

Initiated 2026-10-26 · Price \$124.98 (as of 2026-10-26 close, stockanalysis) · Mkt cap \$23.45bn · Consumer staples / discount variety retail · Model: verified

Rating: Hold — Conviction: Low

Dollar Tree is a cleaner, faster-growing business now that Family Dollar is gone. Comps are running +3–4% with traffic positive, and margins are recovering from the FY2024 trough. But the price already pays for the guided recovery plus steady store growth. The headline FY2026 numbers are flattered by a one-off IEEPA tariff refund, and tariff policy on its ~40% directly imported goods is unsettled again. The upside needs margins to rebuild toward the pre-tariff peak, while the downside opens if new Section 301 duties land. That asymmetry doesn't justify a Buy at today's multiple.

Conviction tests (3a-v-c): T1 fail (Hold → Sell at +1pp: Base midpoint –14.4%; +9.5% at –1pp, still Hold) · T2 fail (Gordon DCF alone –10.1% sits on the Hold/Sell line; exit DCF +1.7% reads Hold) · T3 pass · T4 pass (tariff outcome is the bear case itself, not outside it)

MODEL VALUE RANGE VS PRICE



Business overview

Dollar Tree runs ~9,436 small-box discount variety stores in the US and Canada (Dollar Tree and Dollar Tree Canada banners). Family Dollar was sold in July 2025 for \$680mm of proceeds and is now discontinued operations. FY2025 continuing sales were \$19.4bn: consumables 48.6%, variety 45.7%, seasonal 5.7%. The \$1.25 price point remains the anchor, but ~6,600 stores now carry multi-price (\$3–\$7) assortments, and that is what is lifting ticket (+3.3% in Q2). Three variables drive earnings: (1) comps from ticket and traffic, (2) gross margin, set by tariffs and import freight on the ~40% of retail purchases imported directly, plus shrink and mark-up, and (3) unit growth of ~400 openings and ~75 closings a year.

Competition

The trade-down shopper is contested by Dollar General, Walmart, Five Below and Ollie's. Dollar General's Q2 (ended 2026-07-31) comps were +3.5% with traffic +2.0%, its fifth straight quarter of traffic growth. That is a faster traffic line than Dollar Tree's +0.4% in the same quarter, so pressure shows up first in traffic and in consumables share, where DG and Walmart are cheaper on national brands. Five Below competes directly with Dollar Tree's multi-price discretionary push. On one source and definition (stockanalysis, 2026-10-26, lease-inclusive), DG trades at 16.1x forward P/E and 12.1x EV/EBITDA, against Dollar Tree's 18.2x and 12.0x. Dollar Tree carries a premium on forward earnings to its closest comparable despite slower traffic. The tariff regime has changed since the 10-K. IEEPA duties were struck down (refunds began Q2), but Section 301 forced-labor tariffs of 10–12.5% now stack on China and Vietnam, and the excess-capacity investigation has no determination yet (window into March 2027).

Bull case

1. **Multi-price keeps comps and traffic rising** — the broader assortment lifts ticket without losing trips; comps hold 3–4% for longer and unit growth stays ~3.5%. Plays out if Q3/Q4 comps land at or above the 3–4% guide with positive traffic. *Model: rev_growth*
2. **Margin rebuilds toward the pre-tariff peak** — lower tariff rates, shrink and freight relief and mark-up from pricing recover about half the gap between FY2025's 11.9% EBITDA margin and FY2022's 16.0%. Plays out if Section 301 duties stay at today's levels and shrink keeps improving. *Model: ebitda_margin*
3. **Multiple holds at today's level** — a cleaner single-banner grower keeps ~11x FY0 EBITDA. *Model: exit_ev_ebitda*

Bear case

1. **Tariffs come back through a different statute** — new Section 301 forced-labor duties (12.5% on China/Vietnam), a possible excess-capacity remedy and the China exclusions expiring 2026-11-09 reprice ~40% of purchases that a price-point retailer cannot pass through quickly. EBITDA margin falls back toward 11%. Plays out if USTR publishes an excess-capacity tariff annex or the exclusions lapse without replacement. *Model: ebitda_margin*
2. **Traffic goes to Walmart and DG** — multi-price dilutes the \$1.25 identity while competitors win the consumables trip; comps fade to 0–1%. Plays out if traffic turns negative for two quarters. *Model: rev_growth*
3. **De-rating to a no-growth discounter** — once the refund laps, the multiple compresses toward 7.5x, and policy uncertainty adds to the discount rate. Plays out if the FY2027 guide (March 2027) implies only low-single-digit EPS growth off the ex-refund FY2026 base. *Model: exit_ev_ebitda, wacc*

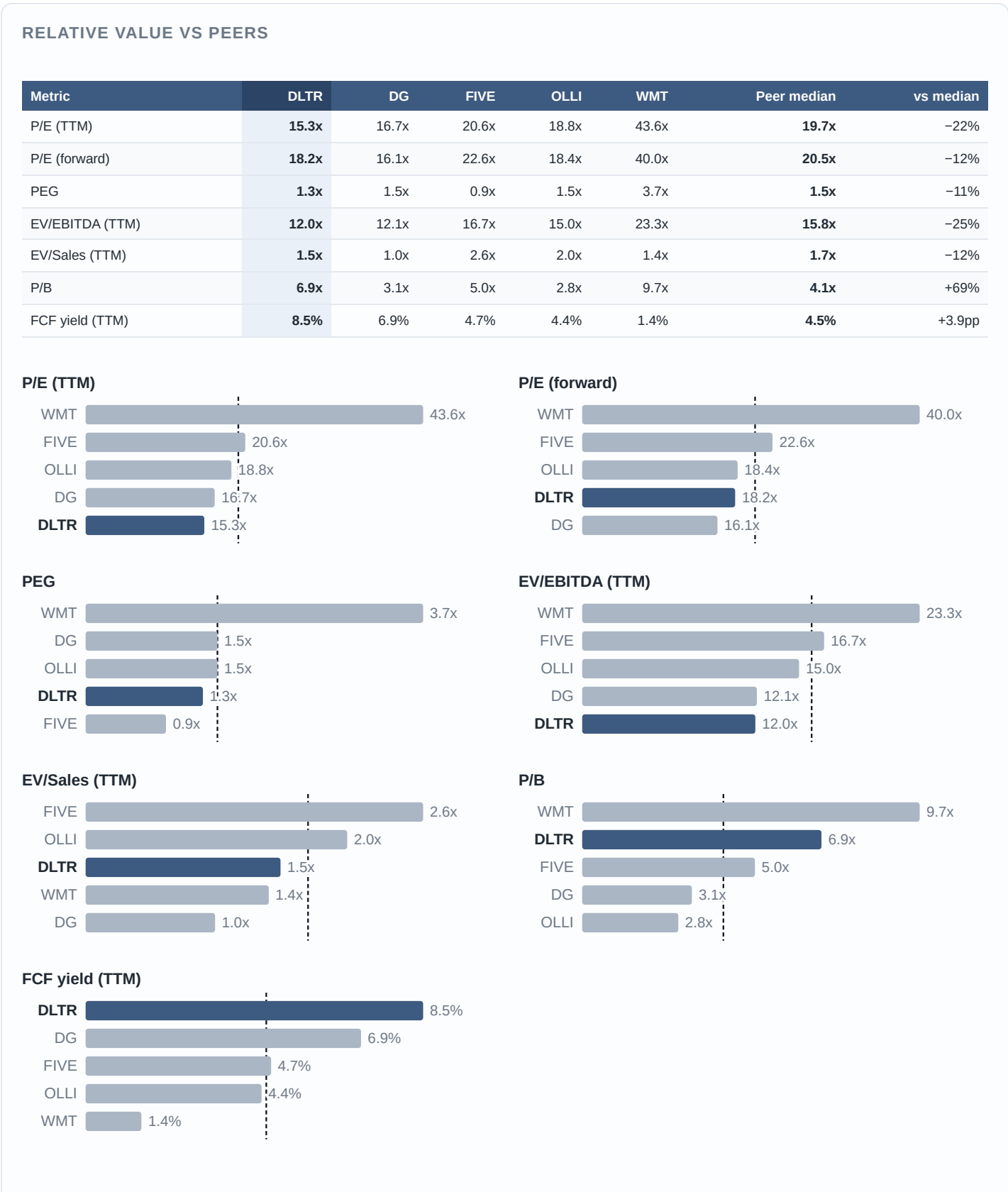
Valuation & balance sheet

Metric (definition)	Current	Own history (range or 5y avg)	Peers	Source, as-of
EV/EBITDA, model basis (mkt cap + debt – cash, leases excluded)	11.0x FY2025; 8.8x TTM (refund-inflated)	n/a (unverified)	n/a on this basis	EDGAR, 2026-08-01 balance sheet; price 2026-10-26
EV/EBITDA, lease-inclusive TTM	12.0x	n/a (unverified)	DG 12.1x · OLLI 15.0x · FIVE 16.7x · WMT 23.3x	stockanalysis, 2026-10-26
P/E forward (consensus)	18.2x	n/a (unverified)	DG 16.1x · OLLI 18.5x · FIVE 22.6x · WMT 40.1x	stockanalysis, 2026-10-26
FCF yield TTM	8.5% (includes ~\$369mm refund)	n/a (unverified)	DG 6.9% · OLLI 4.4% · FIVE 4.7% · WMT 1.4%	stockanalysis, 2026-10-26

Model-implied value range (from `model-summary.json` ; generic module, Gordon-growth DCF and exit-EV/EBITDA DCF, midpoints): Bear \$54.37 · Base \$119.72 · Bull \$172.22 per share, i.e. implied returns of –56.5% / –4.2% / +37.8% vs \$124.98. *These ranges show how the bull and bear drivers translate into value; they are not price targets.* The price sits just above Base, so the market is paying for the guided FY2026 plus margins that hold around 13%. The skew runs to the downside because the bear case is a permanent margin reset, not a cyclical dip. The Base 9.5x exit multiple is a 14% de-rating from today's 11.0x on FY2025 EBITDA (roughly flat on refund-adjusted TTM). The methods differ by 13%: exit \$127.06 against Gordon \$112.38, so the exit method embeds a higher terminal value than 8.1% WACC and 2.5% growth support. Tail sensitivity, run because a single banner is 100% of revenue: revenue +5%/+1%/0%/0%/+1%, EBITDA margin down to 9.5%, NWC 3.5% of sales, 6.5x exit, 10% WACC, 1% terminal growth → \$29.99 (–76.0%). Base FY2026 EPS is \$7.76 against the \$7.70–8.05 adjusted guide (within 5%).

Balance sheet: net leverage 0.8x FY2025 EBITDA (gross 1.3x), coverage ~21x. Liquidity is \$1.06bn cash plus an undrawn \$1.5bn five-year facility, with no commercial paper outstanding. Nearest material maturity: \$1.25bn 4.20% notes, May 2028, then the \$500mm term loan in March 2029. Ratings: n/a (unverified; secondary sources conflict between BBB/BBB– and Baa2/Baa3). Leases (\$4.7bn) are excluded from EV because EBITDA is after rent.

Model note: Verified (3,207 formula cells matched on LibreOffice recalculation). Full tier, FY2023–25 continuing operations from EDGAR XBRL. No unverified inputs and no assumptions without basis. All scenario consistency checks are OK. FY0 cash and debt are at 2026-08-01, so NWC levels carry an \$836mm H1 offset to avoid double-counting H1 FCF. The FY2026 margin (13.3%) includes the net refund, and FY2027 steps down to 13.0% as it laps. WACC 8.1% equals the stated CAPM (β 0.72) and market weights with no premium. Term-loan coupon is an estimate (not value-bearing).



As of 2026-10-26. One source and one definition for every company: TTM multiples, forward P/E on stockanalysis consensus, EV/EBITDA and EV/Sales on stockanalysis EV (lease-inclusive) and TTM EBITDA. Not the model's own EV basis. Quotes are the 2026-10-26 4:00 PM ET close. Dashed line = peer median. Source: stockanalysis.com /stocks/<ticker>/statistics/, fetched 2026-10-26.

Notes. DLTR's TTM P/E and FCF yield include ~\$369mm of one-off IEEPA tariff refunds received in Q2 FY2026; DG's include a smaller refund (~\$0.25/share in Q2). PEG figures are the source's own, resting on its analyst growth estimates; not computed here.

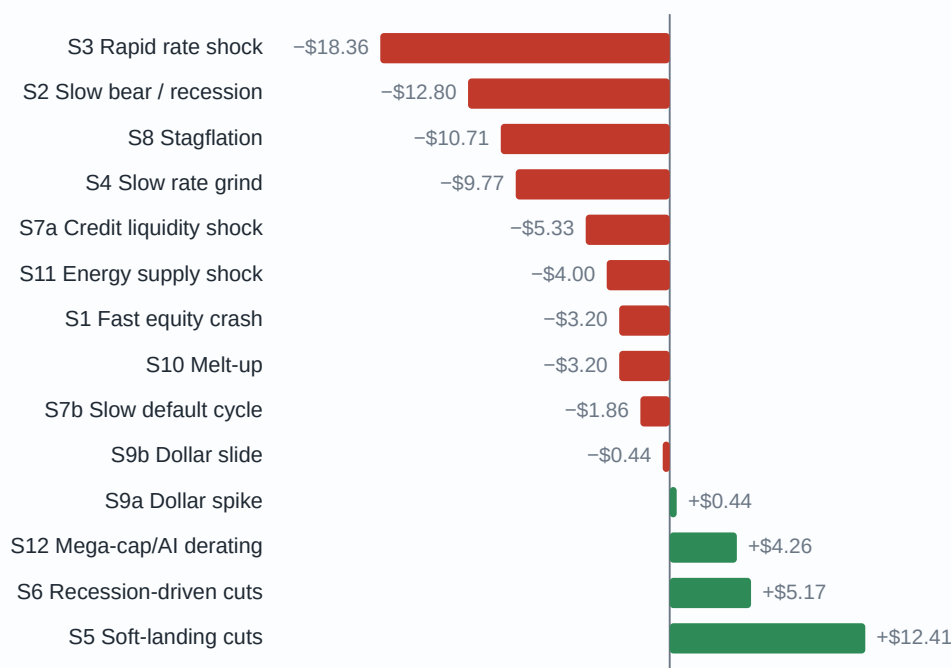
Scenario stress test

Reasoned from the bull/bear drivers above. The model column comes from the scenario overlays (Base case + shock).

Scenario	Effect	Mechanism	Magnitude	Model Δ value vs Base (\$/sh)
S1 Fast equity crash	±	Moderate-beta value retailer; brief multiple hit, no operating channel	Low	−\$3.20
S2 Slow bear / recession	−	Trade-down helps consumables, but variety and seasonal (51% of sales) fall; shrink and markdowns rise. Far milder than Base − Bear (\$65.35) on purpose: a two-year cyclical dip, not a permanent tariff-driven margin reset	High	−\$12.80
S3 Rapid rate shock	−	Low leverage, so mostly discount rate and multiple; 2028 notes refinance higher	High	−\$18.36
S4 Slow rate grind	−	Same channel, slower	Med	−\$9.77
S5 Soft-landing cuts	+	Lower discount rate with the consumer intact	Med	+\$12.41
S6 Recession-driven cuts	±	Rate relief outweighs a weaker low-income consumer, partly offset by trade-down	Low	+\$5.17
S7a Credit liquidity shock	−	Brief de-rating with credit; no maturity until 2028	Low	−\$5.33
S7b Slow default cycle	−	Core customer's credit tightens; variety spend falls	Low	−\$1.86
S8 Stagflation	−	Import, freight and wage inflation squeeze a price-point retailer that reprices slowly	Med	−\$10.71
S9a Dollar spike	+	Cheaper directly imported merchandise; Canada small	Low	+\$0.44
S9b Dollar slide	−	Mirror of S9a	Low	−\$0.44
S10 Melt-up	−	Rotation out of defensive value retail	Low	−\$3.20
S11 Energy supply shock	−	Diesel and freight costs; gasoline squeezes low-income discretionary spend	Low	−\$4.00
S12 Mega-cap/AI derating	+	Rotation into defensive, domestic retail without recession	Low	+\$4.26

Currently active/on watch per the playbook: S3 partially active; S8, S10, S11 on watch.

MODEL VALUE CHANGE VS BASE, BY SCENARIO



What would change the call

Upgrades if: Q3/Q4 comps hold $\geq 3\%$ with positive traffic, and the excess-capacity Section 301 investigation closes without a broad consumer-goods annex, so the underlying (ex-refund) EBITDA margin can be seen tracking $\geq 13\%$ into FY2027. **Downgrades if:** USTR publishes excess-capacity tariffs on consumer goods from China/Vietnam, the China exclusions lapse without replacement, or traffic turns negative for two quarters while DG's stays positive.

Watch items

- **W1:** Q3 FY2026 comps and traffic — comps $\geq 3\%$ (guide 3–4%) with traffic positive — Q3 release — early Dec 2026 — *Model: rev_growth*
- **W2:** Underlying gross margin ex-refund and reinvestment — Q3 EPS within \$0.80–0.95 including the ~\$0.50 reinvestment hit — Q3 release/10-Q — early Dec 2026 — *Model: ebitda_margin*
- **W3:** Section 301 excess-capacity determination and China exclusion expiry (2026-11-09) — any annex covering consumer goods — USTR/Federal Register — by March 2027 — *Model: ebitda_margin*
- **W4:** FY2027 outlook — EPS growth guide of at least high-single digits off the ex-refund FY2026 base (~\$7.1–7.45) — Q4 release — ~March 2027 — *Model: exit_ev_ebitda*

Sources

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Independent single-name research. Directional characterization, not a price target, execution instruction, or portfolio recommendation.