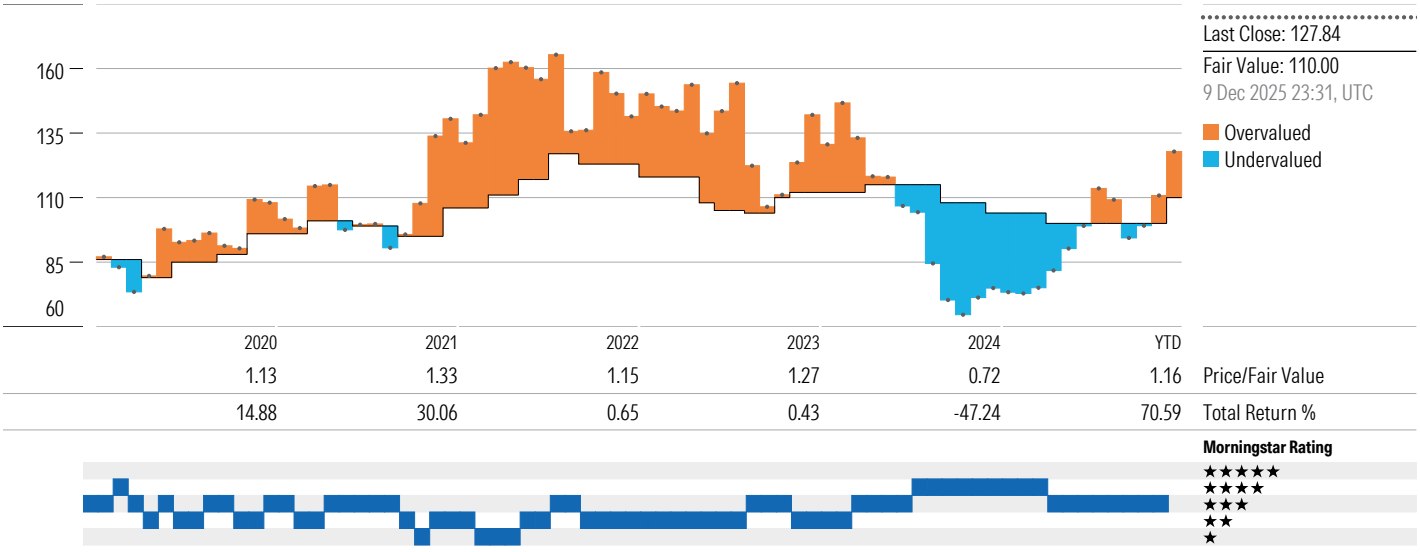
Dollar Tree Inc DLTR ★★★ 22 Dec 2025 22:37, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
127.84 USD 19 Dec 2025	110.00 USD 9 Dec 2025 23:31, UTC	1.16	24.36 USD Bil 22 Dec 2025	None	Mid Value	High	Standard	3 Dec 2025 06:00, UTC

Price vs. Fair Value



	2020	2021	2022	2023	2024	YTD	
	1.13	1.33	1.15	1.27	0.72	1.16	Price/Fair Value
	14.88	30.06	0.65	0.43	-47.24	70.59	Total Return %

Morningstar Rating

Total Return % as of 19 Dec 2025. Last Close as of 19 Dec 2025. Fair Value as of 9 Dec 2025 23:31, UTC.

Contents

Analyst Note (9 Dec 2025)
Business Description
Business Strategy & Outlook (9 Dec 2025)
Bulls Say / Bears Say (9 Dec 2025)
Economic Moat (9 Dec 2025)
Fair Value and Profit Drivers (9 Dec 2025)
Risk and Uncertainty (9 Dec 2025)
Capital Allocation (9 Dec 2025)
Analyst Notes Archive
Financials
ESG Risk
Appendix
Research Methodology for Valuing Companies

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The primary analyst covering this company does not own its stock.

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Dollar Tree: Refocused Core Banner Fails to Buoy Its Competitive Edge; Shares Still Rich

Analyst Note Brett Husslein, Analyst, 9 Dec 2025

Dollar Tree exited a decade-long tour with Family Dollar and is refocusing on its core (now multiprice) variety banner. However, the model remains heavily execution-dependent in a crowded value-retail landscape, with no structural advantages to buffer against missteps.

The bottom line: We raise our fair value estimate for no-moat Dollar Tree to $110 per share from $100, largely due to the time value of money and a modestly revised outlook post-divestiture. We maintain our High Uncertainty Rating and Standard Capital Allocation Rating.

- We now forecast 6.4% annual sales growth (up from 4.8%), with ticket-led comparable sales growth of 3.2% (up 50 basis points) and average operating margins of 9.5% (down from 9.9%). This change reflects an increased share of consumables in the sales mix and ongoing cost pressure.
- Shares are up roughly 60% year-to-date, versus the 22% rise in the Morningstar Global Markets Index. We believe the market is overweighing continued consumer trade-down to the firm, which we view as unlikely given competition and its still discretionary-heavy assortment.

Long view: In our view, Dollar Tree's post-divestiture reset offers a cleaner, more streamlined approach, but long-term value creation will hinge on whether remodels, multiprice rollout, and supply-chain upgrades drive durable profits, not just the table-stakes spending needed to keep up.

- We surmise that these capital investments (averaging 4.7% of sales), relying on tight execution, could

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Sector Consumer Defensive

Industry Discount Stores

Business Description

Founded in 1986, Dollar Tree operates almost 9,000 small-box discount stores across the United States and Canada, offering roughly 85% of its merchandise under $2. The chain targets value-conscious suburban and urban shoppers with a mix of consumables (49% of sales), variety (45%), and seasonal goods (6%). In fiscal 2024, Dollar Tree generated over $17 billion in sales, through its multi-price strategy, higher-margin discretionary assortments, and private-label products that account for nearly one-third of sales.

support growth of 300 new units per year and efficiency gains yielding roughly $1.4 billion in annual free cash flow to fund both ongoing investments and measured shareholder returns.

▶

We project Dollar Tree's share of US retail to rise from roughly 0.4% to just over 0.5% by fiscal 2034, a modest gain that reflects steady unit growth but also underscores its small scale in a large, competitive market.

Business Strategy & Outlook Brett Husslein, Analyst, 9 Dec 2025

Following the 2025 sale of Family Dollar, we think Dollar Tree is on a better course as a single-banner retailer focused on value-conscious shoppers in the US and Canada. The model rests on nearly 9,000 stores and a long-standing reputation rooted in sharp opening price points and tight cost control. We think the concept effectively monetizes discretionary, impulse demand across variety and seasonal categories, but relies more on consistent execution than on structural advantages, leaving it vulnerable in a market where shoppers can move between mass merchants, other value formats, and online alternatives. This vulnerability is amplified as more than 85% of stores sit in dense suburban and urban areas, often near big-box competitors.

Management's primary strategic lever is the shift toward a multiprice architecture, launched in 2019 and now in nearly half the fleet. We expect rollout to continue gradually, with items priced from $1.25 to $7. We see this structure as offering incremental flexibility relative to the prior fixed-price model, preserving value at low entry points while selectively introducing higher-priced items that broaden category reach and lift average ticket. Consumables (almost half of sales) provide traffic stability, albeit at a lower margin. Private-label accounts for roughly one-third of sales, but we estimate carries 25%-30% higher gross margins than national brands. However, this lower-priced fare fails to engender a competitive edge for the retailer.

We think digital capabilities will remain limited and do not expect Dollar Tree to develop a full omnichannel ecosystem akin to larger peers, resulting in a comparatively weaker value proposition. Near term, we anticipate steady unit growth paired with a focus on productivity and portfolio quality. Key initiatives include accelerating remodels, strengthening loss-prevention efforts, and investing in supply-chain optimization to support store expansion and mitigate cost pressures. With intense competition across value retail and limited structural insulation, execution will remain central to Dollar Tree's ability to protect its positioning.

Bulls Say Brett Husslein, Analyst, 9 Dec 2025

- The Family Dollar divestiture removes a chronic earnings drag, affording focus on higher-return productivity efforts such as remodels and supply chain investments under the core banner.
- With over a quarter of locations in areas where average annual income exceeds $80,000, broader

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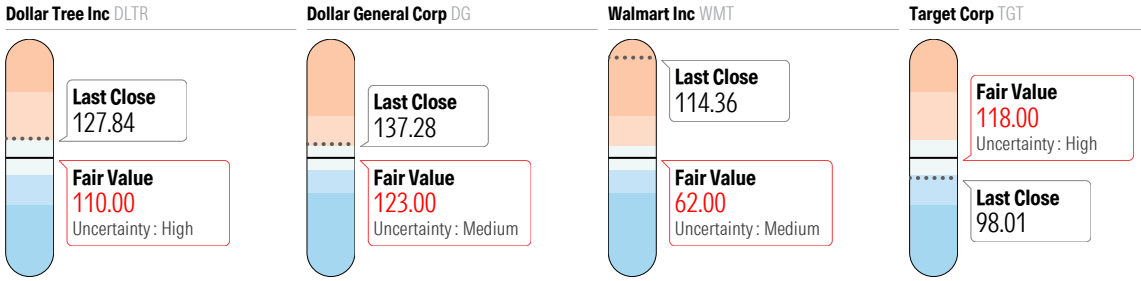
Competitors



	Dollar Tree Inc DLTR	Dollar General Corp DG	Walmart Inc WMT	Target Corp TGT
Economic Moat	None	Narrow	Wide	None
Currency	USD	USD	USD	USD
Fair Value	110.00 9 Dec 2025 23:31, UTC	123.00 9 Dec 2025 23:25, UTC	62.00 30 Nov 2025 22:45, UTC	118.00 23 Oct 2025 22:26, UTC
1-Star Price	170.50	166.05	83.70	182.90
5-Star Price	66.00	86.10	43.40	70.80
Assessment	Fairly Valued 22 Dec 2025	Fairly Valued 22 Dec 2025	Overvalued 22 Dec 2025	Undervalued 22 Dec 2025
Morningstar Rating	★★★22 Dec 2025 22:37, UTC	★★★22 Dec 2025 22:47, UTC	★22 Dec 2025 22:39, UTC	★★★★22 Dec 2025 22:40, UTC
Analyst	Brett Husslein, Analyst	Brett Husslein, Analyst	Brett Husslein, Analyst	Brett Husslein, Analyst
Capital Allocation	Standard	Standard	Standard	Standard
Price/Fair Value	1.16	1.12	1.82	0.81
Price/Sales	1.92	0.72	1.31	0.43
Price/Book	7.53	3.69	9.49	2.87
Price/Earning	24.21	23.71	39.99	11.88
Dividend Yield	0.00%	1.72%	0.82%	4.61%
Market Cap	24.36 Bil	30.27 Bil	897.44 Bil	43.11 Bil
52-Week Range	61.80—132.48	66.43—138.46	79.81—117.45	83.44—145.08
Investment Style	Mid Value	Mid Value	Large Blend	Mid Value

assortments give Dollar Tree a long runway to capture trade-down demand, especially in discretionary categories.

- Price point expansion should lift tickets, tilt mix toward higher-margin items, and support continued comparable sales growth with multi-price baskets spending twice the average transaction.

Bears Say Brett Husslein, Analyst, 9 Dec 2025

- Dollar Tree's lack of a structural advantage leaves it vulnerable to share loss, as mass merchants and dollar-store peers increasingly compete on price, convenience, breadth, and digital reach.
- Rising operating costs could outpace productivity gains, threatening profitability as store labor per location has climbed roughly $39,000 over five years.
- Heavy reliance on third parties for over 90% of middle-mile transport could weaken Dollar Tree's ability to manage freight inflation and limit operational efficiency gains.

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Economic Moat Brett Husslein, Analyst, 9 Dec 2025

We do not assign Dollar Tree an economic moat rating. Following the company's July 2025 divestiture of the Family Dollar business for roughly $1 billion to an investor group led by Brigade Capital and Macellum, Dollar Tree is now a pure-play, multiprice variety and consumables retailer where performance hinges on store-level execution, assortment vitality, and the continued credibility of its low-price positioning, none of which reflect a durable cost or intangible asset advantage. The sale formally ended a decade-long effort to extract scale and purchasing benefits from a banner that never reached the economic profile management had envisioned, removing the only part of the portfolio that meaningfully served low-income, convenience-oriented shoppers.

Dollar Tree's average ROIC of 8.4% over the past decade sits modestly above our 8% cost of capital estimate. We do not expect future returns to serve as evidence of an economic moat, as it stems from execution-driven efficiencies and merchandising discipline, rather than from structural advantages such as scale, procurement leverage, or geographic insulation that support moat-bearing peers.

Dollar Tree's customer base is broader and more income-diverse than that of its closest dollar-store peers. However, this profile exposes the banner to a wider set of competitors across mass grocery and off-price channels. Its core shoppers typically earn between $40,000 and $50,000 annually, but the banner also draws in customers with incomes north of $80,000, a markedly more affluent mix than Dollar General's sub-$40,000 rural base. In dollar-store retail, defensibility often stems from geographic footprint and customer insulation rather than from absolute price alone. Dollar Tree places far more units in suburban and city-center areas, squarely in direct competition with Walmart, Target, large grocers, club stores, and off-price retailers (versus the rural network Dollar General has built). As a result, Dollar Tree must compete on trip frequency, in-store experience, and price execution, none of which confer structural defensibility relative to these competitively advantaged and well-resourced operators.

At the unit level, Dollar Tree remains an efficient operator, but its store economics lag peers. The firm generates approximately $232 in sales per square foot, well below Walmart's $665, and delivers about $26 in EBIT per square foot, well below Walmart's $32. We think these metrics signal that Dollar Tree effectively manages its small-box format through a lean labor model and structurally lower occupancy costs tied to its 10,000-12,000 square-foot stores (less than one-tenth the size of a typical Walmart or Target), supporting favorable EBIT flow-through alongside its high-margin party and seasonal product mix, despite low sales productivity. However, we do not view these unit-level economics as unique, with several retailers already replicating its strategic playbook, as evidenced by Target's "Bullseye's Playground" and dollar spot endcaps, Walmart's growing seasonal and promotional assortments, and closeout/variety players like Five Below and Ollie's "low-ticket, fast-turn, treasure-hunt" formula. This supports our view that Dollar Tree's box-level profitability reflects a broadly replicable playbook rather

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than a structural advantage.

The brand intangible asset case for Dollar Tree also weakened once the company moved away from its strict “everything is $1” promise. The single-price identity was the closest thing Dollar Tree had to a moat-supportive intangible asset, in our view, as this lowered search costs for shoppers, made the banner instantly legible, and was difficult for competitors with broad assortments to match without cannibalizing their own price architecture. However, inflation in raw materials, shipping, and freight, as well as a desire to broaden the assortment, led Dollar Tree to a $1.25 base but multiple-price tiers, including Dollar Tree Plus offerings at $3, $5, and $7. The move was a rational economic decision, but it diluted the single-price identity that once differentiated the banner. Today, Dollar Tree's value perception depends far more on the store experience and its assortment than on a single, enduring brand promise. Yet, we do not believe it leads the market on either dimension: store standards (cleanliness, organization, and in-stocks) have been uneven and readily matched or exceeded by larger mass and off-price peers, and its party and seasonal assortments sit in crowded, highly promotional categories where themes and price points can be copied quickly, further limiting the scope for moat-supportive intangible assets.

On the cost side, we surmise the 2025 Family Dollar sale arguably made the case for a cost advantage a tougher sell. Before the divestiture, there was a path to greater procurement scale, shared distribution, and banner-lever merchandising synergies. However, now Dollar Tree is smaller on a purchasing basis than Walmart, Costco, the big grocers, and even mass competitors in particular categories. Because the Dollar Tree banner also runs a narrower assortment with a high-import concentration--roughly 43% of total retail value versus materially lower import exposure at mass and grocery peers (due to higher consumables share of sales mix)--its bargaining position with large CPG manufacturers and port-of-entry is structurally weaker. While the mix of consumables may rise over time, reducing exposure to imports, we do not expect this shift to materially change Dollar Tree's relative purchasing leverage, given the dominant scale advantages enjoyed by broader, volume-based retailers.

Beyond the proliferation of similar brick-and-mortar formats, competitive intensity in Dollar Tree's sweet spot has also increased. Discount general merchandise is seeing new, non-store entrants (Temu, Shein, Amazon Haul in particular) that have trained US consumers to accept slightly longer shipping times in exchange for radically lower per-unit pricing and an endless scroll of novelty items. The categories hit hardest by that shift (party, decorations, toys, crafts, low-ticket beauty, and accessories) are the very categories Dollar Tree leans on to fuel its profitability. As consumers become more habituated to $2-$5 impulse items online, the ceiling on in-store pricing narrows, and Dollar Tree nudges toward a higher mix of consumables, a lower-margin and capital-intensive category where its competitors (Walmart, Aldi, club stores, and even regional grocers) are more advantaged.

Ultimately, we view Dollar Tree as a well-managed, execution-dependent retailer rather than a

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structurally advantaged one. Its compact format, efficient cost structure, and broad customer appeal should continue to support improving profitability, but these attributes are readily replicable and do not amount to a durable moat. The firm's long-term potential remains constrained by heavy competitive overlap, limited procurement leverage, and the absence of meaningful geographic, brand, or scale barriers. While we expect near-term returns to improve following the Family Dollar divestiture, we believe these gains reflect self-help measures rather than lasting competitive differentiation. In our view, Dollar Tree's ability to generate excess returns will depend on continued operational excellence, not on structural defenses, leaving us skeptical that this will persist for at least the next decade.

Fair Value and Profit Drivers Brett Husslein, Analyst, 9 Dec 2025

We are raising our fair value estimate for Dollar Tree to $110 per share from $100, reflecting the time value of money and a modestly revised long-term outlook following the Family Dollar divestiture. Our updated forecast incorporates comparable sales growth of 3.2% (50 basis points above our prior forecast) and an average operating margin of 9.5%, reduced from 9.9% to reflect a more consumables-heavy mix and ongoing cost pressure. Our revised valuation implies a fiscal 2026 enterprise value/adjusted EBITDA multiple of 9 times.

We expect top-line growth to be driven by unit expansion and larger baskets. Comparable sales remain ticket-led, as multiprice baskets materially outspend legacy $1.00-$1.25 transactions, while value-tier brands maintain budget appeal at opening price points. Our forecast assumes average annual store growth contributes 3.2% to revenue, with roughly 300 net new stores per year, bringing the fleet to just under 12,000 locations by fiscal 2034. In aggregate, we project revenue to compound at 6.4% annually, lifting Dollar Tree's share of US retail modestly above 0.5% (from 0.4% in fiscal 2024).

We anticipate some compression in merchandise economics as consumables gradually overtake discretionary categories. Our model assumes gross margin declines about 110 basis points from fiscal 2024 levels to 34.7% by the end of the forecast. However, we expect these headwinds to be balanced by meaningful SG&A leverage and distribution-level efficiency gains. We forecast SG&A falling from 27.5% of sales in fiscal 2024 to 24.2% at the end of the forecast, as shared-service costs unwind post-divestiture, corporate overhead declines 150 basis points by the mid-period, and labor pressure moderates. We also incorporate productivity levers, such as distribution center automation, expanded rotocart deployment, and an expected 20% increase in stores served per facility by 2029, which further support operating leverage.

Risk and Uncertainty Brett Husslein, Analyst, 9 Dec 2025

We assign Dollar Tree a High Uncertainty Rating, reflecting elevated execution risk, sensitivity to mix and traffic trends, and its limited structural advantages relative to larger peers. The company is in a strategic reset following the Family Dollar divestiture, and while this simplifies operations, it lessens

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scale benefits and concentrates the business in a single, discretionary-leaning format.

The most significant risk stems from the shift to a multiprice architecture. Our forecast assumes this strategy lifts tickets without undermining the banner's value identity. However, if shoppers view higher price points as inconsistent with Dollar Tree's value proposition, traffic could weaken and shift toward discount retailers or online competitors. With no durable advantage and no switching costs, even modest merchandising or price-perception missteps could materially affect sales.

Cost inflation and operational execution further heighten uncertainty. Store labor per location has risen roughly 20% in recent years, and the business faces ongoing headwinds from wages, shrink, and safety-related spending. Dollar Tree is also more exposed to freight volatility and service disruption than its peers with integrated logistics, with over 90% of middle-mile transport handled by third parties. Our model embeds SG&A leverage and distribution-level efficiency gains; shortfalls, whether from higher labor and compliance costs, elevated shrink, or slower automation would pressure margins.

Regulatory and sourcing risks also persist. Roughly 40% of merchandise is imported, with China representing the vast majority, exposing the firm to tariff volatility and cost pressure in discretionary categories. From an environmental, social, and governance standpoint, reliance on global suppliers increases exposure to labor standards, product-safety oversight, and environmental compliance. Lapses or tighter regulation could elevate costs, disrupt supply continuity, or damage brand reputation.

Capital Allocation Brett Husslein, Analyst, 9 Dec 2025

We assign Dollar Tree a Standard Capital Allocation Rating, reflecting a manageable balance sheet and investment priorities that have become more disciplined post-divestiture, but a mixed track record on major strategic decisions. While the company is now positioned to deploy capital more productively, the legacy of the Family Dollar acquisition tempers our confidence in the consistency of management's allocation decisions.

Dollar Tree maintains a sound balance sheet with moderate leverage and ample liquidity. The firm carries approximately $3.4 billion in debt and $1.3 billion in cash, with most obligations due after 2027. We expect leverage to remain broadly stable at around 1.5 times debt/EBITDA over the next three years, which we regard as reasonable for a value-oriented retailer. Importantly, management has not pursued aggressive, debt-funded share repurchases, and we see no evidence of balance sheet risk-taking that would imperil its long-term investment capacity.

By contrast, Dollar Tree's acquisition of Family Dollar in 2015 stands as a clear example of poor capital deployment. The roughly $9 billion purchase failed to deliver the promised synergies, and Family Dollar lost money on average over the entire period of ownership. The 2025 sale for approximately $1 billion crystallized a substantial destruction of shareholder value after diverting financial and managerial resources away from the core Dollar Tree banner for nearly a decade. We view this history as a meaningful strike against management's track record, even though the transaction has now been

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unwound.

With Family Dollar removed from the portfolio, we see a more coherent capital allocation agenda emerging centered on the health of the Dollar Tree fleet. Management acknowledges that more than 50% of stores had fallen below the firm's standards ("Grand Opening Look Daily" framework) and is now directing capital toward store remodels, assortment upgrades, technology modernization, and supply chain improvements. Capital spending has averaged about 7.3% of Dollar Tree segment sales in the last two years, well above the roughly 4% average of consolidated sales for the five years prior, reflecting not only the capital intensity required from a smaller sales base but the necessary catch-up investments in store-level execution and logistics, rather than in new concepts or transformational M&A.

We expect this intensity to moderate. Over our explicit forecast, we model average capital spending of 4.7% of sales as the company transitions from remediation to ongoing reinvestment. Priorities include broad-based remodel initiatives, multi-price conversions, and distribution center upgrades. Dollar Tree operates 18 distribution centers today and plans to increase its reach from roughly 600 stores each to around 750 by fiscal 2029. In our view, raising throughput per facility is a prudent use of reinvestment as it reduces the need to construct new distribution centers (which cost an estimated $200 million-$250 million apiece) and should enhance productivity while keeping capital requirements in check.

Dollar Tree does not currently pay a dividend, which we regard as appropriate given the scale of reinvestment needed across the fleet. Historically, share repurchases have been the primary form of capital return, with the firm retiring an average of 1.9% of shares annually over the last five years, deploying about $2.9 billion. These buybacks primarily took place during periods of excess free cash flow, which we view as prudent when executed at a discount to our estimate of intrinsic value. Looking ahead, we forecast a step-change improvement with free cash flow rising to about $1.4 billion annually over the next decade as the drag from Family Dollar abates and capital intensity normalizes. We expect management to maintain reinvestment as the first call on capital, but see scope for more robust and potentially more value-accretive share repurchases over time.

Overall, we view Dollar Tree's capital allocation as improving but uneven. The balance sheet is sensibly managed and provides sufficient flexibility. Current investment priorities are better aligned with the core economic engine, focusing on store quality and supply chain efficiency rather than ambitious, higher-risk acquisitions. However, the Family Dollar episode illustrates a past willingness to pursue large, low-return transactions, and the success of the current reinvestment cycle will hinge on consistent execution.

Analyst Notes Archive

Dollar Tree Earnings: Multiprice Assortment and Value Focus Drive Comp Sales Growth Dan Su, CFA,Equity Analyst,3 Dec 2025

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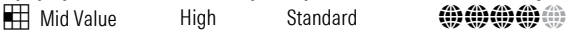
MORNINGSTAR®

Dollar Tree Inc DLTR ★★★ 22 Dec 2025 22:37, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
127.84 USD 19 Dec 2025	110.00 USD 9 Dec 2025 23:31, UTC	1.16	24.36 USD Bil 22 Dec 2025	None	Mid Value	High	Standard	 3 Dec 2025 06:00, UTC

Dollar Tree's third-quarter sales rose 9.4% on 4.2% same-store sales growth; adjusted earnings per share grew 12%. Management narrowed its full-year sales range to $19.35 billion-$19.45 billion (from $19.3 billion-$19.5 billion) and raised its adjusted EPS outlook to $5.60-$5.80 (from $5.32-$5.72).Why it matters: Complementing Dollar Tree's value appeal, a multiprice strategy has expanded the assortment and attracted more higher-income shoppers. This drove comparable sales growth of 4.8% in discretionary and 3.5% in staples despite a tough consumer backdrop. The 4.5% average ticket growth was largely attributable to attractive Halloween merchandise and a better shopping experience after investments in stores and staff hours. We think the 0.3% traffic decline was due to temporary disruptions from price label changes and expect this to improve. The 40-basis-point gross margin increase to 35.8% benefited from supply chain agility in mitigating tariffs and a favorable sales mix. While store investments will likely cap operating margin at 8% in the near future, we expect the metric to reach 10% by 2028 on better store productivity and cost savings. The bottom line: We plan to increase our $100 fair value estimate for no-moat Dollar Tree by a mid-single-digit percentage on strong sales momentum and time value. The shares rose 4% following the report on Dec. 3 and look fully valued, trading at 18 times our 2026 EPS estimate. We plan to increase our 2025 forecasts of $18.9 billion in sales and $4.87 in adjusted EPS to align with the updated outlook. However, we will maintain our 10-year projection for mid-single-digit annual sales growth and 10% operating margin on average. The 5% selling space growth year to date slowed from 9% in the year-ago period, but we think this is prudent as the retailer raises the bar on new stores and sharpens its focus on productivity in existing ones. We hold our 10-year estimate for low-single-digit annual store base expansion.

Dollar Tree Earnings: Value Focus and Merchandising Strength Fuel Comp-Sales Growth; Selloff Harsh Dan Su, CFA,Equity Analyst,3 Sep 2025

Dollar Tree's sales rose 12% in the second quarter, on 6.5% same-store sales growth, and adjusted earnings per share grew 13%. Management raised its full-year outlook to $19.3 billion-$19.5 billion in sales (from $18.5 billion-$19.1 billion) and $5.32-$5.72 in adjusted EPS ($5.15-$5.65). Why it matters: Complementing its value focus, an expanded assortment of multiprice items has broadened the retailer's appeal to higher-income consumers. Both traffic (up 3.0%) and ticket (3.4%) accelerated sequentially despite a challenging consumer backdrop. We believe the firm remains committed to its value positioning, capping 85% of its offerings at $2. Meanwhile, a sharper focus on seasonal merchandising and digital efforts should help convert and retain younger and higher-income shoppers, contributing to its long-term growth trajectory. With the closure of the Family Dollar sale in July, we expect management to prioritize the multiprice format conversion and holiday merchandising in the coming months. While tariff uncertainties persist, the firm appears well-positioned to mitigate the bulk of the impact through price hikes and cost reductions. The bottom line: We plan to maintain our $100 fair value estimate for narrow-moat Dollar Tree, leaving shares fairly valued. Shares fell 9% on September 3 due to concerns about a weak consumer, but we view the price correction as harsh given

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the retailer's defensive positioning and solid execution. The raised 2025 outlook suggests 10.4% growth in sales and 8.2% in EPS at the midpoints of the ranges, which we view as achievable given solid first-half performance, growth initiatives in place for the coming quarters, and cost discipline. We plan to tick up our 2025 estimates to align with the outlook, but see no reason to alter our 10-year forecasts for 5% annual sales growth and 10% adjusted operating margin.

Dollar Tree Earnings: Multiprice Strategy Buoys Sales Growth but Cost Pressure Still Elevated Dan Su, CFA,Equity Analyst,4 Jun 2025

Dollar Tree grew sales by 11% in the first quarter on 5% same-store sales growth and 7% higher selling space. However, operating profits grew only 1% as higher selling and labor expenses drove operating margins down 90 basis points to 8.3%. Why it matters: The multiprice strategy that the retailer introduced over the past year started to bear fruit, with an expanded assortment and a higher mix of popular seasonal items helping to drive up both traffic (2.5%) and average ticket (2.8%). While Dollar Tree's appeal remains its low prices (85% of items under $2), the firm is prudent to invest in store renovations and multiprice stores to better engage shoppers for the longer term. It targets to convert 50% of its 9,000 stores into the multiprice format in 2025. These investments drove the bulk of the 16% increase in selling and labor expenses in the quarter, and we expect margin headwinds to continue in the near term. Family Dollar-related expenses added to costs, but the pressure should ease after the sale closes. The bottom line: We plan to maintain our $100 fair value estimate for no-moat Dollar Tree, leaving shares undervalued. We view the 7% price correction on June 4 following earnings as harsh and believe the market prices in overly pessimistic long-term sales growth assumptions. We view our $18.9 billion 2025 sales estimate on 3.5% comp sales growth as achievable. We expect healthy traffic and spending trends will continue on the back of low prices and better assortment. Our 2025 EPS estimate of $4.86 will likely go up slightly to reflect share repurchases but will remain below the $5.15-$5.65 guidance range as we foresee more margin headwinds from store investments. Coming up: Dollar Tree faces tariff risk as it directly imports about 40% of its cost of sales, with China a key supplier. That said, the estimated $200 million extra cost from tariffs for 2025 implies a 2% increase, which we think the firm can manage with multiple mitigation measures.

Dollar Tree Earnings: Near-Term Results Likely To Be Choppy, but Family Dollar Sale Is a Positive Noah Rohr,Equity Analyst,26 Mar 2025

No-moat Dollar Tree posted mixed fiscal 2024 fourth-quarter results as comparable sales growth at its namesake banner of 2% outpaced our 1.2% forecast, but the negative effects of shrink, markdowns, and store investments weighed on profits. Management also issued tepid profit guidance for fiscal 2025, calling for EPS from continued operations of $5.00-$5.50. Even considering the elevated corporate costs from the planned divestiture of Family Dollar, the outlook still trails our $6.18 estimate before the earnings call. Thus, we plan to reduce our 2025 forecast to more closely align with the low end of

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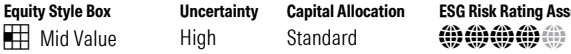
127.84 USD 19 Dec 2025	110.00 USD 9 Dec 2025 23:31, UTC	1.16	24.36 USD Bil 22 Dec 2025	None	Mid Value	High	Standard	 3 Dec 2025 06:00, UTC

guidance and note that management's outlook does not fully consider recently imposed tariffs, adding uncertainty to near-term results. Longer term, we think the Dollar Tree banner can deliver 2.5% comparable sales growth and a stand-alone EBITDA margin of around 13.5%-14%, slightly below the firm's 14.4% average margin from 2010-14.Along with the earnings report, management announced plans to sell the ailing Family Dollar business to two private equity firms (Brigade Capital Management and Macellum Capital Management) for $1 billion, with the deal expected to close in the second quarter of 2025. While this is a far cry from the $9 billion price tag it paid in 2015, we look favorably upon the proposed sale, as Family Dollar has struggled to consistently generate profits in recent years. We surmise the banner's lackluster scale and listless real estate footprint offered little turnaround potential. Time and resources should be better spent improving Dollar Tree's namesake business as we estimate the banner boasts a return on invested capital near 20% as opposed to that of Family Dollar in the low single digits. We plan to maintain our Standard Capital Allocation Rating for now.We expect our $104 fair value estimate to decline slightly after considering the cumulative effects of the time value of money, the Family Dollar sale, and our lower near-term profit forecast.

Dollar Tree Earnings: Financial Marks Pressured by Weak Discretionary Demand, but Shares Look Cheap Noah Rohr,Equity Analyst,4 Dec 2024

We don’t plan to materially alter our $108 per share fair value estimate on no-moat Dollar Tree after its fiscal 2024 third-quarter results landed mostly in line with our expectations. Companywide same-store sales expanded 1.8% and adjusted operating margin landed at 4.5%, up 40 basis points versus last year but still trailing the 5.5% level seen in the third quarter of fiscal 2022. Tepid demand for discretionary goods coincided with a bloated cost structure due to ongoing supply chain and technology investments and a review of the Family Dollar banner. Despite grappling with near-term uncertainty, we think shares are very undervalued.Same-store sales expanded 1.8% at Dollar Tree’s namesake banner (slightly ahead of our 1.5% forecast), as a 6% gain in consumables was weighed down by soft discretionary product sales. With more than 50% of the banner’s sales tied to discretionary merchandise such as party supplies, toys, and seasonal items, we acknowledge that Dollar Tree is susceptible to cyclical swings in consumer demand. On a positive note, we think market-share wins in the consumables category—management cited more than 400 basis points of outperformance—bodes well for the store's long-term relevance with shoppers and continue to forecast 2.5%-3.0% comp growth longer term. Regarding profitability, the Dollar Tree segment saw operating margin decline 140 basis points to 10.7% amid higher depreciation and temporary labor costs stemming from multiprice product rollouts. We continue to forecast a 12% segment operating margin for the full year, but we expect a gradual return to the 13%-13.5% range longer term as temporary labor costs dissipate.Despite grappling with soft demand from lower-income consumers, we were encouraged to see Family Dollar post 2% same-store sales growth while eking out a slight operating profit during the quarter. Still, we consider Family Dollar to be a disadvantaged asset due to its lackluster scale and undifferentiated product assortment.

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Dollar Tree: Dreiling's Departure Comes at a Tumultuous Time, but No Reason to Change Our Outlook Noah Rohr,Equity Analyst,5 Nov 2024

On Nov. 4, no-moat Dollar Tree announced that CEO Rick Dreiling has stepped down due to health concerns. The firm appointed Michael Creedon (former COO) interim CEO while the board searches for a permanent replacement. The retailer also reiterated its fiscal 2024 third-quarter guidance (earnings expected to be released in early December) for low-single-digit comparable sales growth and adjusted earnings per share of $1.05 to $1.15, which aligns with our forecast. Shares surged by a mid-single-digit percentage as we surmise the reaffirmed financial outlook helped assuage investor concerns amid a tumultuous demand environment. In light of the news, we don't plan to alter our $108 fair value estimate or our Standard Capital Allocation Rating, and we continue to view shares as significantly undervalued.Shares of Dollar Tree currently stand about 50% lower than when Dreiling took the helm in January 2023, as a softer spending environment in 2024 collided with the former CEO's turnaround strategy. But while financial performance has suffered—we model a 10% annual decline in fiscal 2024 adjusted earnings per share to $5.32—we don't take issue with Dreiling's investment priorities during his brief tenure, which consisted of modernizing the retailer's technology platforms, updating its supply chain, and undertaking store renovations. We also look fondly upon his decision to shutter nearly 1,000 unprofitable Family Dollar stores and for initiating a review of strategic alternatives for the disadvantaged banner, which Creedon will presumably oversee.We don't take issue with Creedon serving as interim CEO, given that he already enjoys two years in the C-suite, having worked alongside Dreiling. We also look favorably upon the expansive retail experience offered by the remainder of Dollar Tree's leadership team and the continued involvement of Paul Hilal as vice chair of the board, who previously helped revamp Dollar Tree's board and management team in 2022.

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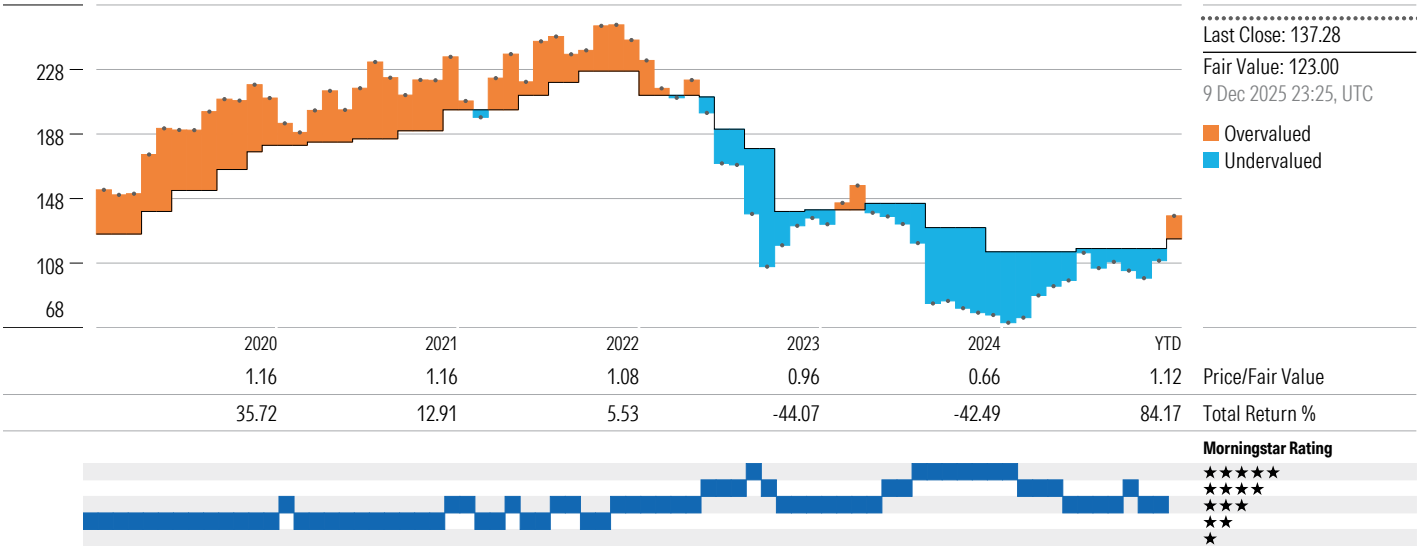
Competitors Price vs. Fair Value

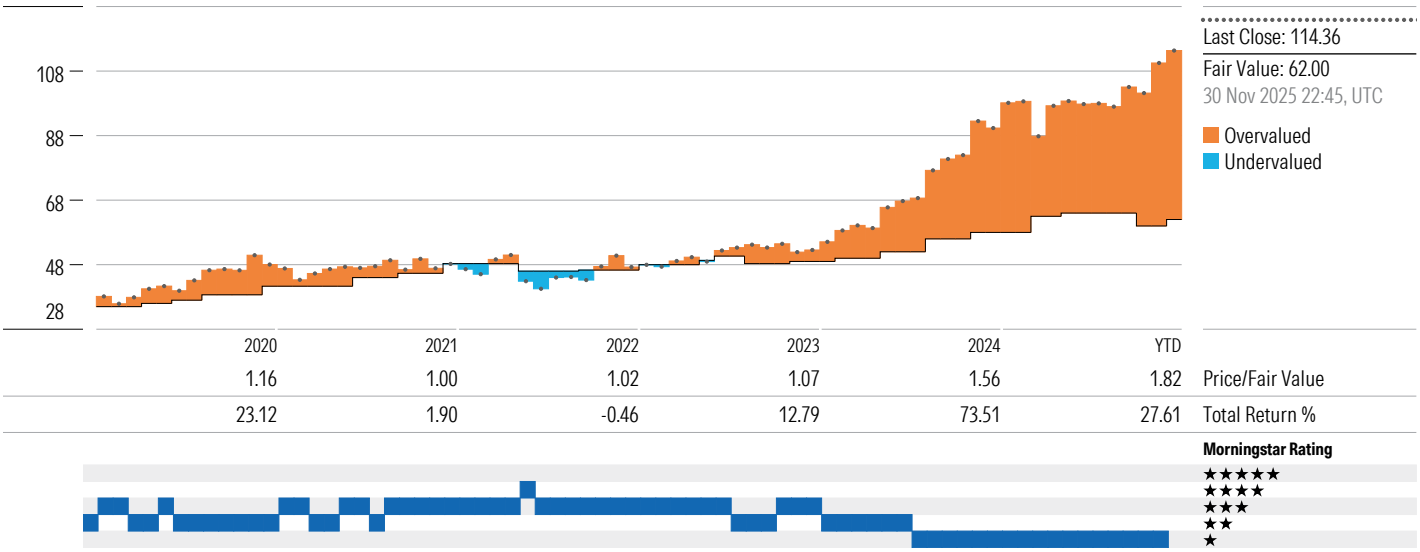
Dollar General Corp DG



	2020	2021	2022	2023	2024	YTD	
	1.16	1.16	1.08	0.96	0.66	1.12	Price/Fair Value
	35.72	12.91	5.53	-44.07	-42.49	84.17	Total Return %

Total Return % as of 19 Dec 2025. Last Close as of 19 Dec 2025. Fair Value as of 9 Dec 2025 23:25, UTC.

Walmart Inc WMT



	2020	2021	2022	2023	2024	YTD	
	1.16	1.00	1.02	1.07	1.56	1.82	Price/Fair Value
	23.12	1.90	-0.46	12.79	73.51	27.61	Total Return %

Total Return % as of 19 Dec 2025. Last Close as of 19 Dec 2025. Fair Value as of 30 Nov 2025 22:45, UTC.

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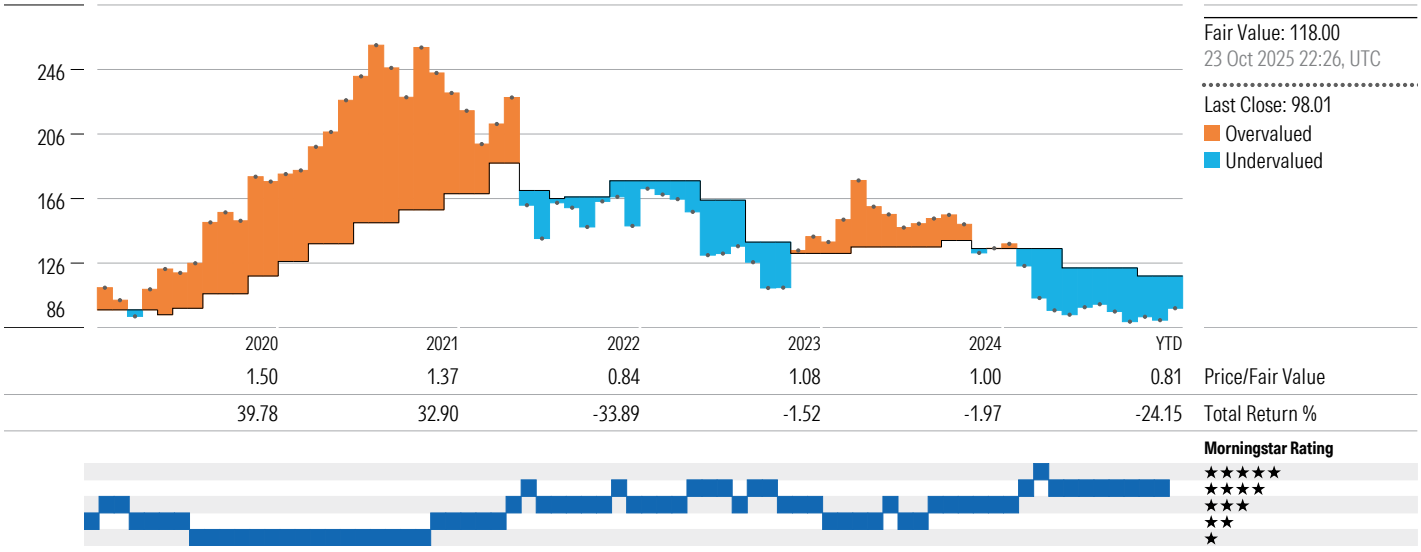
Dollar Tree Inc DLTR ★★★ 22 Dec 2025 22:37, UTC

Competitors Price vs. Fair Value

Target Corp TGT



	2020	2021	2022	2023	2024	YTD
Price/Fair Value	1.50	1.37	0.84	1.08	1.00	0.81
Total Return %	39.78	32.90	-33.89	-1.52	-1.97	-24.15

Total Return % as of 19 Dec 2025. Last Close as of 19 Dec 2025. Fair Value as of 23 Oct 2025 22:26, UTC.

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Morningstar Valuation Model Summary

Financials as of 09 Dec 2025

	Actual			Forecast				
Fiscal Year, ends 31 Jan	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Revenue (USD Mil)	28,332	16,781	17,579	19,397	20,918	22,247	23,635	25,084
Operating Income (USD Mil)	2,236	1,775	1,462	1,622	1,820	2,002	2,151	2,340
EBITDA (USD Mil)	3,004	2,175	1,989	2,204	2,447	2,647	2,836	3,068
Adjusted EBITDA (USD Mil)	3,004	2,175	1,989	2,204	2,447	2,647	2,836	3,068
Net Income (USD Mil)	1,615	-998	-3,030	1,262	1,286	1,423	1,536	1,664
Adjusted Net Income (USD Mil)	1,615	1,277	1,102	1,200	1,286	1,423	1,536	1,664
Free Cash Flow To The Firm (USD Mil)	159	514	-3,360	1,656	611	897	962	1,054
Weighted Average Diluted Shares Outstanding (Mil)	224	220	216	206	192	186	178	167
Earnings Per Share (Diluted) (USD)	7.21	-4.54	-14.03	6.14	6.69	7.67	8.64	9.94
Adjusted Earnings Per Share (Diluted) (USD)	7.21	5.81	5.10	5.83	6.69	7.67	8.64	9.94
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Margins & Returns as of 09 Dec 2025

		Actual			Forecast					
	3 Year Avg	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**5 Year Avg**
Operating Margin %	8.9	7.9	10.6	8.3	8.4	8.7	9.0	9.1	9.3	8.9
EBITDA Margin %	—	10.6	13.0	11.3	11.4	11.7	11.9	12.0	12.2	—
Adjusted EBITDA Margin %	—	10.6	13.0	11.3	11.4	11.7	11.9	12.0	12.2	11.8
Net Margin %	-5.8	5.7	-5.9	-17.2	6.5	6.2	6.4	6.5	6.6	6.4
Adjusted Net Margin %	6.5	5.7	7.6	6.3	6.2	6.2	6.4	6.5	6.6	6.4
Free Cash Flow To The Firm Margin %	-5.2	0.6	3.1	-19.1	8.5	2.9	4.0	4.1	4.2	4.8

Growth & Ratios as of 09 Dec 2025

		Actual			Forecast					
	3 Year CAGR	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**5 Year CAGR**
Revenue Growth %	-12.6	7.6	-40.8	4.8	10.3	7.8	6.4	6.2	6.1	7.4
Operating Income Growth %	-6.9	23.5	-20.7	-17.6	11.0	12.2	10.0	7.4	8.8	9.9
EBITDA Growth %	-5.8	18.9	-27.6	-8.6	10.8	11.0	8.2	7.1	8.2	9.1
Adjusted EBITDA Growth %	-7.7	18.9	-27.6	-8.6	10.8	11.0	8.2	7.1	8.2	9.0
Earnings Per Share Growth %	—	24.3	-163.0	209.1	-143.7	9.0	14.6	12.7	15.0	—
Adjusted Earnings Per Share Growth %	—	24.3	-19.4	-12.2	14.4	14.7	14.6	12.7	15.0	—

Valuation as of 09 Dec 2025

	Actual			Forecast				
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Price/Earning	20.1	25.2	14.3	21.0	18.3	16.0	14.2	12.3
Price/Sales	1.2	1.7	0.9	1.3	1.2	1.1	1.0	1.0
Price/Book	3.7	4.4	4.0	7.4	5.8	4.8	4.1	3.8
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	14.4	17.8	12.9	14.3	12.8	11.9	11.1	10.2
EV/EBIT	19.3	21.8	17.5	19.4	17.3	15.7	14.6	13.4
Dividend Yield %	—	—	—	—	—	—	—	—
Dividend Payout %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 09 Dec 2025

	Actual			Forecast				
Fiscal Year, ends 31 Jan	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
ROA %	7.0	-4.5	-16.3	8.7	8.3	8.6	8.8	8.7
ROE %	18.5	-13.7	-76.2	37.2	31.6	30.0	29.1	30.5
ROIC %	10.6	10.3	12.0	11.9	11.5	12.5	13.9	14.3

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MORNINGSTAR®

Dollar Tree Inc DLTR ★★★ 22 Dec 2025 22:37, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
127.84 USD 19 Dec 2025	110.00 USD 9 Dec 2025 23:31, UTC	1.16	24.36 USD Bil 22 Dec 2025	None	Mid Value	High	Standard	3 Dec 2025 06:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Jan	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Debt/Capital %	10.4	9.4	10.8	13.0	12.8	12.2	11.8	14.4
Assets/Equity	2.6	3.0	4.7	4.3	3.8	3.5	3.3	3.5
Net Debt/EBITDA	3.0	4.4	3.5	1.2	1.1	1.0	1.0	1.1
Total Debt/EBITDA	1.1	1.6	1.7	1.6	1.4	1.3	1.2	1.4
EBITDA/ Net Interest Expense	24.0	19.3	18.5	24.2	21.9	23.5	25.6	23.5

Forecast Revisions as of 9 Dec 2025	2026		2027		2028	
Prior data as of 9 Jun 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	110.00	100.47	—	—	—	—
Revenue (USD Mil)	19,397	18,863	20,918	20,033	22,247	21,064
Operating Income (USD Mil)	1,622	1,490	1,820	1,807	2,002	2,000
EBITDA (USD Mil)	2,204	2,093	2,447	2,448	2,647	2,674
Net Income (USD Mil)	1,200	1,033	1,286	1,297	1,423	1,439
Earnings Per Share (Diluted) (USD)	6.14	4.87	6.69	6.26	7.67	7.09
Adjusted Earnings Per Share (Diluted) (USD)	5.83	4.87	6.69	6.26	7.67	7.09
Dividends Per Share (USD)	0.00	0.00	0.00	0.00	0.00	0.00

Key Valuation Drivers as of 09 Dec 2025

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	8.2
Long-Run Tax Rate %	24.7
Stage II EBI Growth Rate %	5.3
Stage II Investment Rate %	44.9
Perpetuity Year	11

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 09 Dec 2025

	USD Mil
Present Value Stage I	6,885
Present Value Stage II	630
Present Value Stage III	14,698
Total Firm Value	**22,213**
Cash and Equivalents	1,257
Debt	3,431
Other Adjustments	0
Equity Value	**20,039**
Projected Diluted Shares	195
Fair Value per Share (USD)	**110.00**

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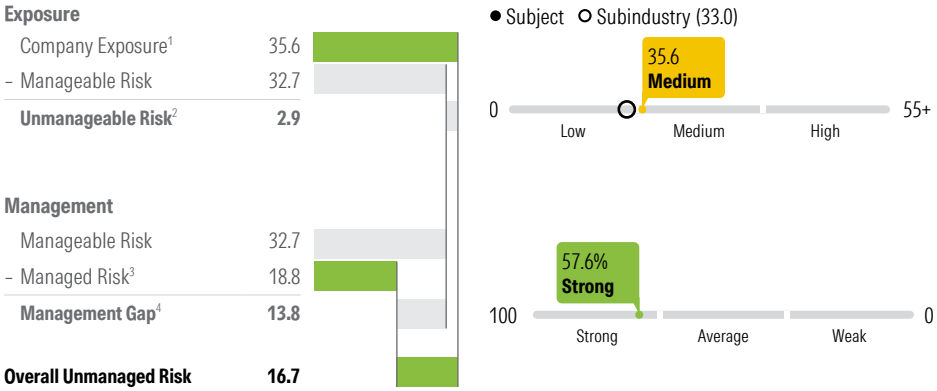
Dollar Tree Inc DLTR ★★★ 22 Dec 2025 22:37, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
127.84 USD 19 Dec 2025	110.00 USD 9 Dec 2025 23:31, UTC	1.16	24.36 USD Bil 22 Dec 2025	None	Mid Value	High	Standard	3 Dec 2025 06:00, UTC

ESG Risk Rating Breakdown



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Dec 03, 2025. Highest Controversy Level is as of Dec 08, 2025. Sustainalytics Subindustry: Department Stores. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 57.6% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

Peer Analysis 03 Dec 2025

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure			Management			ESG Risk Rating		
Dollar Tree Inc	35.6 | Medium	0	55+	57.6 | Strong	100	0	16.7 | Low	0	40+
The Kroger Co	47.3 | Medium	0	55+	55.3 | Strong	100	0	23.1 | Medium	0	40+
Walmart Inc	43.1 | Medium	0	55+	61.3 | Strong	100	0	18.6 | Low	0	40+
Dollar General Corp	34.4 | Low	0	55+	46.7 | Average	100	0	19.6 | Low	0	40+
Target Corp	33.2 | Low	0	55+	61.9 | Strong	100	0	14.3 | Low	0	40+

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Appendix

Historical Morningstar Rating

Dollar Tree Inc DLTR 22 Dec 2025 22:37, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★	★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★	★★	★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★	★★★	★★★	★★★	★★	★★	★★	★★	★★	★★	★★	★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★	★★	★★	★★★	★★★	★★	★★	★	★	★	★★	★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★	★★	★★★	★★★	★★★	★★★	★★★	★★	★★	★★★	★★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★	★★	★★★	★★★	★★	★★	★★★	★★	★★★	★★★★	★★★	★★★

Dollar General Corp DG 22 Dec 2025 22:47, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★★	★★★★	★★★★	★★★★★	★★★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★★★	★★★★★	★★★★★	★★★★★	★★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★★★	★★★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★	★★	★★★	★★★	★★	★★	★★★	★★	★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★	★★

Walmart Inc WMT 22 Dec 2025 22:39, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
★	★	★	★	★	★	★	★	★	★	★	★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★	★	★	★	★	★★	★★	★★	★★	★★	★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★	★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★★	★★★	★★★	★★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★★	★★★	★★★	★★★	★★	★★★	★★★	★★	★★	★★★	★★★	★★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★★	★★	★★	★★	★★	★★	★★★	★★	★★	★★★	★★★	★★

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Target Corp TGT 22 Dec 2025 22:40, UTC

Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★	★★★★★	★★★★	★★★	★★★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★★★	★★★	★★★	★★★	★★	★★	★★★	★★	★★	★★	★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★★★	★★★★	★★★	★★★★	★★★★	★★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★	★★	★★	★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★	★	★	★	★	★	★	★	★	★	★
Dec 2020	Nov 2020	Oct 2020	Sep 2020	Aug 2020	Jul 2020	Jun 2020	May 2020	Apr 2020	Mar 2020	Feb 2020	Jan 2020
★	★	★	★	★	★★	★★	★★	★★	★★★	★★★	★★

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Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, indepth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm approach.

Morningstar's equity research group ("we," "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our singlepoint star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in workingcapital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

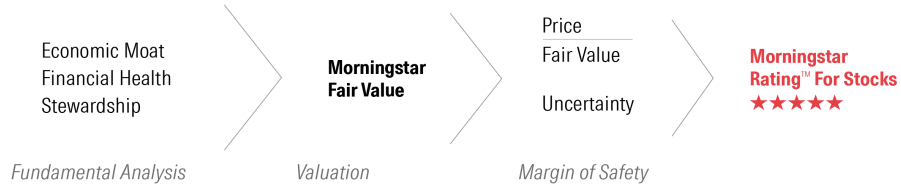
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty Around That Fair Value Estimate

Morningstar's Uncertainty Rating is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



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outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the Uncertainty Rating provides guidance in portfolio construction based on risk tolerance.

Our Uncertainty Ratings are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

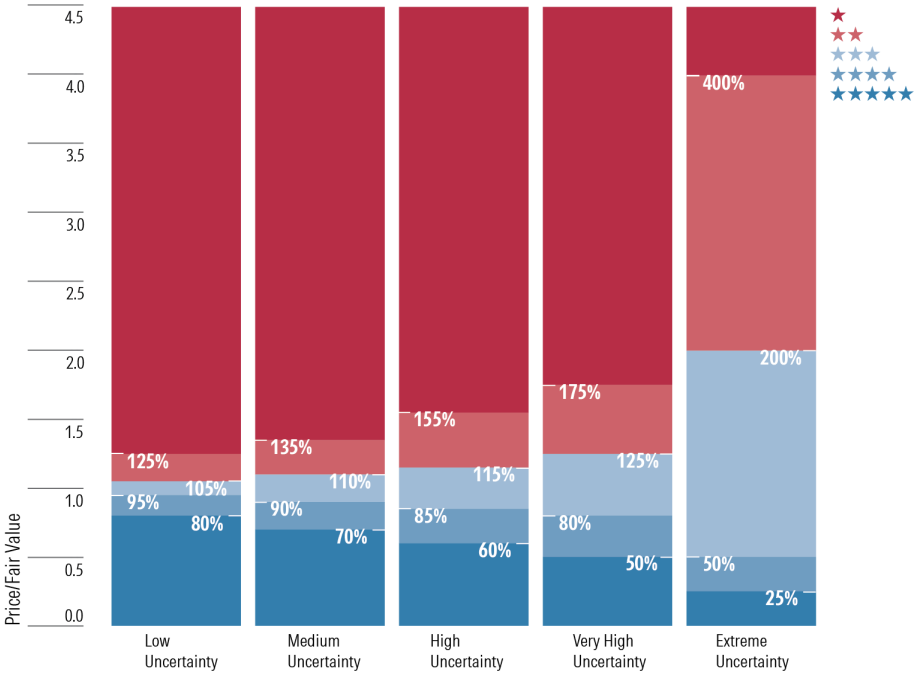
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Equity Research Star Rating Methodology



Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

★★★★★ We believe appreciation beyond a fair risk adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

★★★★ We believe appreciation beyond a fair risk-adjusted return is likely.

★★★ Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

★★ We believe investors are likely to receive a less than fair risk-adjusted return.

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

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Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

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Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

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