Family Dollar Stores  
(NYSE:FDO)

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Presentation Map

- Background
- Competition
- Risks
- Potential
- Financials
- Rating
Family Dollar Stores

Background
- Fastest Growing Discount Retailer
- Most items priced at under $10.00
- Stores in 39 States and D.C.
  - 3,900 stores nationwide (Most in TX – 404)

Customers
- Lower to Middle Income Families
- Price Sensitive (Prices $10 and below)

Suppliers
- 1800 suppliers – merchandise
- No single supplier accounted for more than 4.5%
Family Dollar Stores

Products

- **Hardlines** – household chemical and paper products, candy, snacks, electronics, housewares, giftware, toys, school supplies
- **Softlines** – clothing, blankets, sheets, towels, shoes

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Competition

- **BIG BOYS**
  - Wal-Mart (WMT)
  - K-Mart (KM)
  - Costco (COST)
  - Target (TGT)

- **The Rest . . .**
  - Dollar General (DG)
  - 99 Cents Only (NDN)
  - Dollar Tree (DLTR)

**Points of Competition**
- Price
- Product Availability
- Convenience

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Exposure to Risks

- Slowing Economy
- Growth doesn’t pan out
- Market Tanks

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Growth Potential

- Historical 5 yr EPS Growth > 25%
- Expected 3-5 yr. Growth → 20%
- Slowing Economy → inelastic demand
- Opened 365 stores in fiscal 2000
- Planned opening of 450 stores in fiscal 2001
- Trend toward hardlines

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## Financials

<table>
<thead>
<tr>
<th>Company</th>
<th>Div. Yield</th>
<th>Profit Margin %</th>
<th>Gross Margin %</th>
<th>Inventory Turnover</th>
<th>ROE %</th>
<th>ROA %</th>
<th>D/E %</th>
<th>Same Store Sales %</th>
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## Relative Analysis

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<th>P/E</th>
<th>Expected 3-5 yr Growth</th>
<th>PEG Ratio</th>
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Discounted Cash Flows

- Assumptions
  - 5 yr EPS Growth = 20%
  - Perpetual Growth = 6%
  - Discount Rate = 10.62%
    - Risk Free = 5.5%
    - Risk Premium = 5.5%
    - Beta = 0.93
- Intrinsic Price = $31.72

PEG Analysis

If FDO trades at PEG = 1.53
P/E = 31.37
Price = $33.25

If FDO trades at PEG = 1.34
P/E = 27.47
Price = $29.12
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FDO

Rating: Buy

- Price as of TODAY = $25.70
- Target Price = $29 - $33

Buy

FDO