales of non-consumables, which tend to have higher gross margins, have contributed to more profitable sales growth and an increase in average transaction amount. In recent years, our sales mix has continued to shift slightly toward consumables, and, within consumables, slightly toward lower margin departments such as perishables and tobacco. While we expect some sales mix challenges to persist, certain of our initiatives are intended to address these trends, although there can be no assurance we will be successful in reversing them.

We continue to make progress on and invest in certain strategic initiatives that we believe will help drive profitable sales growth and capture long-term growth opportunities. Such opportunities include leveraging existing and

developing new digital tools and technology to provide our customers with additional shopping access points and even greater convenience. Additionally, we tested a refreshed approach to our non-consumable product offerings in 2018, and have implemented this initiative in more than 2,100 stores through the end of the 2019 third quarter. This merchandising strategy offers a new, differentiated and limited assortment that will change throughout the year. As we extend this initiative more broadly, our goal is to continue to improve the shopping experience while delivering exceptional value within key areas of our non-consumable categories.

We are continuing our rollout of the “DG Fresh” initiative, a self-distribution model for fresh and frozen products that is designed to enhance sales, reduce product costs, improve our in-stock position and enhance item assortment. We are currently operating four DG Fresh distribution facilities, which are serving approximately 4,900 stores as of November 1, 2019.

Tariffs on products from China, as applied to both our direct imports and domestic purchases, did not have a material impact on our financial results through the first three quarters of 2019. Effective May 10, 2019, tariff rates on certain products from China increased from 10% to 25%. Additionally, a 15% tariff on a fourth list of products went into effect, in part, on September 1, 2019, with the tariff on the remaining items on this list scheduled to go into effect on December 15, 2019. We believe we can mitigate the potential sales and margin impact of such increased tariffs on our financial results for the remainder of 2019, particularly in light of our performance through the end of the third quarter of 2019, through various sourcing, merchandising and pricing efforts. However, these and additional increases in tariff rates (such as the scheduled October 2019 increase which was indefinitely postponed) or expansions of products subject to tariffs, if any, may have a more significant impact on our future business. Further, as noted above, changes in trade policy that result in higher prices for our customers may negatively impact their budgets, and consequently, their spending. There can be no assurance we will be successful in our efforts to mitigate the impacts of existing or future tariffs in whole or in part, including but not limited to any impacts on customer spending.

To support our other operating priorities, we remain focused on capturing growth opportunities. Through the first three quarters of 2019, we opened 769 new stores, remodeled 928 stores, and relocated 75 stores. For 2019, we plan to open approximately 975 new stores, remodel approximately 1,000 stores, and relocate approximately 100 stores for a total of 2,075 real estate projects. In our fiscal 2020 year, we plan to open approximately 1,000 new stores, remodel approximately 1,500 stores, and relocate approximately 80 stores for a total of 2,580 real estate projects.

We continue to innovate within our channel and are able to utilize the most productive of our various store formats based on the specific market opportunity. We expect that our traditional 7,300 square foot store format will continue to be the primary store layout for new stores in 2019. This traditional store layout now incorporates higher-capacity coolers in the majority of projects. We expect approximately 500 of the planned 1,000 remodels in 2019 to use a higher-cooler-count store format that enables us to offer an increased selection of perishable items. In 2020, we expect approximately 1,125 of our planned 1,500 remodels to use a higher-cooler count format, with the traditional store format the primary store layout for the remainder of the real estate projects. The acceleration of remodels in 2020 and the increased usage of the higher-cooler-count formats is expected to allow us to capture additional growth opportunities within our existing markets. In addition, our smaller format store (less than 6,000 square feet) is expected to allow us to capture growth opportunities in metropolitan areas as well as in rural areas with a low number of households. We continue to incorporate lessons learned from our various store formats and layouts into our existing store base with a goal of driving increased customer traffic, average transaction amount, same-store sales and overall store productivity.

To support our new store growth and drive productivity, we continue to make investments in our traditional distribution center network for non-refrigerated merchandise. We began shipping from our distribution centers in Longview, Texas and Amsterdam, New York in January 2019 and December 2019, respectively.

We have established a position as a low-cost operator, always seeking ways to reduce or control costs that do not affect our customers’ shopping experiences. We plan to continue enhancing this position over time while employing ongoing cost discipline to reduce certain expenses as a percentage of sales. Nonetheless, we seek to maintain flexibility to invest in the business as necessary to enhance our long-term profitability.

We also have launched “Fast Track”, an initiative aimed at further enhancing our convenience proposition and in-stock position as well as increasing labor productivity within our stores. The first phase of Fast Track involves sorting process optimization within our distribution centers, as well as increased shelf-ready packaging, to allow for greater store-level stocking efficiencies, followed by the second-phase pilot of a self-checkout option in a limited number of

stores. We have completed the sorting process optimization at nine of our non-refrigerated distribution centers, and we expect this process to be completed at the remaining eight non-refrigerated distribution centers by the end of the year. Additionally, we have launched the self-checkout pilot in a select number of stores. These and certain other strategic initiatives will require us to incur upfront expenses for which, in some respects, there may not be an immediate or acceptable return in terms of sales or enhanced profitability.

Certain operating expenses such as wage rates and occupancy costs have continued to increase in recent years. While we expect these increases to persist, certain of our initiatives and plans are intended to help offset these challenges, although there can be no assurance we will be successful in mitigating them.

Our employees are a competitive advantage, and we proactively seek ways to continue investing in them. Our goal is to create an environment that attracts and retains talented personnel, particularly at the store level, because employees who are promoted from within our company generally have longer tenures and are greater contributors to improvements in our financial performance. We believe our investments in compensation and training for our store managers have contributed to improved customer experience scores, higher sales and improved turnover metrics.

To further enhance shareholder returns, we repurchased shares of our common stock and paid a quarterly cash dividend in the third quarter of 2019. We intend to continue our share repurchase activity, and to pay quarterly cash dividends, throughout 2019, subject to Board discretion and approval.

Highlights of our 2019 third quarter results of operations compared to the 2018 third quarter and our financial condition at November 1, 2019 are set forth below. Basis points amounts referred to below are equal to 0.01% as a percentage of net sales.

- Net sales increased 8.9% to \$6.99 billion. Sales in same-stores increased 4.6% reflecting increases in average transaction amount and customer traffic. Average sales per square foot for all stores over the 52-week period ended November 1, 2019 was \$236.
- Gross profit, as a percentage of net sales, was 29.5% in the 2019 period and 29.5% in the 2018 period, an increase of 1 basis point, reflecting higher initial inventory markups and favorable markdowns mostly offset by higher transportation and distribution costs and higher shrink.
- SG&A expense, as a percentage of net sales, was 22.5% in the 2019 period compared to 22.6% in the 2018 period, a decrease of 13 basis points, primarily due to greater hurricane-related expenses in the prior year period.
- Operating profit increased 11.1% to \$491.4 million in the 2019 period compared to \$442.1 million in the 2018 period.
- The effective income tax rate for the 2019 period was 21.7% compared to a rate of 20.0% for the 2018 period primarily due to changes in state income tax laws and a federal income tax benefit arising from the TCJA in the 2018 period that did not recur in the 2019 period.
- Net income was \$365.6 million, or \$1.42 per diluted share, in the 2019 period compared to net income of \$334.1 million, or \$1.26 per diluted share, in the 2018 period.

Highlights of the year-to-date period of 2019 include:

- Cash generated from operating activities was \$1.66 billion for the 2019 period, an increase of 9.7% over \$1.51 billion in the comparable 2018 period.
- Total cash dividends of \$246.8 million, or \$0.96 per share, were paid during the 2019 period, compared to \$231.2 million, or \$0.87 per share, in the comparable 2018 period.
- Inventory turnover was 4.5 times on a rolling four-quarter basis. On a per store basis, inventories at November 1, 2019 increased by 6.9% over the balances at November 2, 2018.

The above discussion is a summary only. Readers should refer to the detailed discussion of our results of operations below in the current year periods as compared with the prior year periods as well as our financial condition at November 1, 2019.

Results of Operations

Accounting Periods. We utilize a 52-53 week fiscal year convention that ends on the Friday nearest to January 31. The following text contains references to years 2019 and 2018, which represent the 52-week fiscal years ending or ended January 31, 2020 and February 1, 2019, respectively. References to the third quarter accounting periods for 2019 and 2018 contained herein refer to the 13-week accounting periods ended November 1, 2019 and November 2, 2018, respectively.

Seasonality. The nature of our business is somewhat seasonal. Primarily because of sales of Christmas-related merchandise, operating profit in our fourth quarter (November, December and January) has historically been higher than operating profit in each of the first three quarters of the fiscal year. Expenses, and to a greater extent operating profit, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods.

The following table contains results of operations data for the third 13-week periods and the 39-week periods of 2019 and 2018, and the dollar and percentage variances among those periods:

(amounts in millions, except per share amounts)	13 Weeks Ended		2019 vs. 2018		39 Weeks Ended		2019 vs. 2018	
	November 1, 2019	November 2, 2018	Amount Change	% Change	November 1, 2019	November 2, 2018	Amount Change	% Change
Net sales by category:								
Consumables	\$ 5,523.2	\$ 5,058.8	\$ 464.3	9.2 %	\$ 16,164.3	\$ 14,819.3	\$ 1,345.0	9.1 %
<i>% of net sales</i>	79.00 %	78.83 %			78.48 %	78.10 %		
Seasonal	750.8	687.6	63.2	9.2	2,341.9	2,171.2	170.7	7.9
<i>% of net sales</i>	10.74 %	10.72 %			11.37 %	11.44 %		
Home products	400.9	371.8	29.1	7.8	1,151.7	1,071.6	80.1	7.5
<i>% of net sales</i>	5.73 %	5.79 %			5.59 %	5.65 %		
Apparel	316.5	299.2	17.3	5.8	938.4	913.1	25.3	2.8
<i>% of net sales</i>	4.53 %	4.66 %			4.56 %	4.81 %		
Net sales	\$ 6,991.4	\$ 6,417.5	\$ 573.9	8.9 %	\$ 20,596.3	\$ 18,975.2	\$ 1,621.1	8.5 %
Cost of goods sold	4,926.3	4,522.4	403.9	8.9	14,380.0	13,243.1	1,137.0	8.6
<i>% of net sales</i>	70.46 %	70.47 %			69.82 %	69.79 %		
Gross profit	2,065.1	1,895.1	170.0	9.0	6,216.3	5,732.2	484.1	8.4
<i>% of net sales</i>	29.54 %	29.53 %			30.18 %	30.21 %		
Selling, general and administrative expenses	1,573.7	1,452.9	120.8	8.3	4,634.9	4,254.4	380.5	8.9
<i>% of net sales</i>	22.51 %	22.64 %			22.50 %	22.42 %		
Operating profit	491.4	442.1	49.3	11.1	1,581.4	1,477.8	103.6	7.0
<i>% of net sales</i>	7.03 %	6.89 %			7.68 %	7.79 %		
Interest expense	24.3	24.6	(0.3)	(1.3)	75.0	74.8	0.2	0.3
<i>% of net sales</i>	0.35 %	0.38 %			0.36 %	0.39 %		
Other (income) expense	—	—	—	—	—	1.0	(1.0)	(100.0)
<i>% of net sales</i>	0.00 %	0.00 %			0.00 %	0.01 %		
Income before income taxes	467.2	417.6	49.6	11.9	1,506.4	1,402.0	104.4	7.4
<i>% of net sales</i>	6.68 %	6.51 %			7.31 %	7.39 %		
Income tax expense	101.6	83.4	18.2	21.8	329.3	295.7	33.6	11.3
<i>% of net sales</i>	1.45 %	1.30 %			1.60 %	1.56 %		
Net income	\$ 365.6	\$ 334.1	\$ 31.4	9.4 %	\$ 1,177.1	\$ 1,106.2	\$ 70.9	6.4 %
<i>% of net sales</i>	5.23 %	5.21 %			5.72 %	5.83 %		
Diluted earnings per share	\$ 1.42	\$ 1.26	\$ 0.16	12.7 %	\$ 4.54	\$ 4.14	\$ 0.40	9.7 %

13 WEEKS ENDED NOVEMBER 1, 2019 AND NOVEMBER 2, 2018

Net Sales. The net sales increase in the 2019 period reflects a same-store sales increase of 4.6% compared to the 2018 period. Same-stores include stores that have been open for at least 13 months and remain open at the end of the

reporting period. For the 2019 period, there were 15,015 same-stores which accounted for sales of \$6.7 billion. The increase in same-store sales reflects an increase in average transaction amount driven by higher average item retail prices, as well as an increase in customer traffic. Same-store sales increased in each of the consumables, seasonal, home products and apparel categories. The net sales increase was also positively affected by sales from new stores, modestly offset by sales from closed stores.

Gross Profit. For the 2019 period, gross profit increased by 9.0%, and as a percentage of net sales increased by 1 basis point to 29.5% compared to the 2018 period. Higher initial markups on inventory purchases, a reduction in markdowns as a percentage of net sales and a lower LIFO provision each contributed to the increase in the gross profit rate. These factors were partially offset by increased transportation and distribution costs, higher shrink, and a greater proportion of sales coming from the consumables category, which generally has a lower gross profit rate than our other product categories, and sales of lower margin products comprising a higher proportion of sales within the consumables category.

Selling, General & Administrative Expenses (“SG&A”). SG&A was 22.5% as a percentage of net sales in the 2019 period compared to 22.6% in the comparable 2018 period, a decrease of 13 basis points. The 2018 period results include \$14.1 million of hurricane-related expenses which were significantly greater than such expenses incurred in the 2019 period. The results also reflect a reduction in expenses for store supplies and lower retail labor costs as a percentage of sales. These items were partially offset by higher utilities costs.

Income Taxes. The effective income tax rate for the 2019 period was 21.7% compared to a rate of 20.0% for the 2018 period which represents a net increase of 1.7 percentage points. The tax rate for the 2019 period was higher than the comparable 2018 period primarily due to changes in state income tax laws and a federal income tax benefit arising from the TCJA in the 2018 period that did not reoccur in the 2019 period.

39 WEEKS ENDED NOVEMBER 1, 2019 AND NOVEMBER 2, 2018

Net Sales. The net sales increase in the 2019 period reflects a same-store sales increase of 4.1% compared to the 2018 period. For the 2019 period, there were 15,015 same-stores which accounted for sales of \$19.6 billion. The increase in same-store sales reflects increases in average transaction amount and customer traffic. The increase in average transaction amount was driven by higher average retail prices per transaction. Same-store sales increased in the consumables, seasonal and home products categories and declined slightly in the apparel category. The net sales increase was also positively affected by sales from new stores, modestly offset by sales from closed stores.

Gross Profit. For the 2019 period, gross profit increased by 8.4%, and as a percentage of net sales decreased by 3 basis points to 30.2% compared to the 2018 period. Increased distribution and transportation costs, higher shrink, and a greater proportion of sales of consumables, which generally have a lower gross profit rate than our other product categories, and the sales of lower margin products comprising a higher proportion of consumables sales, contributed to the decrease in the gross profit rate. These factors were partially offset by higher initial markups on inventory purchases and a reduction in markdowns as a percentage of net sales.

Selling, General & Administrative Expenses. SG&A was 22.5% as a percentage of net sales in the 2019 period compared to 22.4% in the comparable 2018 period, an increase of 8 basis points. We recorded expenses of \$31.0 million in the 2019 period reflecting our estimate for the settlement of legal matters discussed in Note 7 to the condensed consolidated financial statements. The 2018 period results include \$14.1 million of hurricane-related expenses which were significantly greater than such expenses incurred in the 2019 period. The 2019 period results also reflect lower retail labor costs as a percentage of sales.

Income Taxes. The effective income tax rate for the 2019 period was 21.9% compared to a rate of 21.1% for the 2018 period which represents a net increase of 0.8 percentage points. The tax rate for the 2019 period was higher than the comparable 2018 period primarily due to changes in state income tax laws and a federal income tax benefit arising from the TCJA in the 2018 period that did not reoccur in the 2019 period, which was partially offset by greater tax benefits associated with share-based compensation in the 2019 period.

Accounting Standards

In January 2017, the FASB issued amendments to existing guidance related to the subsequent measurement of goodwill. These amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Subsequent to adoption, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments should be applied on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. We currently do not anticipate a material effect on our consolidated results of operations, financial position or cash flows to result from the adoption of this guidance.

Liquidity and Capital Resources

At November 1, 2019, we had a \$1.25 billion unsecured revolving credit agreement (the "Revolving Facility"), \$2.5 billion aggregate principal amount of senior notes, and a commercial paper program that may provide borrowing availability of up to \$1.0 billion. At November 1, 2019, we had total consolidated outstanding debt (including the current portion of long-term obligations) of \$2.8 billion, which includes commercial paper borrowings ("CP Notes") and senior notes, all of which are described in greater detail below. Our borrowing availability under the Revolving Facility may be effectively limited by our CP Notes as further described below.

We believe our cash flow from operations and existing cash balances, combined with availability under the Revolving Facility, the CP Notes and access to the debt markets will provide sufficient liquidity to fund our current obligations, projected working capital requirements, capital spending and anticipated dividend payments for a period that includes the next twelve months as well as the next several years. However, our ability to maintain sufficient liquidity may be affected by numerous factors, many of which are outside of our control. Depending on our liquidity levels, conditions in the capital markets and other factors, we may from time to time consider the issuance of debt, equity or other securities, the proceeds of which could provide additional liquidity for our operations.

For the remainder of fiscal 2019, we anticipate potential combined borrowings under the Revolving Facility and our CP Notes to be a maximum of approximately \$900 million outstanding at any one time, including any anticipated borrowings to fund repurchases of common stock.

Revolving Credit Facility

On September 10, 2019, we entered into an amended and restated credit agreement consisting of a \$1.25 billion senior unsecured revolving credit facility of which up to \$175.0 million is available for the issuance of letters of credit and which is scheduled to mature on September 10, 2024.

Borrowings under the Revolving Facility bear interest at a rate equal to an applicable interest rate margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable interest rate margin for borrowings as of November 1, 2019 was 1.015% for LIBOR borrowings and 0.015% for base-rate borrowings. We must also pay a facility fee, payable on any used and unused commitment amounts of the Revolving Facility, and customary fees on letters of credit issued under the Revolving Facility. As of November 1, 2019, the facility fee rate was 0.11%. The applicable interest rate margins for borrowings, the facility fees and the letter of credit fees under the Revolving Facility are subject to adjustment from time to time based on our long-term senior unsecured debt ratings.

The Revolving Facility contains a number of customary affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, our (including our subsidiaries') ability to: incur additional liens; sell all or substantially all of our assets; consummate certain fundamental changes or change in our lines of business; and incur additional subsidiary indebtedness. The Revolving Facility also contains financial covenants that require the maintenance of a minimum fixed charge coverage ratio and a maximum leverage ratio. As of November 1, 2019, we were in compliance with all such covenants. The Revolving Facility also contains customary events of default.

As of November 1, 2019, under the Revolving Facility, we had no outstanding borrowings, outstanding letters of credit of \$6.7 million, and borrowing availability of \$1.24 billion that, due to our intention to maintain borrowing availability related to the commercial paper program described below, could contribute incremental liquidity of \$786.2 million at November 1, 2019. In addition, as of November 1, 2019 we had outstanding letters of credit of \$43.1 million which were issued pursuant to separate agreements.

Commercial Paper

As of November 1, 2019, our condensed consolidated balance sheet reflected outstanding unsecured CP Notes of \$276.1 million classified as long-term obligations due to our intent and ability to refinance these obligations as long-term debt. An additional \$181.0 million of outstanding CP Notes were held by a wholly-owned subsidiary and are therefore not reflected on the condensed consolidated balance sheet. We may issue the CP Notes from time to time in an aggregate amount not to exceed \$1.0 billion outstanding at any time. The CP Notes may have maturities of up to 364 days from the date of issue and rank equal in right of payment with all of our other unsecured and unsubordinated indebtedness. We intend to maintain available commitments under the Revolving Facility in an amount at least equal to the amount of CP Notes outstanding at any time. As of November 1, 2019, the consolidated outstanding CP Notes had a weighted average borrowing rate of 1.9%.

Senior Notes

In April 2013 we issued \$900.0 million aggregate principal amount of 3.25% senior notes due 2023 (the “2023 Senior Notes”) at a discount of \$2.4 million, which are scheduled to mature on April 15, 2023. In October 2015 we issued \$500.0 million aggregate principal amount of 4.150% senior notes due 2025 (the “2025 Senior Notes”) at a discount of \$0.8 million, which are scheduled to mature on November 1, 2025. In April 2017 we issued \$600.0 million aggregate principal amount of 3.875% senior notes due 2027 (the “2027 Senior Notes”) at a discount of \$0.4 million, which are scheduled to mature on April 15, 2027. In April 2018 we issued \$500.0 million aggregate principal amount of 4.125% senior notes due 2028 (the “2028 Senior Notes”) at a discount of \$0.5 million, which are scheduled to mature on May 1, 2028. Collectively, the 2023 Senior Notes, 2025 Senior Notes, 2027 Senior Notes and 2028 Senior Notes comprise the “Senior Notes”, each of which were issued pursuant to an indenture as supplemented and amended by supplemental indentures relating to each series of Senior Notes (as so supplemented and amended, the “Senior Indenture”). Interest on the 2023 Senior Notes and the 2027 Senior Notes is payable in cash on April 15 and October 15 of each year. Interest on the 2025 and 2028 Senior Notes is payable in cash on May 1 and November 1 of each year.

We may redeem some or all of the Senior Notes at any time at redemption prices set forth in the Senior Indenture. Upon the occurrence of a change of control triggering event, which is defined in the Senior Indenture, each holder of our Senior Notes has the right to require us to repurchase some or all of such holder’s Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

The Senior Indenture contains covenants limiting, among other things, our ability (subject to certain exceptions) to consolidate, merge, or sell or otherwise dispose of all or substantially all of our assets; and our ability and the ability of our subsidiaries to incur or guarantee indebtedness secured by liens on any shares of voting stock of significant subsidiaries.

The Senior Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on our Senior Notes to become or to be declared due and payable, as applicable.

Current Financial Condition / Recent Developments

Our inventory balance represented approximately 55% of our total assets exclusive of goodwill, operating lease assets, and other intangible assets as of November 1, 2019. Our ability to effectively manage our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. Inventory purchases are often somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Efficient management of our inventory has been and continues to be an area of focus for us.

As described in Note 7 to the unaudited condensed consolidated financial statements, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely affect our liquidity.

Our senior unsecured debt is rated “Baa2,” by Moody’s with a stable outlook and “BBB” by Standard & Poor’s with a stable outlook, and our commercial paper program is rated “P-2” by Moody’s and “A-2” by Standard and Poor’s. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to finance our operations on satisfactory terms; (ii) affect our financing costs; and (iii) affect our insurance premiums and collateral requirements necessary for our self-insured programs. There can be no assurance that we will maintain or improve our current credit ratings.

Unless otherwise noted, all references to the 2019 and 2018 periods in the discussion of cash flows from operating, investing and financing activities below refer to the 39-week periods ended November 1, 2019 and November 2, 2018, respectively.

Cash flows from operating activities. Cash flows from operating activities were \$1.66 billion in the 2019 period, which represents a \$147.0 million increase compared to the 2018 period. Net income increased by \$70.9 million in the 2019 period over the 2018 period. Changes in merchandise inventories resulted in a \$401.0 million decrease in the 2019 period as compared to a decrease of \$388.1 million in the 2018 period driven primarily by our store growth. Changes in accounts payable resulted in a \$425.4 million increase in the 2019 period compared to a \$310.6 million increase in the 2018 period, due primarily to the timing of receipts and payments. Changes in income taxes in the 2019 period compared to the 2018 period are primarily due to the timing of payments for income taxes.

On an ongoing basis, we closely monitor and manage our inventory balances, and they may fluctuate from period to period based on new store openings, the timing of purchases, and other factors. Merchandise inventories increased by 10% in the 2019 period and also increased 10% in the 2018 period, with changes in our four inventory categories as follows: consumables increased by 10% compared to a 12% increase; seasonal increased 12% compared to a 11% increase; home products increased by 21% compared to a 11% increase; and apparel decreased by 9% compared to a 6% decrease.

Cash flows from investing activities. Significant components of property and equipment purchases in the 2019 period included the following approximate amounts: \$219 million for improvements, upgrades, remodels and relocations of existing stores; \$124 million for distribution and transportation-related capital expenditures; \$123 million related to new leased stores, primarily for leasehold improvements, fixtures and equipment; and \$40 million for information systems upgrades and technology-related projects. The timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During the 2019 period, we opened 769 new stores and remodeled or relocated 1,003 stores.

Significant components of property and equipment purchases in the 2018 period included the following approximate amounts: \$228 million for improvements, upgrades, remodels and relocations of existing stores; \$168 million for distribution and transportation-related capital expenditures; \$106 million related to new leased stores, primarily for leasehold improvements, fixtures and equipment; and \$36 million for information systems upgrades and technology-related projects. During the 2018 period, we opened 750 new stores and remodeled or relocated 1,017 stores.

Capital expenditures for 2019 are currently projected to be in the range of \$775 million to \$825 million. We anticipate funding 2019 capital requirements with a combination of some or all of the following: existing cash balances, cash flows from operations, availability under our Revolving Facility and/or the issuance of additional CP Notes. We plan to continue to invest in store growth through the development of new stores and the remodel or relocation of existing stores. Capital expenditures in 2019 are anticipated to support our store growth as well as our remodel and relocation initiatives, including capital outlays for leasehold improvements, fixtures and equipment; the construction of new stores; costs to support and enhance our supply chain initiatives including new and existing distribution center facilities and our private fleet; technology and other strategic initiatives; as well as routine and ongoing capital requirements.

Cash flows from financing activities. In the 2018 period, net proceeds from the issuance of the 2028 Senior Notes were \$499.5 million and we redeemed all outstanding 1.875% senior notes due 2018 for \$400.0 million. Net commercial paper borrowings decreased by \$90.8 million in the 2019 period and decreased by \$23.2 million in the 2018

period. There were no borrowings or repayments under the Revolving Facility during the 2019 or 2018 periods. Also during the 2019 and 2018 periods, we repurchased 5.6 million and 6.5 million shares of our common stock at a total cost of \$785.3 million and \$647.5 million, respectively, and paid cash dividends of \$246.8 million and \$231.2 million, respectively.

Share Repurchase Program

Effective December 3, 2019, our common stock repurchase program had a total remaining authorization of approximately \$1.6 billion. Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market and other conditions. The authorization has no expiration date and may be modified or terminated from time to time at the discretion of our Board of Directors. For more information about our share repurchase program, see Note 9 to the condensed consolidated financial statements contained in Part I, Item 1 of this report and Part II, Item 2 of this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended February 1, 2019.

ITEM 4. CONTROLS AND PROCEDURES.

(a) *Disclosure Controls and Procedures.* Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) *Changes in Internal Control Over Financial Reporting.* There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) or Rule 15d-15(f)) during the quarter ended November 1, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

The information contained in Note 7 to the unaudited condensed consolidated financial statements under the heading “Legal proceedings” contained in Part I, Item 1 of this report is incorporated herein by this reference.

ITEM 1A. RISK FACTORS.

There have been no material changes to the disclosures relating to this item from those set forth in our Annual Report on Form 10-K for the fiscal year ended February 1, 2019.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

The following table contains information regarding purchases of our common stock made during the quarter ended November 1, 2019 by or on behalf of Dollar General or any “affiliated purchaser,” as defined by Rule 10b-18(a)(3) of the Exchange Act:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(a)
08/03/19-08/31/19	—	\$ —	—	\$ 961,150,000
09/01/19-09/30/19	1,576,693	\$ 157.58	1,576,693	\$ 712,698,000
10/01/19-11/01/19	950,366	\$ 159.81	950,366	\$ 560,822,000
Total	2,527,059	\$ 158.42	2,527,059	\$ 560,822,000

- (a) On September 5, 2012, the Company announced a program permitting the Company to repurchase a portion of its outstanding shares not to exceed a dollar maximum established by the Company’s Board of Directors. The program was most recently amended on December 3, 2019 to increase the repurchase authorization by \$1.0 billion, bringing the cumulative total value of authorized share repurchases under the program since its inception to \$8.0 billion (\$1,560,822,000 of which was available for repurchase as of December 3, 2019). Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market and other conditions. This repurchase authorization has no expiration date.

ITEM 6. EXHIBITS.

See the Exhibit Index to this report immediately before the signature page hereto, which Exhibit Index is incorporated by reference as if fully set forth herein.

CAUTIONARY DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We include “forward-looking statements” within the meaning of the federal securities laws throughout this report, particularly under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in Part I, Item 2, and “Note 7. Commitments and Contingencies” included in Part I, Item 1, among others. You can identify these statements because they are not limited to historical fact or they use words such as “may,” “will,” “can,” “should,” “could,” “would,” “expect,” “believe,” “anticipate,” “project,” “plan,” “estimate,” “aim,” “target,” “goal,” “seek,” “strive,” “intend,” “likely,” “scheduled,” “potential,” “subject to,” “focused on,” or “continue,” and similar expressions that concern our strategy, plans, initiatives, intentions or beliefs about future occurrences or results. For example, statements relating to estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; plans and objectives for, and expectations regarding, future operations, economic and competitive market conditions, growth or initiatives, including the number of planned store openings, remodels and relocations, store format plans, progress of strategic (including our non-consumables initiative, DG Fresh, and Fast Track), merchandising and margin enhancing initiatives, trends in sales of consumable and non-consumable products, and results of the investment in and training of our personnel; potential future stock repurchases and cash dividends; anticipated borrowing under the Revolving Facility and our commercial paper program; the potential impact of legal or regulatory changes and our responses thereto, including the potential impact of tariffs imposed by the U.S. government; efforts to improve distribution and transportation efficiencies, including anticipated timing of distribution center openings; the expected outcome or effect of pending or threatened litigation or audits; and the anticipated effects of adopting certain accounting guidance are forward-looking statements.

Forward-looking statements are subject to risks and uncertainties that may change at any time, so our actual results may differ materially from those that we expected. We derive many of these statements from our operating budgets and forecasts, which are based on many detailed assumptions that we believe are reasonable. However, it is very difficult to predict the effect of known factors, and we cannot anticipate all factors that could affect our actual results. Important factors that could cause actual results to differ materially from the expectations expressed in our forward-looking statements include, without limitation:

- economic factors, including but not limited to employment levels; inflation; higher fuel, energy, health care and housing costs, interest rates, consumer debt levels, and tax rates; tax law changes that negatively affect credits and refunds; lack of available credit; decreases in, or elimination of, government subsidies such as unemployment and food assistance programs; commodity rates; transportation, lease and insurance costs; wage rates; foreign exchange rate fluctuations; measures that create barriers to or increase the costs of international trade (including increased import duties or tariffs); and changes in laws and regulations, and their effect on, as applicable, customer spending and disposable income, our ability to execute our strategies and initiatives, our cost of goods sold, and our SG&A expenses (including real estate costs);
- failure to achieve or sustain our strategies and initiatives, including those relating to merchandising, real estate and new store development, store formats, digital, shrink, sourcing, private brand, inventory management, supply chain, store operations, store formats, expense reduction, and technology;
- failure to timely and cost-effectively execute our real estate projects or to anticipate or successfully address the challenges imposed by our expansion, including into new states or metro areas;
- competitive pressures and changes in the competitive environment and the geographic and product markets where we operate, including, but not limited to, pricing, expanded availability of mobile, web-based and other digital technologies, and consolidation;
- levels of inventory shrinkage;
- failure to successfully manage inventory balances;
- failure to maintain the security of information that we hold relating to proprietary business information or our customers, employees and vendors;
- a significant disruption to our distribution network, to the capacity of our distribution centers or to the timely receipt of inventory, or delays in constructing or opening new distribution centers;

- risks and challenges associated with sourcing merchandise from suppliers, including, but not limited to, those related to international trade;
- product liability, product recall or other product safety or labeling claims;
- the impact of changes in or noncompliance with governmental regulations and requirements (including, but not limited to, those relating to environmental compliance, product and food safety, labeling and sales, information security and privacy, labor and employment, employee wages, and consumer protection, as well as tax laws, the interpretation of existing tax laws, or our failure to sustain our reporting positions negatively affecting our tax rate) and developments in or outcomes of private actions, class actions, multi-district litigation, administrative proceedings, regulatory actions or other litigation;
- incurrence of material uninsured losses, excessive insurance costs or accident costs;
- natural disasters, unusual weather conditions (whether or not caused by climate change), pandemic outbreaks, terrorist acts and geo-political events;
- damage or interruption to our information systems as a result of external factors, staffing shortages or challenges in maintaining or updating our existing technology or developing or implementing new technology;
- failure to attract, train and retain qualified employees while controlling labor costs and other labor issues;
- loss of key personnel or inability to hire additional qualified personnel;
- risks associated with our private brands, including, but not limited to, our level of success in improving their gross profit rate;
- seasonality of our business;
- deterioration in market conditions, including market disruptions, limited liquidity and interest rate fluctuations, or changes in our credit profile;
- new accounting guidance or changes in the interpretation or application of existing guidance;
- factors disclosed under “Risk Factors” in Part I, Item 1A of our Form 10-K for the fiscal year ended February 1, 2019; and
- factors disclosed elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves) and other factors.

All forward-looking statements are qualified in their entirety by these and other cautionary statements that we make from time to time in our other Securities and Exchange Commission filings and public communications. You should evaluate forward-looking statements in the context of these risks and uncertainties and are cautioned to not place undue reliance on such forward-looking statements. These factors may not contain all of the material factors that are important to you. We cannot assure you that we will realize the results or developments we anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. The forward-looking statements in this report are made only as of the date hereof. We undertake no obligation, and specifically disclaim any duty, to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

EXHIBIT INDEX

- 3.1 [Amended and Restated Charter of Dollar General Corporation \(complete copy as amended for SEC filing purposes only\) \(incorporated by reference to Exhibit 3.1 to Dollar General Corporation's Quarterly Report on Form 10-Q for the quarter ended May 3, 2013, filed with the SEC on June 4, 2013 \(file no. 001-11421\)\)](#)
- 3.2 [Bylaws of Dollar General Corporation \(as amended and restated on March 23, 2017\) \(incorporated by reference to Exhibit 3.2 to Dollar General Corporation's Annual Report on Form 10-K for the fiscal year ended February 3, 2017, filed with the SEC on March 24, 2017 \(file no. 001-11421\)\)](#)
- 10.1 [Amended and Restated Credit Agreement, dated as of September 10, 2019, among Dollar General Corporation, as borrower, Citibank, N.A., as administrative agent, and the other credit parties and lenders party thereto \(incorporated by reference to Exhibit 4.1 to Dollar General Corporation's Current Report on Form 8-K dated September 10, 2019, filed with the SEC on September 13, 2019 \(file no. 001-11421\)\)](#)
- 10.2 [Amended Schedule of Executive Officers who have executed an employment agreement in the form of Executive Vice President Agreement filed as Exhibit 99 to Dollar General Corporation's Current Report on Form 8-K dated April 5, 2018, filed with the SEC on April 11, 2018](#)
- 10.3 [Dollar General Corporation Executive Relocation Policy, as amended \(effective August 27, 2019\) \(incorporated by reference to Exhibit 10.1 to Dollar General Corporation's Quarterly Report on Form 10-Q for the fiscal quarter ended August 2, 2019, filed with the SEC on August 29, 2019 \(file no. 001-11421\)\)](#)
- 10.4 [Summary of Non-Employee Director Compensation effective February 1, 2020](#)
- 15 [Letter re unaudited interim financial information](#)
- 31 [Certifications of CEO and CFO under Exchange Act Rule 13a-14\(a\)](#)
- 32 [Certifications of CEO and CFO under 18 U.S.C. 1350](#)
- 101 Interactive data files for Dollar General Corporation's Quarterly Report on Form 10-Q for the quarter ended November 1, 2019, formatted in Inline XBRL: (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Income (unaudited); (iii) the Condensed Consolidated Statements of Comprehensive Income (unaudited); (iv) the Condensed Consolidated Statements of Shareholders' Equity (unaudited); (v) the Condensed Consolidated Statements of Cash Flows (unaudited); and (vi) the Notes to Condensed Consolidated Financial Statements (unaudited)
- 104 The cover page from Dollar General Corporation's Quarterly Report on Form 10-Q for the quarter ended November 1, 2019 (formatted in Inline XBRL and contained in Exhibit 101)

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 thereunto duly authorized, both on behalf of the Registrant and in his capacity as principal financial officer of the Registrant.

DOLLAR GENERAL CORPORATION

Date: December 5, 2019

By: /s/ John W. Garratt

John W. Garratt

Executive Vice President & Chief Financial Officer

AMENDED SCHEDULE OF EXECUTIVE OFFICERS WHO HAVE EXECUTED AN EMPLOYMENT AGREEMENT IN THE FORM OF EXECUTIVE VICE PRESIDENT EMPLOYMENT AGREEMENT FILED AS EXHIBIT 99 TO DOLLAR GENERAL CORPORATION'S CURRENT REPORT ON FORM 8-K DATED APRIL 5, 2018, FILED WITH THE SEC ON APRIL 11, 2018 (this "Schedule")

This Schedule amends the Schedule of Executive Officers who have executed an employment agreement in the form of Executive Vice President Employment Agreement filed by Dollar General Corporation as Exhibit 99 to its Current Report on Form 8-K dated April 5, 2018, filed with the SEC on April 11, 2018. This Schedule is included pursuant to Instruction 2 of Item 601(a) of Regulation S-K for the purposes of setting forth the material details in which the specific employment agreements executed in the form of Executive Vice President Employment Agreement differ from the form as of November 1, 2019.

<u>Name of Executive Officer</u>	<u>Title</u>	<u>Base Salary</u>	<u>Effective Date</u>	<u>Date of Execution</u>
John W. Garratt	Executive Vice President and Chief Financial Officer	\$725,000.00	April 1, 2018	April 6, 2018
Michael J. Kindy	Executive Vice President, Global Supply Chain	\$425,000.00	August 28, 2018	August 29, 2018
Jeffery C. Owen	Chief Operating Officer	\$800,000.00	April 1, 2018	Agreement: April 5, 2018
			Amended August 27, 2019	Admendment: August 27, 2019
Robert D. Ravener ⁱ	Executive Vice President and Chief People Officer	\$582,288.00	April 1, 2018	April 5, 2018
Jason S. Reiser	Executive Vice President and Chief Merchandising Officer	\$667,355.00	April 1, 2018	April 6, 2018
Steven G. Sunderland	Executive Vice President, Store Operations	\$550,000.00	August 27, 2019	August 27, 2019
Rhonda M. Taylor	Executive Vice President and General Counsel	\$571,673.00	April 1, 2018	April 5, 2018
Carman R. Wenkoff	Executive Vice President and Chief Information Officer	\$492,816.00	April 1, 2018	April 5, 2018

ⁱ Retired from all positions with Dollar General Corporation effective May 27, 2019.

**Summary of Non-Employee Director Compensation
(effective February 1, 2020)**

We do not compensate for Board service any director who also serves as our employee. We will reimburse directors for certain fees and expenses incurred in connection with continuing education seminars and for travel and related expenses related to Dollar General business.

Each non-employee director will receive payment (prorated as applicable) for a fiscal year, in quarterly installments, of the following cash compensation, as applicable:

- \$95,000 annual retainer for service as a Board member;
- \$25,000 annual retainer for service as chairman of the Audit Committee;
- \$20,000 annual retainer for service as chairman of the Compensation Committee; and
- \$17,500 annual retainer for service as chairman of the Nominating & Governance Committee.

The Chairman of the Board will receive an annual Chairman retainer delivered on the first trading day of the fiscal year in the form of restricted stock units payable in shares of our common stock (“RSUs”) under our Amended and Restated 2007 Stock Incentive Plan, which are scheduled to vest as to 100% of the award on the first anniversary of the grant date, subject to certain accelerated vesting conditions, and have an estimated value of \$200,000.

In addition, we grant annually to those non-employee directors who are elected or re-elected at each applicable shareholders’ meeting an equity award under our Amended and Restated 2007 Stock Incentive Plan with an estimated value of \$165,000 on the grant date. This entire value consists of RSUs. The RSUs will vest as to 100% of the award on the first anniversary of the grant date, subject to certain accelerated vesting conditions. Directors may generally elect to defer receipt of shares underlying the RSUs. They may also generally elect to defer up to 100% of cash fees earned for Board service under the Non-Employee Director Deferred Compensation Plan filed as Exhibit 10.6 to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2014. Any new director appointed after the annual shareholders’ meeting but before February 1 of a given year, will receive a full equity award no later than the first regularly scheduled Compensation Committee meeting following the date on which he or she is appointed. Any new director appointed on or after February 1 of a given year but before the next annual shareholders’ meeting shall be eligible to receive the next regularly scheduled annual award.

December 5, 2019

Shareholders and Board of Directors
Dollar General Corporation

We are aware of the incorporation by reference in the Registration Statements (Nos. 333-151047, 333-151049, 333-151655, and 333-163200 on Form S-8 and No. 333-216940 on Form S-3) of Dollar General Corporation of our report dated December 5, 2019, relating to the unaudited condensed consolidated interim financial statements of Dollar General Corporation that are included in its Form 10-Q for the quarter ended November 1, 2019.

/s/ Ernst & Young LLP
Nashville, Tennessee

CERTIFICATIONS

I, Todd J. Vasos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2019

/s/ Todd J. Vasos

Todd J. Vasos
Chief Executive Officer

I, John W. Garratt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dollar General Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 5, 2019

/s/ John W. Garratt

John W. Garratt
Chief Financial Officer

CERTIFICATIONS
Pursuant to 18 U.S.C. Section 1350

Each of the undersigned hereby certifies that to his knowledge the Quarterly Report on Form 10-Q for the fiscal quarter ended November 1, 2019 of Dollar General Corporation (the "Company") filed with the Securities and Exchange Commission on the date hereof fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Todd J. Vasos

Name: Todd J. Vasos

Title: Chief Executive Officer

Date: December 5, 2019

/s/ John W. Garratt

Name: John W. Garratt

Title: Chief Financial Officer

Date: December 5, 2019
