

Dollar General: Growth, traffic, and the returns question

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A stronger quarter, several explanations

On August 27, 2026, Dollar General reported second-quarter net sales of \$11.29 billion, 5.2% above the year-earlier quarter. Same-store sales rose 3.5%. Customer traffic increased 2.0%, while average transaction amount rose 1.5%. Management attributed the higher transaction amount to higher average retail prices, partly offset by fewer items per transaction. Sales increased in each of the four reported categories: consumables, seasonal, home products, and apparel. [S1, MD&A, pp. 22-23]

The quarter also brought a higher gross-margin rate. Gross profit reached 32.6% of sales, up 127 basis points year over year. Management attributed the improvement chiefly to tariff refunds, a lower LIFO provision, and lower distribution costs; increased markdowns and transportation costs partly offset these gains. The company estimated the gross-profit benefit of tariff refunds, after reinvesting a substantial portion in promotions and lower everyday prices, at approximately 81 basis points for the quarter. [S1, MD&A, p. 24]

For the first half of fiscal 2026, net sales increased 4.3% and same-store sales increased 2.7%. Traffic rose 1.7%; average transaction amount rose 1.0%, again reflecting higher average retail prices partly offset by fewer items per transaction. Management estimated the tariff-refund benefit after reinvestment at approximately 41 basis points for the half. [S1, MD&A, pp. 24-25]

The releases gave investors reasons for optimism, but not a single explanation. More visits may indicate improved execution or renewed customer demand. Higher prices can raise the average transaction amount even as shoppers take fewer items. Tariff refunds supported reported gross margin, but they do not describe a recurring operating improvement. And store openings add sales while also requiring capital and potentially shifting transactions among nearby stores.

The investor's question is not simply whether Dollar General is growing. It is what the current evidence says about the durability and economics of that growth.

A small-box network

Dollar General describes itself as a value retailer focused on convenient, small-box locations and a broad assortment of everyday merchandise. Its stores carry consumables such as food, paper, cleaning, health and beauty products, and pet supplies, alongside seasonal, home, and apparel items. The company says many core customers are value-conscious and have low or fixed incomes. Approximately 80% of its stores are in towns with 20,000 or fewer people. [S2, Item 1, pp. 5-7; MD&A, p. 28]

The model combines convenience, limited assortment and frequent purchases. Consumables accounted for about 82% of sales in FY2025 and generally carry lower gross margins than seasonal and home products. The company has described its strategic aim as profitable sales growth, including better merchandise mix and efforts to improve shrink, damages, pricing, inventory, supply-chain efficiency and store operations. These are management's descriptions of its priorities; their contribution to the quarter's results is not separately measured in the filing. [S2, MD&A, pp. 28-30]

The network is large: Dollar General reported 20,959 stores in 48 states and Mexico as of February 27, 2026. It competes with Walmart, Family Dollar, Dollar Tree and a broader range of retailers, including grocery, convenience, mass merchandise, online, drug and specialty stores. The company identifies price, assortment, presentation, in-stock reliability, service, location and labor as dimensions of competition. [S2, Item 1, pp. 7-8; MD&A, p. 28]

New stores and remodels are different bets

Dollar General is pursuing both network growth and changes to existing stores. In FY2025 it opened 589 stores, including eight in Mexico; relocated 47; closed 290; completed 2,000 full remodels under Project Renovate; and completed 2,254 partial remodels under Project Elevate. The company launched Elevate as an additional program intended to refresh merchandising and presentation in mature stores. [S2, MD&A, pp. 29-30]

For FY2026, management planned approximately 450 new US stores and ten in Mexico, 2,000 Renovate remodels, 2,250 Elevate remodels, and 20 relocations-for a total of 4,730 real-estate projects. In Q2, the company reported 126 openings, including one in Mexico; 665 Renovate projects; 711 Elevate projects; five relocations; and 33 closures. The annual plan is a company forecast, and completed projects are counts, not return measures. [S1, MD&A, p. 21]

Dollar General says most new stores use an approximately 8,500-square-foot format, compared with an average of about 7,500 square feet across existing stores. The newer format can provide more cooler capacity, a longer queue line and a broader assortment, including expanded non-consumables and produce in select stores. The company also said higher inflation and interest rates raised new-store and occupancy costs and negatively affected projected new-store returns, even as management described new-store returns as remaining strong. [S1, MD&A, pp. 20-21]

The company projected FY2026 capital expenditures of \$1.4-\$1.5 billion. These expenditures support more than store openings and remodels: the filing also lists distribution facilities, transportation assets, technology and routine capital needs. Public disclosures do not provide comparable project-level costs, incremental sales, contribution margins or payback periods for new stores, Renovate, Elevate and relocations. [S1, MD&A, p. 27]

Reading the sales signal

Dollar General's same-store sales measure includes stores open for at least 13 full fiscal months that remain open at the end of the period. Remodeled, expanded and relocated stores are included. The company cautions that its calculation may not be comparable to similarly titled measures reported by other retailers. [S1, MD&A, p. 22]

The metric therefore combines stores with different histories and projects. It can register sales gains at remodeled stores but cannot, on its own, estimate how those stores would have performed without the remodel. Newer stores take time to enter the comparable-store base, while closed stores leave it. Network sales can grow through both same-store gains and new-store contributions; neither establishes whether the projects earned attractive incremental returns.

The price and unit story is also unresolved. Traffic was positive in both the second quarter and first half, but the filing does not provide unit-volume or basket-category changes. Average transaction amount increased partly because of higher prices, while items per transaction declined. Those facts can support different views about customer demand and affordability; they do not tell the investor how price, units, mix and margin interacted at store level.

What store-network research can tell an investor

Academic research offers mechanisms to consider, not a Dollar General forecast.

Chenarides, Çakır and Richards studied dollar-store entry in Texas from 2014 through 2019. Using Nielsen TDLinX store-level revenue and attributes, census demographics and a structural model of spatial demand and firms' dynamic entry choices, they estimated negative own-density effects for small-format stores and positive effects for large-format grocery stores. Their equilibrium simulation of a 50% increase in Dollar General density predicted lower density among other small formats and higher density among large-format retailers. The result speaks to local competition and possible cannibalization of individual small stores; it is not a return estimate for Dollar General's national store plan. The study uses Texas firm-level revenue data and does not model strategic changes in loyalty, pricing or variety. [S3, Table 4, Table 7, §§3-5]

Dekimpe, Gijsbrechts and Gielens studied Carrefour's introduction of proximity stores in 66 French geographic markets from 2008 through 2017. They combined store-opening records and household panel data, then estimated market-specific VARX models of online and offline retailer share. Average estimated share effects were small and statistically insignificant, but effects varied substantially across markets and channels. The authors caution against assuming uniform success and call for evaluating a retailer's total portfolio. The setting differs from Dollar General: Carrefour is a French grocery chain whose small stores often support online pickup, and the outcome is department-level market share rather than store returns. [S4, Tables 1, 3, 5; §§3-5]

Together, these studies suggest why a chain-level growth figure can conceal different local outcomes. They do not indicate which Dollar General projects create value or what its optimal expansion rate should be.

The investor's assignment

You are an outside investor reviewing Dollar General after the August 27 release. Management reiterated its FY2026 outlook: net-sales growth of 4.0%-4.3%, same-store sales growth of 2.5%-2.9%, and diluted EPS of \$7.80-\$8.00. The company estimated that tariff refunds, after reinvestment, would benefit Q2 EPS by approximately \$0.25. These are management forecasts and estimates, not realized full-year results. [S1, MD&A, p. 24; S5]

Prepare an investor view of what the company's current disclosures establish-and what they leave uncertain-about the growth program. Do not assume that management has posed a particular capital-allocation choice. Instead, assess the evidence and specify what would change your view.

Discussion questions

1. What can the Q2 and first-half same-store sales results tell you about traffic, ticket, pricing and customer demand? What can they not tell you?
2. How would you distinguish the economics of new stores from Renovate, Elevate and relocations? What local and cohort data would you request?
3. What competing explanations fit the rise in sales and gross margin? Which factors might persist, and what evidence is needed before reaching that view?
4. How could network density create value for Dollar General, and how could it reduce store-level productivity or affect competitors? How far do the academic studies travel to this company?
5. What indicators would you monitor over the next several reporting periods to assess whether the announced project program is translating into durable economic value?

Sources

S1. Dollar General Corporation, [Q2 FY2026 Form 10-Q](#), filed August 27, 2026; quarter ended July 31, 2026. Cited MD&A pp. 20-27.

S2. Dollar General Corporation, [FY2025 Form 10-K](#), filed March 20, 2026; fiscal year ended January 30, 2026. Cited Item 1, pp. 5-8; MD&A, pp. 28-30.

S3. Lauren Chenarides, Metin Çakır, and Timothy J. Richards (2024), “Dynamic model of entry: Dollar stores,” *American Journal of Agricultural Economics* 106(2): 852-882. [Full text](#); [DOI](#).

S4. Marnik G. Dekimpe, Els Gijsbrechts, and Katrijn Gielens (2023), “Proximity-store introductions: A new route to big-box retailer success?” *Journal of Retailing* 99(4): 621-633. [Full text PDF](#); [DOI](#).

S5. Dollar General Corporation, [Q2 FY2026 results release](#), August 27, 2026; also furnished as Exhibit 99.1 to [Form 8-K](#).