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Bernstein University US 2025

U.S. Retailing Broadlines &
Hardlines

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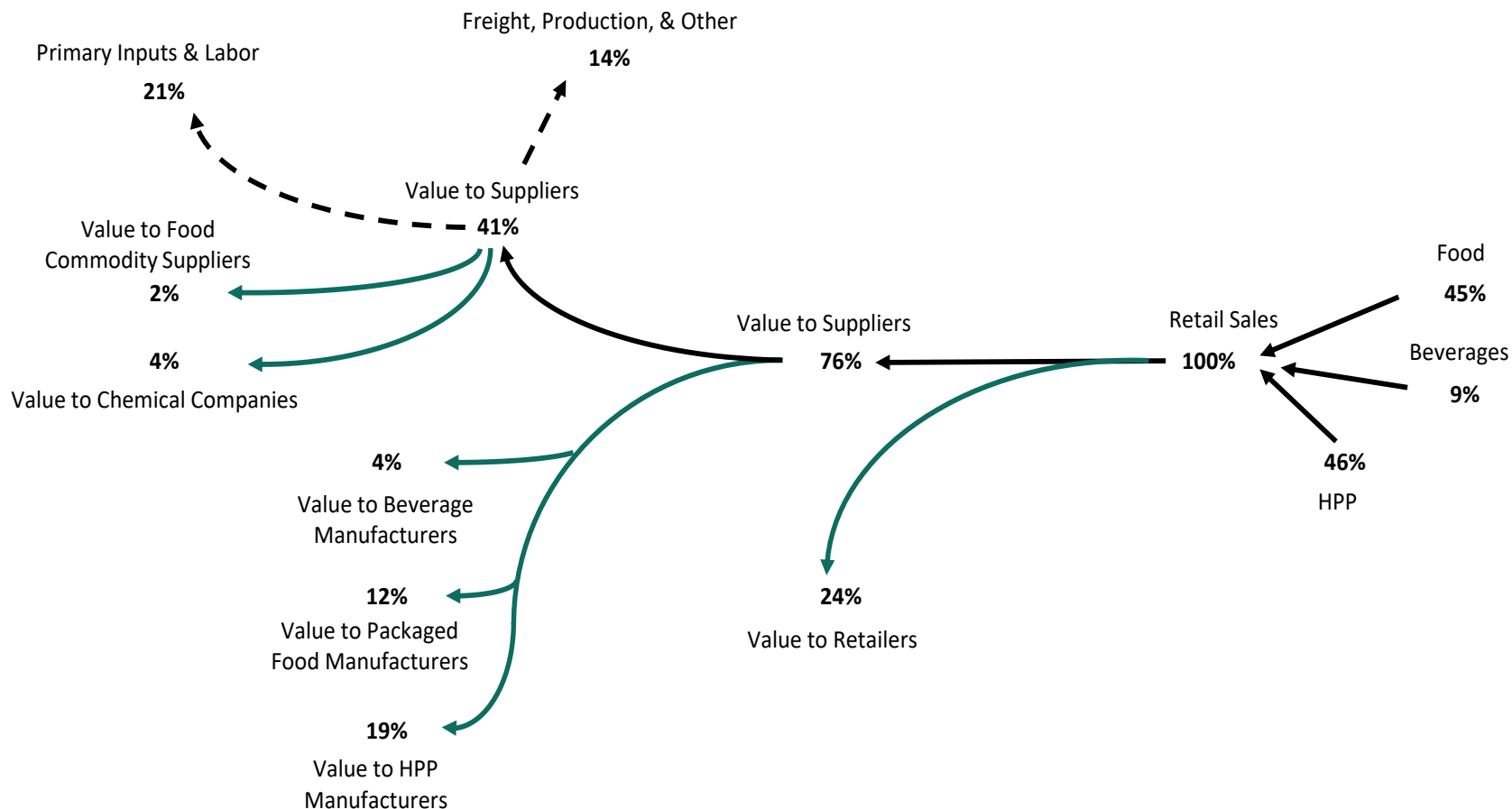
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Table of Contents

- **The Retail Value Pool**
- **Retail Success Factors**
- **Stock Calls**
 - ☐ Walmart
 - ☐ Costco
 - ☐ Dollar General

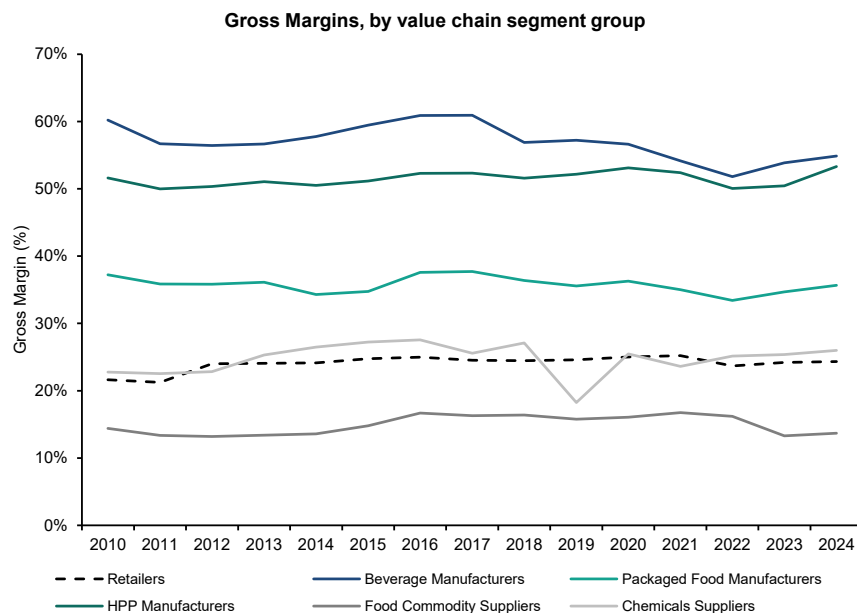
Of the \$1.5T food, beverages, and HPP market, retailers capture ~25% value.

US Retail Value Map (% Retail Sales - FAH and Health & Wellness) - FY24



Retailers have lower gross margin than others, though their share of value captured has increased in the past 14 years.

The gross margin profile of various value chain players reflects their value add and industry competitiveness – Retailers capture lower margins than CPG manufactures



The share of value captured by retailers has increased over time, largely at the expense of food manufacturers who have come under structural pressure from a health & wellness perspective.

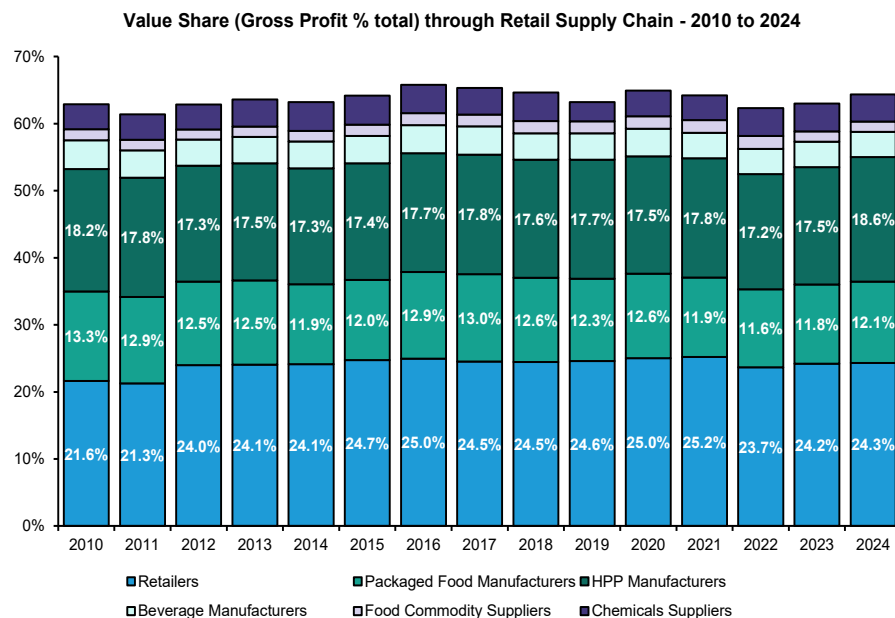


Table of Contents

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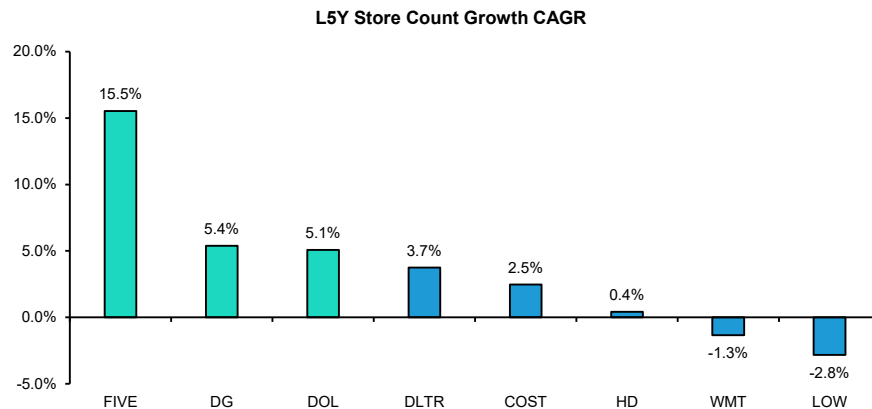
Retail Scorecard

Company positioning on key competitive dimensions

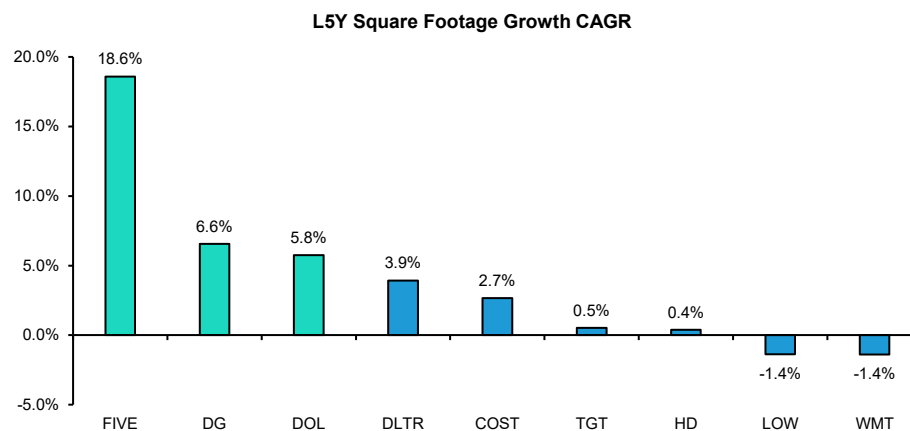
	Mass/Club			Dollar				Home Improvement	
	Walmart	Costco	Target	Dollar General	Dollarama	Dollar Tree	Five Below	Home Depot	Lowe's
Store Growth	●	●	●	●	●	●	●	●	●
E-commerce	●	●	●	●	●	●	●	●	●
Merchandising	●	●	●	●	●	●	●	●	●
Labor	●	●	●	●	●	●	●	●	●
Shrink	●	●	●	●	●	●	●	●	●
Tariff Risk	●	●	●	●	●	●	●	●	●
ESG	●	●	●	●	●	●	●	●	●

We see a divergence between retailers that still have meaningful store growth potential vs. those that don't

Over the past five years, only three businesses in our coverage – Five Below, Dollar General, and Dollarama - grew their store count by a 5% or higher CAGR, while others experienced LSD or negative store growth

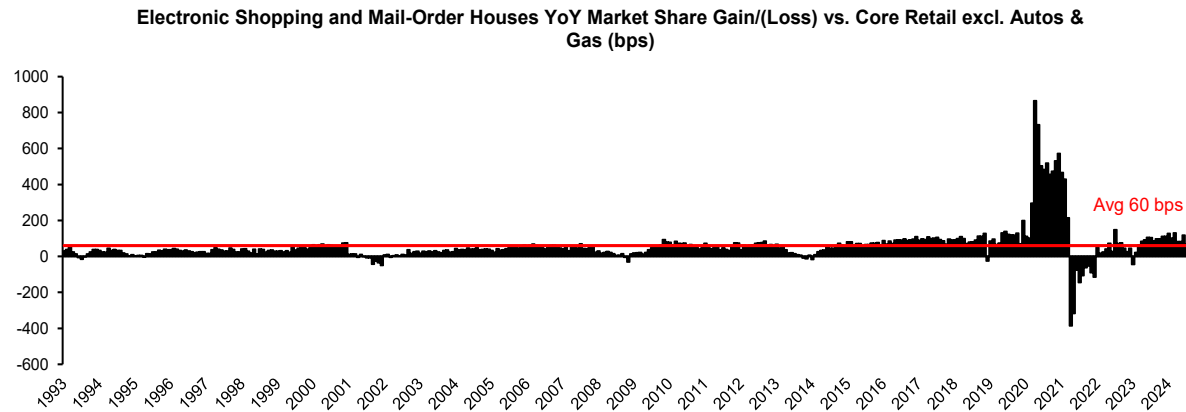


On a sqft basis, Five Below grew at a faster pace

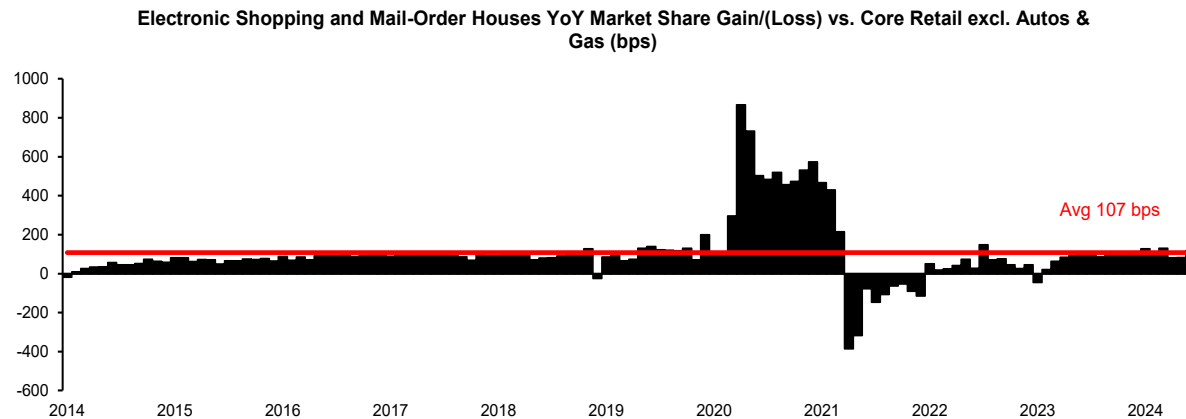


E-commerce has picked up market share at the expense of brick & mortar retail

Market share gains for the electronic shipping category (primarily Amazon) accelerated around 2013, coinciding with market share loss for warehouse clubs and superstores

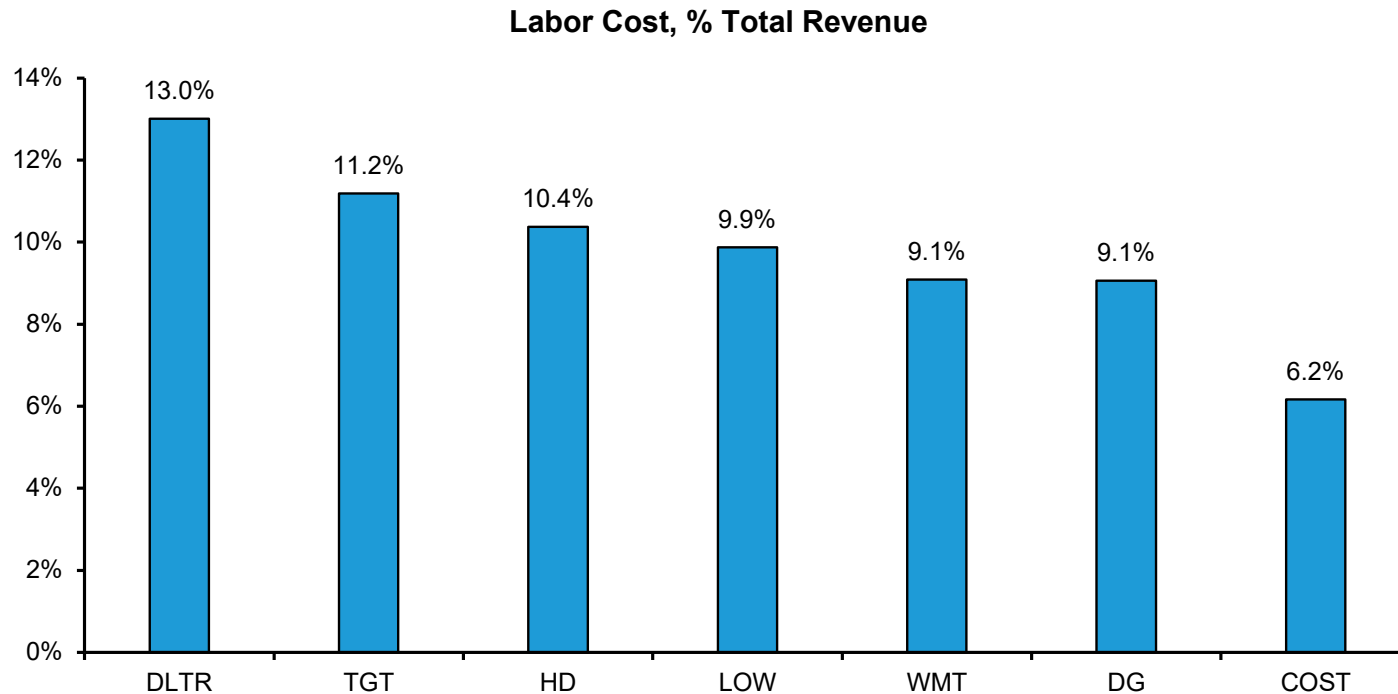


Since 2014, the electronic shopping category has gained market share at a rate of 107bps per month.



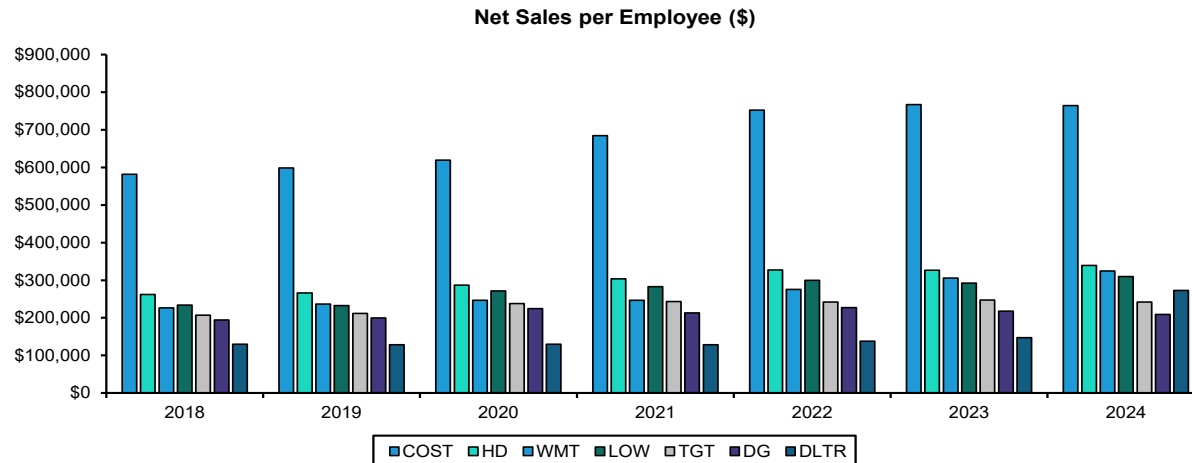
Labor is the biggest SG&A expense for retailers...

... accounting for ~HSD-LDD of total revenue for most companies in our coverage

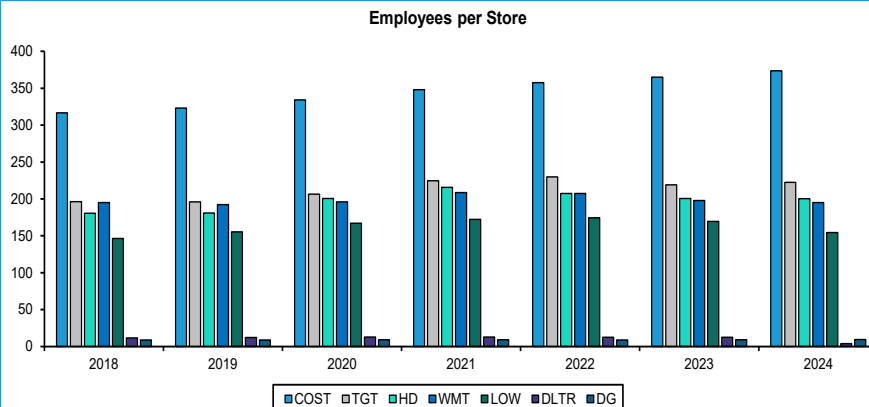


Costco has by far the most productive workforce within our coverage

...with average net sales per employee of ~\$765,000



This is despite the fact that COST employs more staff per warehouse to support the high traffic...



...and pays significantly more per employee with a median pay of ~\$50k

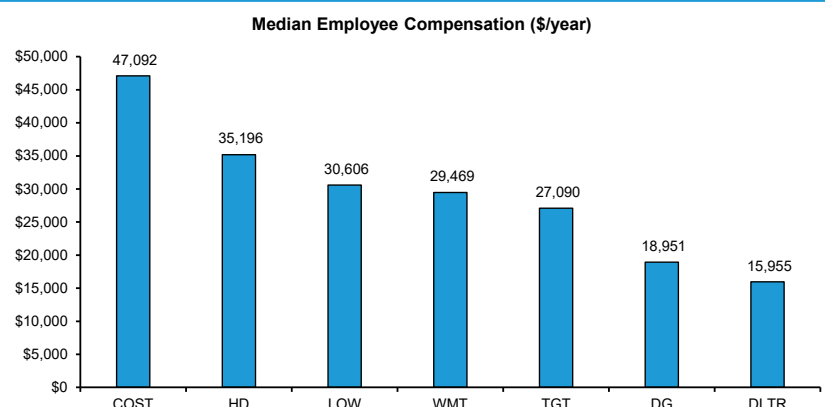


Table of Contents

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Walmart: Size matters in an omni-channel world

Investment thesis

1. We expect WMT to continue to **gain share** as its **value offerings resonate with consumers** who seek bargains.
2. We believe WMT is one of a few retailers that have **grown e-commerce profitably**, thanks to its scale.
 - We estimate that WMT's e-comm business in the US has a positive contribution margin of +0.5% on a subsidized basis (incl. alternative revenue streams).
 - We estimate that WMT US e-commerce could generate a +9.3% subsidized contribution margin in the coming years.
3. We believe WMT's investments have started to yield returns and improve its EBIT margin to close to 7% by FY30, led by e-commerce profitability improvement.

Although WMT is trading well above its historical P/E, we see further upside as WMT gains share, improves e-comm profitability, and as sales growth translates into stronger EBIT growth.

What we are watching for

- Traffic trends and implied share gains / losses
- How sales growth translates into EBIT growth
- Potential IPO of PhonePe and FlipKart

Bernstein vs Consensus

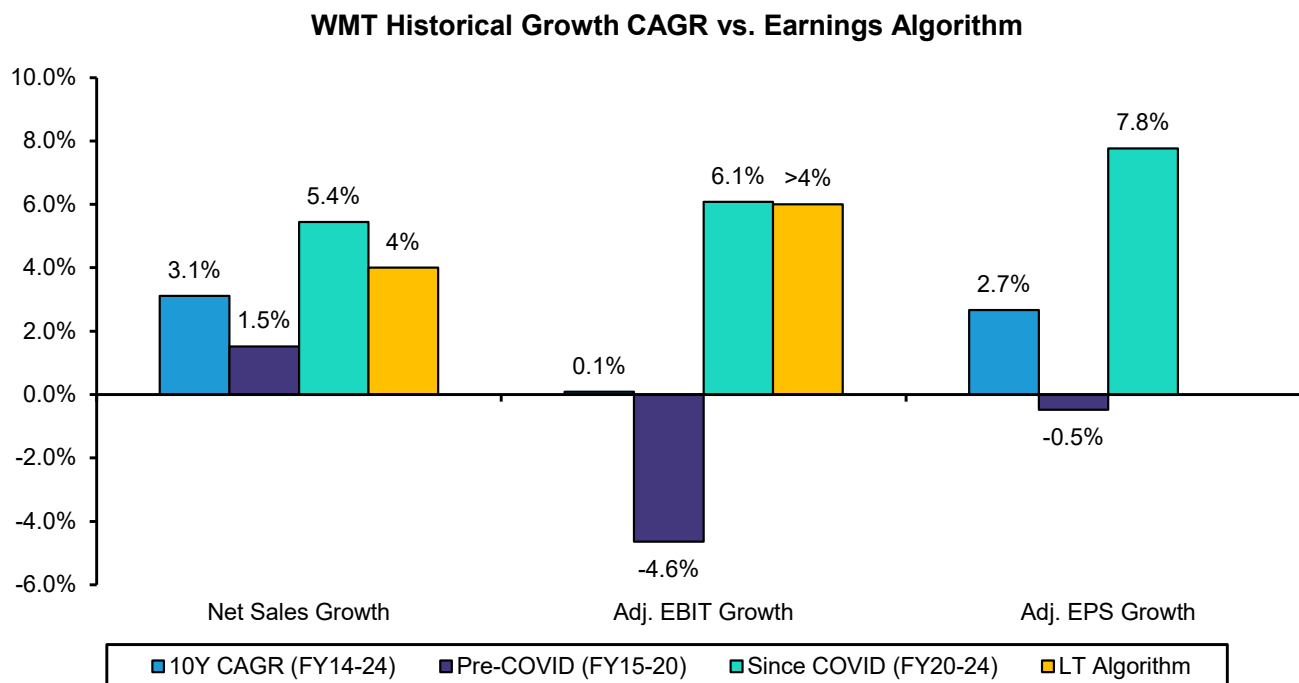
		2025A	2026E	2027E	2028E
WMT US Comp Sales Growth	BERN	4.5%	4.3%	4.0%	4.0%
	CONS	4.5%	4.2%	3.8%	3.9%
Net Sales Growth	BERN	5.0%	4.5%	5.1%	5.0%
	CONS	5.0%	4.5%	1.1%	8.2%
Gross Margin	BERN	24.1%	24.2%	24.4%	24.6%
	CONS	24.1%	24.5%	21.9%	24.8%
Adj. EBIT Margin	BERN	4.4%	4.3%	4.9%	5.2%
	CONS	4.4%	4.4%	4.8%	4.9%
Diluted Adj. EPS	BERN	\$2.51	\$2.59	\$3.11	\$3.59
	CONS	\$2.51	\$2.62	\$2.95	\$3.28

Risks

- A weakening consumer environment in the US or internationally
- Increased regulatory scrutiny (e.g., price gouging)

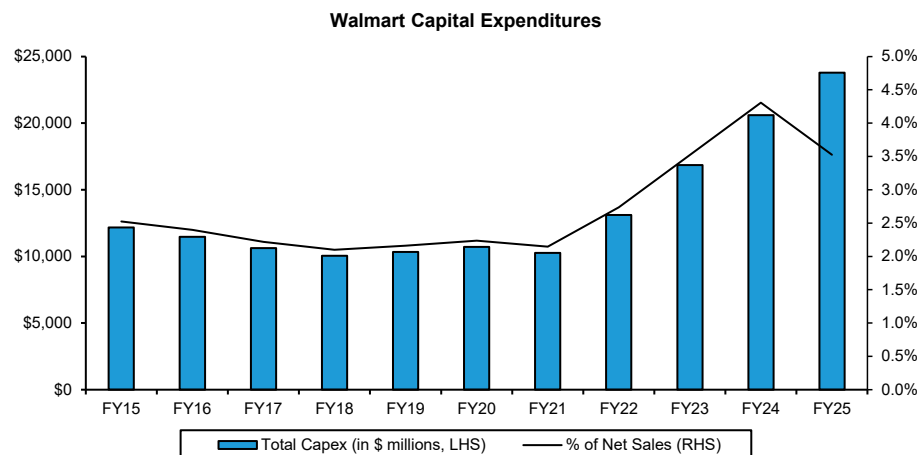
Walmart's execution track record was mixed in recent years...

...with EBIT growth having lagged sales growth over the past decade as Walmart reinvested in the business

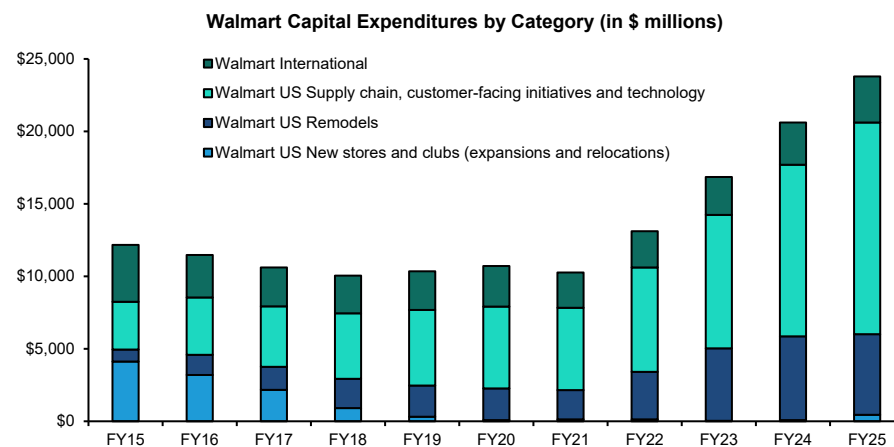


WMT increased Capex to enhance omni-channel capabilities

Capex as a % of sales increased from 1.8% in FY21 to ~2.5-3% in recent years



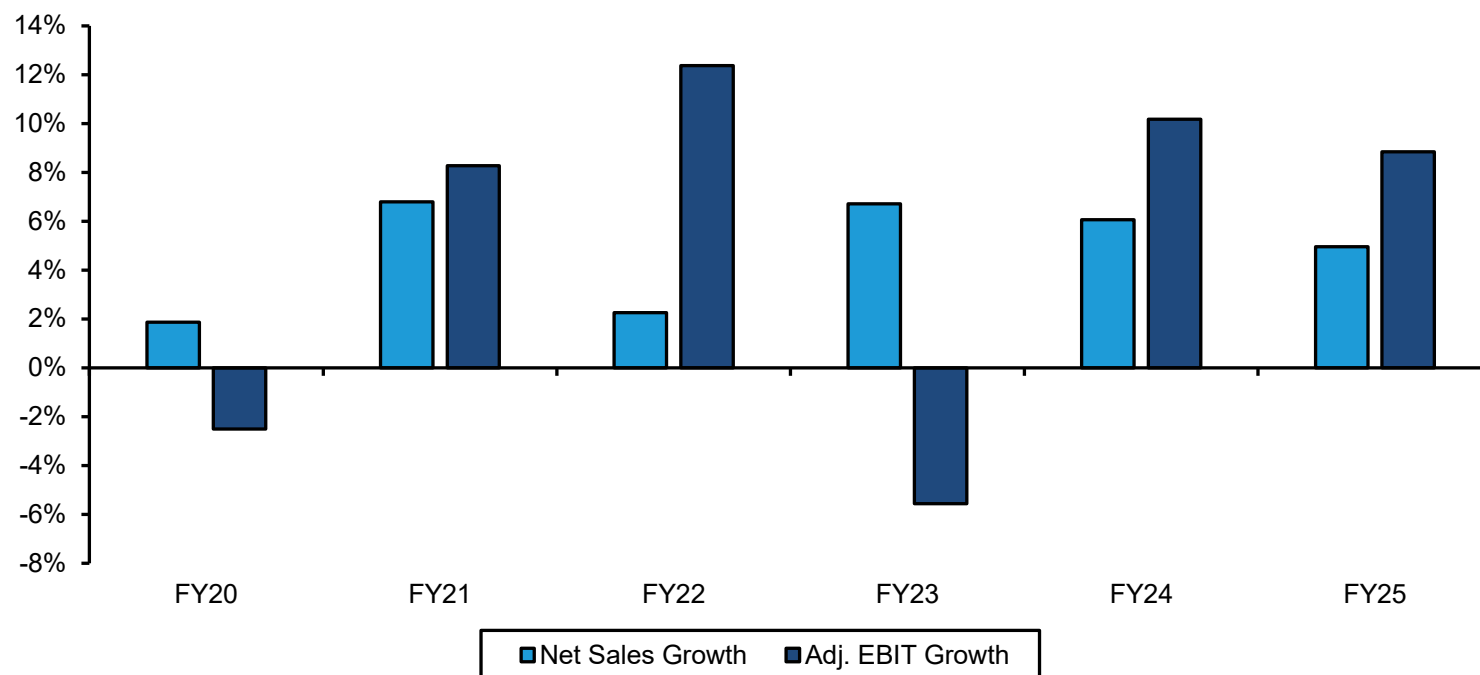
Notably, the mix of capital investments has shifted away from new stores and clubs to supply chain, e-commerce, and technology investments



After spending years in the investment phase, it appears that these investments have started to pay off...

...with EBIT growth outpacing sales growth until 2026

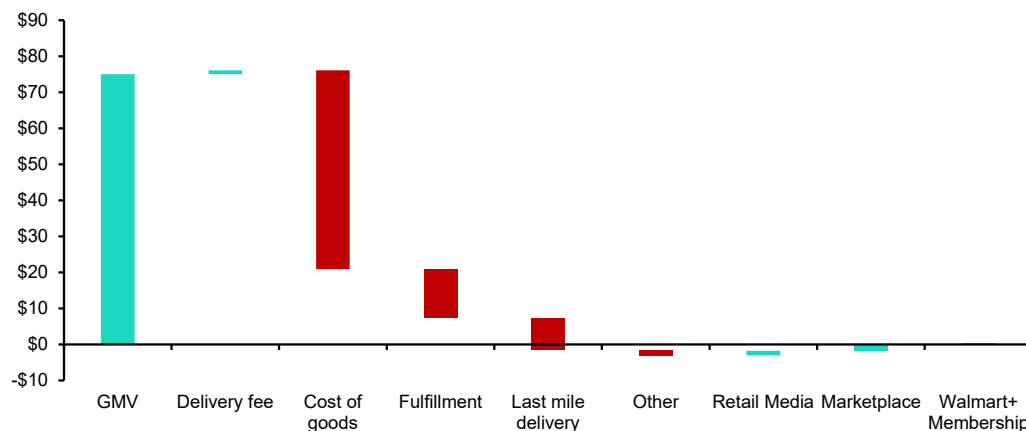
WMT (Consolidated) Net Sales Growth vs. Adj. EBIT Growth



We believe WMT is one of a few brick-and-mortar retailers that have grown e-commerce profitably

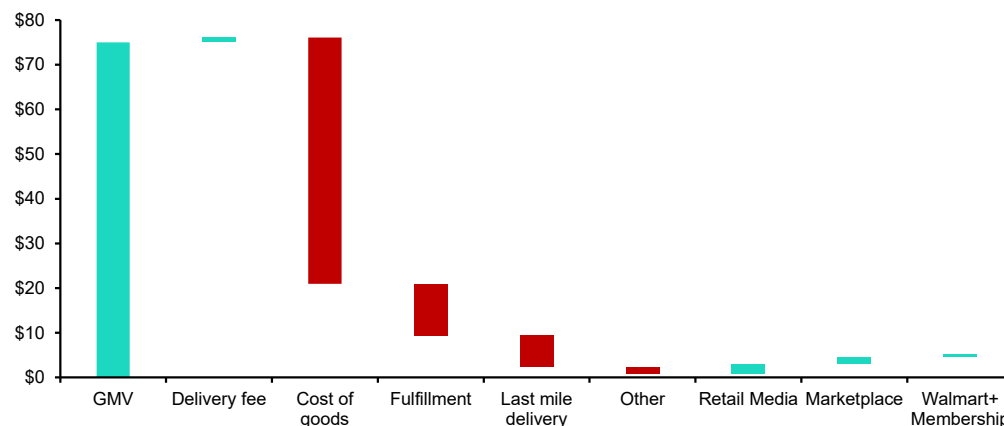
We estimate that Walmart's e-commerce business in the US has a negative contribution margin -4%, and +0.5% on a subsidized basis after accounting for alternative revenue streams

Walmart Overall E-Commerce Unit Economics (estimated)



We estimate that WMT US e-commerce could generate a +9.3% subsidized contribution margin in the coming years

Walmart US' Path to E-Commerce Profitability



We believe WMT could improve its EBIT margin to close to 7% by FY30, led by e-commerce profitability improvement

We believe that WMT US could improve its EBIT margin to close to 7% by FY30...

WMT US FY30 EBIT Margin Scenario Analysis

WMT US E-commerce Sales Growth CAGR (FY25-30)									
WMT US E-comm. EBIT Margin in FY30		0%	5%	10%	12%	15%	17%	20%	
	-5.0%	6.8%	6.4%	5.9%	5.7%	5.4%	5.1%	4.8%	
	-2.5%	7.2%	6.9%	6.5%	6.3%	6.0%	5.9%	5.6%	
	0.0%	7.6%	7.3%	7.0%	6.9%	6.7%	6.6%	6.4%	
	0.5%	7.7%	7.4%	7.1%	7.0%	6.8%	6.7%	6.5%	
	1.0%	7.8%	7.5%	7.3%	7.2%	7.0%	6.9%	6.7%	
	2.0%	7.9%	7.7%	7.5%	7.4%	7.2%	7.1%	7.0%	
	2.5%	8.0%	7.8%	7.6%	7.5%	7.4%	7.3%	7.2%	

...led by e-commerce profitability improvement

WMT US FY25

	Sales Mix	EBIT Margin
B&M	82.9%	7.0%
E-comm	17.1%	-3.5%
Total	100.0%	5.2%

WMT US FY30

	Sales Mix	EBIT Margin
B&M	71.3%	7.2%
E-comm	28.7%	6.3%
Total	100.0%	7.0%

The potential growth in profitability suggests that WMT may not be as expensive as it seems.

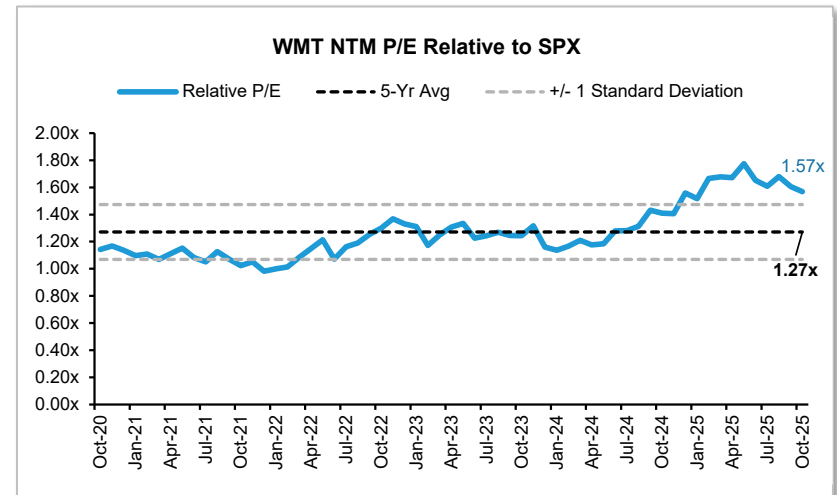
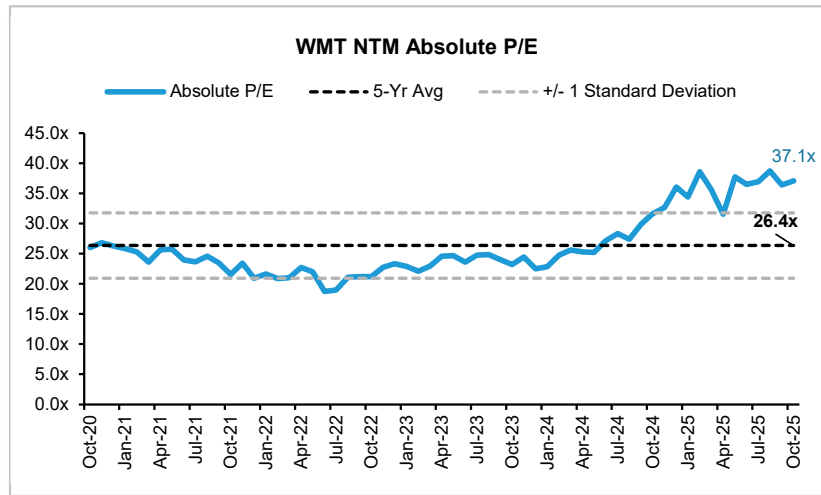
Contribution from FY25-FY30E EBIT Growth

Incremental B&M EBIT Contribution	3,770
Incremental E-comm EBIT Contribution	13,367
Implied EPS Contribution	1.70
NPV of Implied EPS Contribution	1.21

	Current	"True" Earnings Power
NTM Consensus EPS	\$ 2.77	\$ 3.98
NTM P/E	37.1x	25.8x

Thesis recap

1. We expect WMT to **gain share** as consumers continue to seek value
2. We believe WMT is one of a few retailers that have **grown e-commerce profitably**, with US e-commerce generate a +9.3% subsidized contribution margin in the coming years
3. We believe WMT could improve **its EBIT margin to close to 7% by FY30**, led by e-commerce profitability improvement



Despite WMT trading above its historical average, we think its earnings quality has fundamentally improved vs. a few years ago

Table of Contents

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Costco: Consistent growth for decades to come

Investment thesis

1. We expect COST's unique business model and strong execution to consistently deliver **MSD-HSD net sales growth, HSD-LDD EBIT growth, and LDD EPS growth**.
2. COST's growth runway is longer than most think:
 - We expect another **~50+ years of runway** for COST to densify its store footprint in the US and to expand in existing and new markets internationally.
 - Notably, we believe COST can expand to 45 markets globally (vs. 14 today) and expect **international** to be a much bigger growth driver going forward.
3. COST is expensive on a P/E basis, but the metric doesn't reflect its consistent earnings power over the long term. Our ultra long-term **DCF** through 2080 suggests **29% upside** from here, assuming consistent execution over the next 5-6 decades, a terminal growth rate of 5%, and a 9.0% WACC.

Bernstein vs Consensus

		2025A	2026E	2027E	2028E
Comp Sales Growth	BERN	5.9%	7.0%	6.2%	6.2%
	CONS	5.9%	6.0%	5.3%	4.9%
Net Sales Growth	BERN	8.1%	9.1%	8.1%	8.0%
	CONS	8.1%	8.0%	7.3%	7.4%
Membership Fee Growth	BERN	10.3%	12.4%	7.0%	7.0%
	CONS	10.3%	9.5%	7.2%	7.1%
Gross Margin	BERN	11.1%	11.0%	11.1%	11.2%
	CONS	11.1%	11.2%	11.2%	11.3%
EBIT Margin	BERN	3.8%	4.0%	4.2%	4.4%
	CONS	3.8%	3.9%	4.0%	4.2%
Diluted EPS	BERN	\$18.21	\$20.96	\$23.75	\$27.03
	CONS	\$18.21	\$20.04	\$22.12	\$24.51

What we are watching for

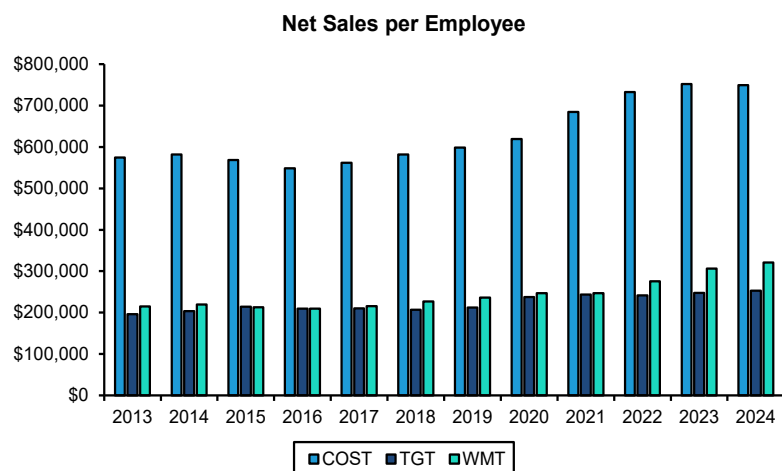
- Traffic trends and implied share gains / losses
- New warehouse growth in the US and internationally
- Membership renewal rate
- E-commerce and retail media under new CFO

Risks

- A weakening consumer environment in the US or internationally
- Slower than expected warehouse growth in the US and internationally
- Weaker-than-expected membership income

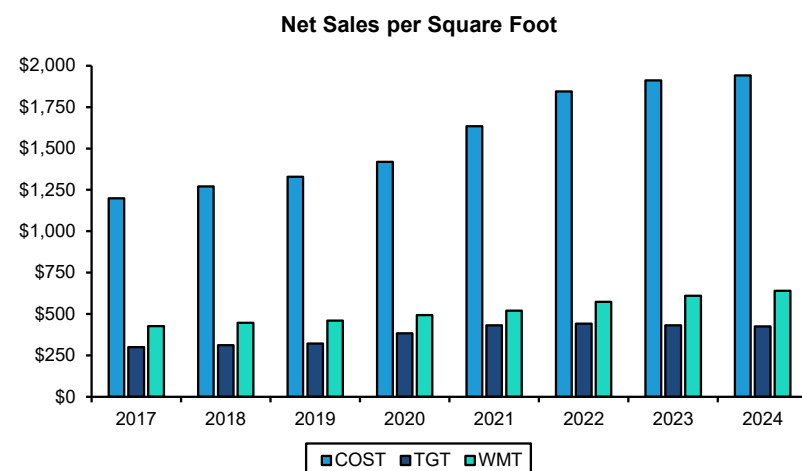
COST is significantly more productive than mass/club peers thanks to its no-frills, self-service warehouse model

Costco's employees are more productive than its peers, producing nearly \$800,000 in annual sales per employee



Note: WMT fiscal calendar has been modified to conform to COST and TGT

Costco produces nearly \$2,000 in net sales per square foot annually, well above Target and Walmart

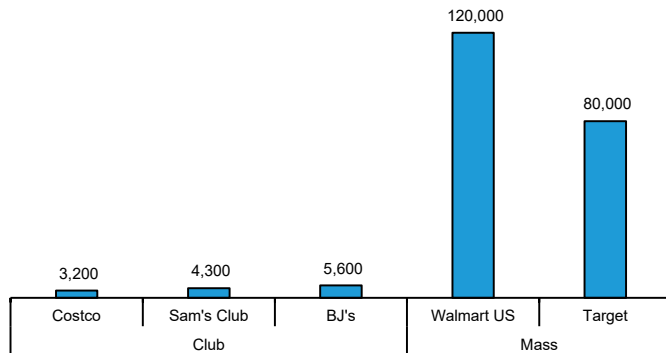


Note: WMT fiscal calendar has been modified to conform to COST and TGT

COST offers a limited selection of high-quality SKUs, including highly productive private label products

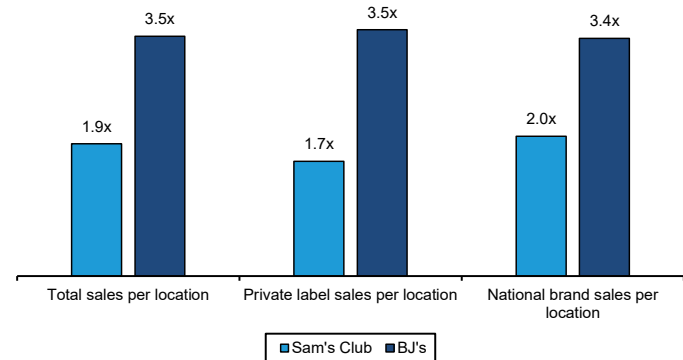
Low SKU count enables productive use of assets

Mass/Club In-Store SKU Counts



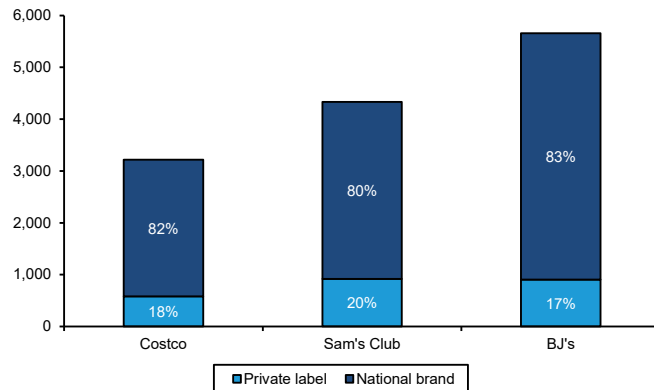
On average, a Costco location does 3.5x and 1.9x as much in sales as BJ's and Sam's, respectively

COST Annual Sales vs. Club Competitors



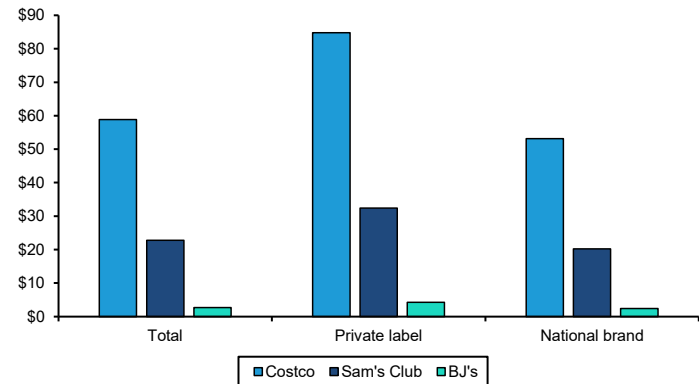
Kirkland Signature products represent 18% of SKUs and nearly 30% of sales...

Club In-Store SKU Counts



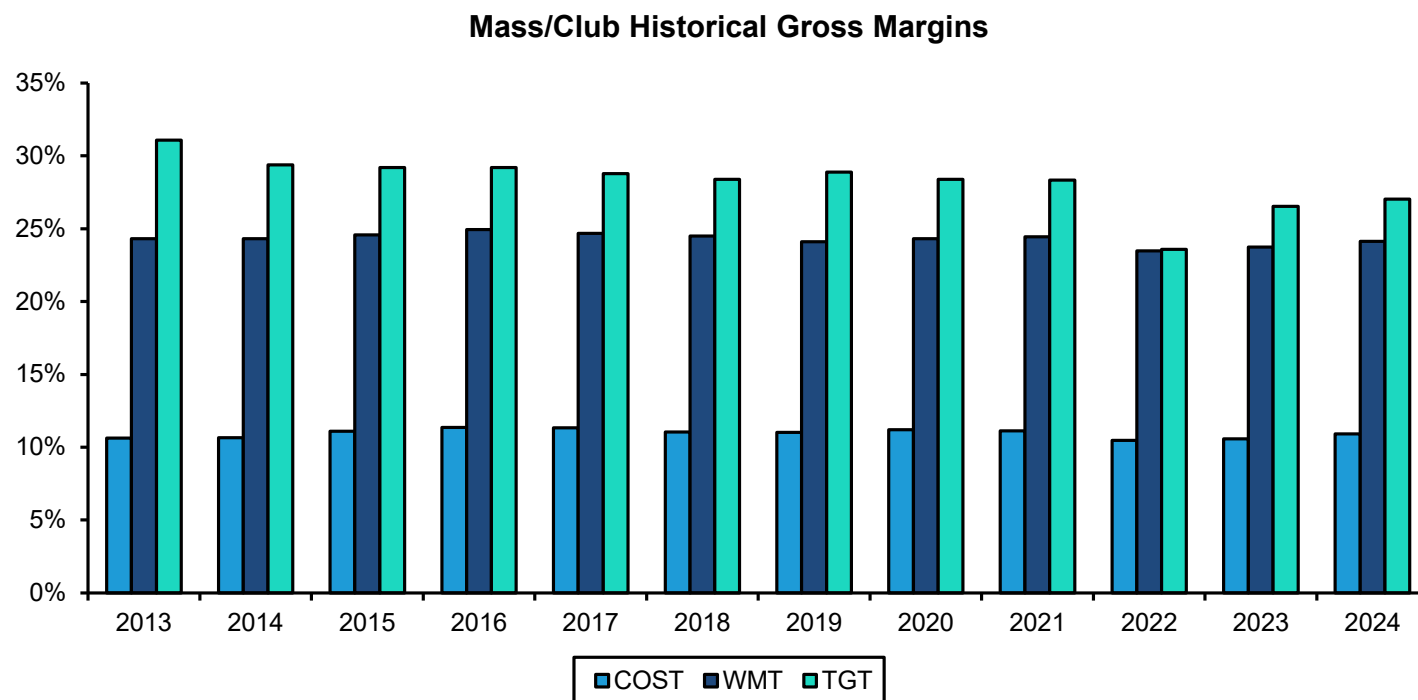
... and each Kirkland SKU produces ~\$85M in sales annually chain-wide

Club Product Sales per SKU (\$M)



COST is laser-focused on providing value to members by capping gross margin on all products at 14-15%

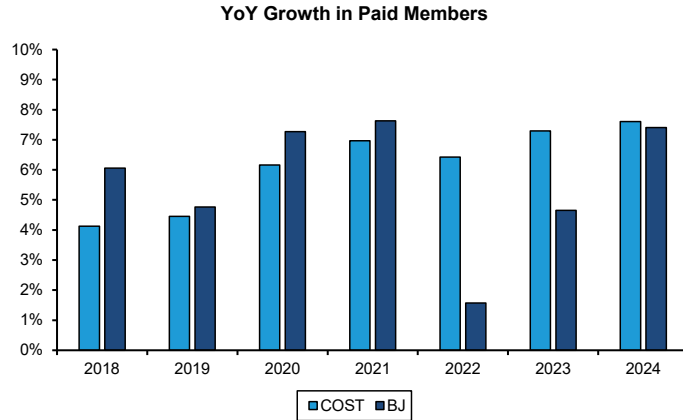
Costco's GM is consistently lower and steadier than that of Walmart or Target



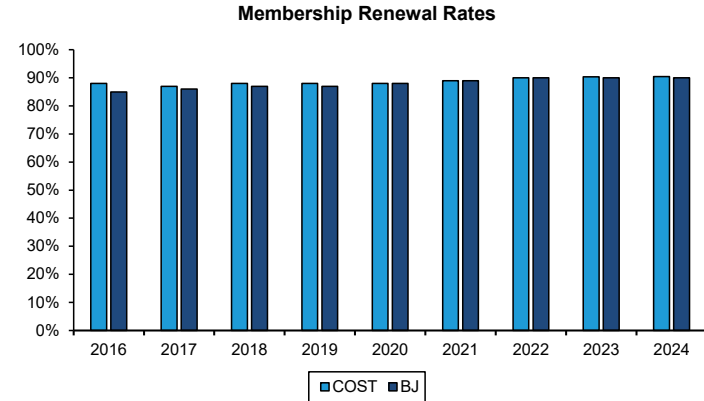
Note: Gross margins are calculated as a percentage of net sales. WMT fiscal years have been modified to conform with COST and TGT.

This results in a highly loyal customer base, with membership income comprising >50% of operating profit

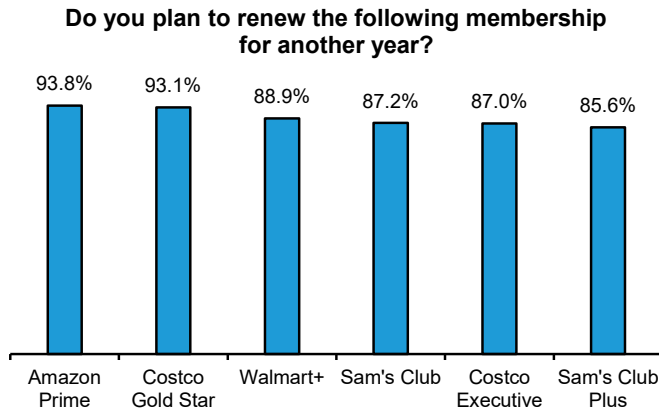
Paid member growth is consistently in the mid-to-high single digits



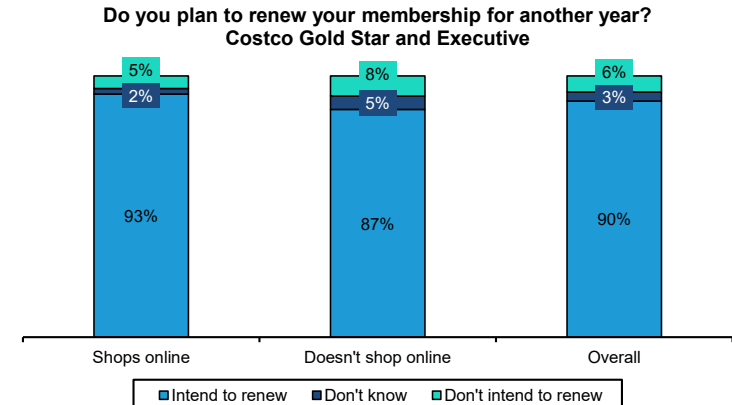
Membership renewal is very strong, surpassing 90% worldwide since 2022



Costco's membership loyalty remains high despite the recent membership fee increase...



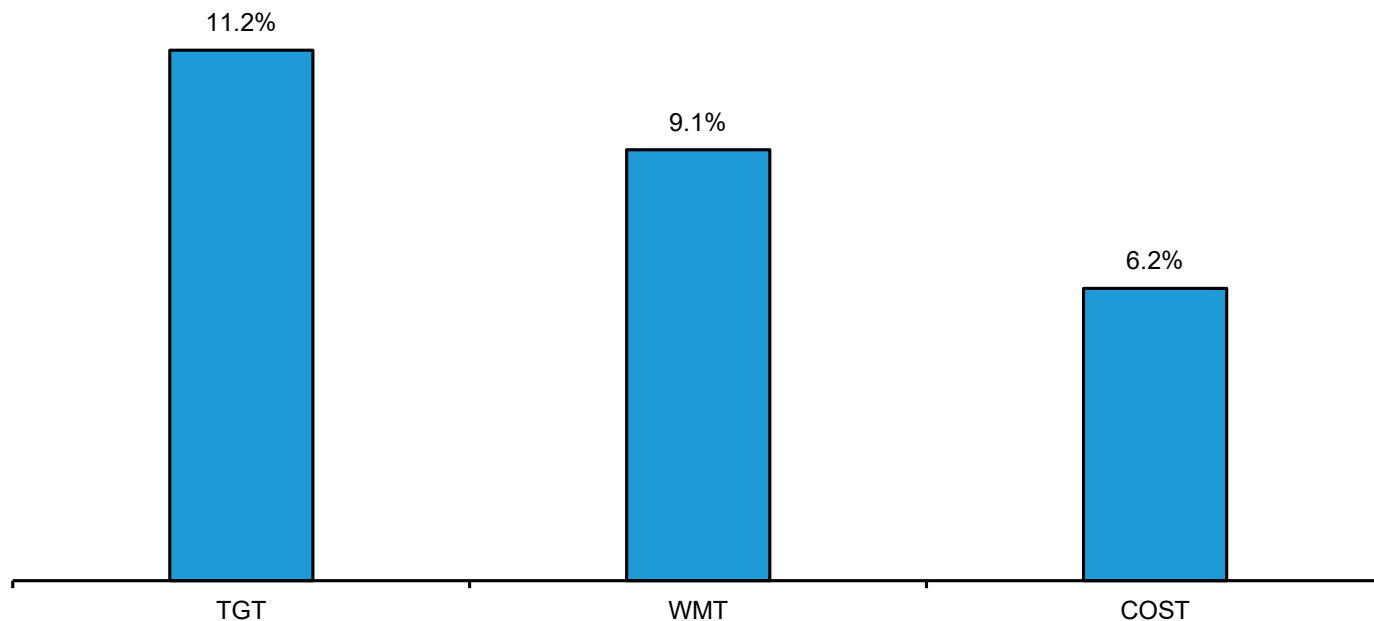
... and members who shop online are more likely to renew their memberships, according to our survey



Meanwhile, COST pays significantly more per employee...

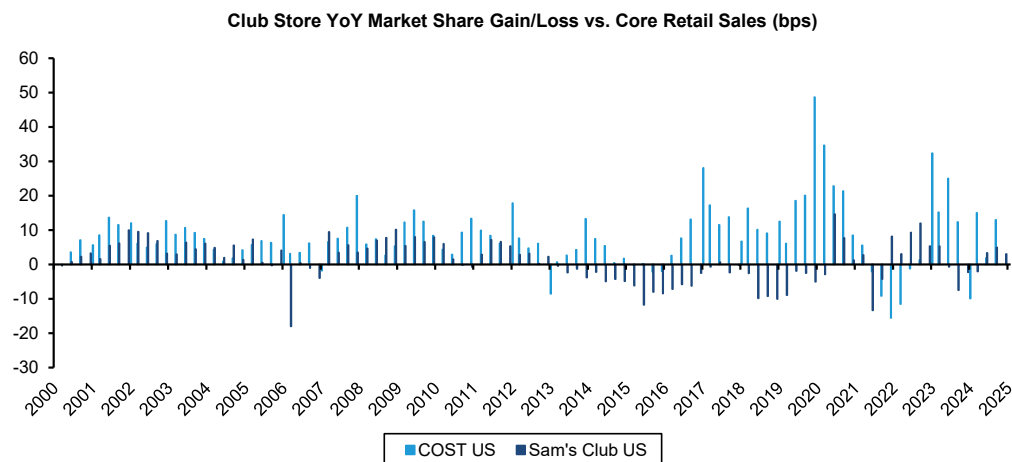
...but its labor cost as a percent of total revenue is meaningfully lower than peers' thanks to its high sales productivity and membership income

Labor Cost as a Percent of Total Revenue

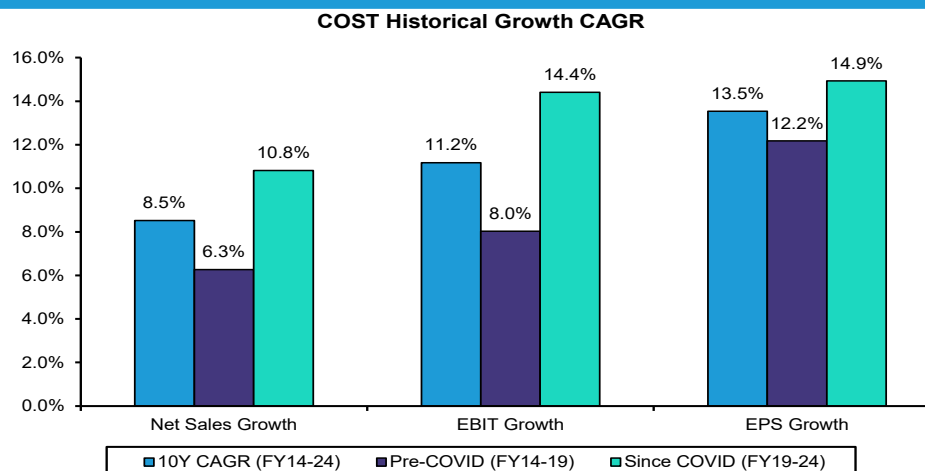


Taken together, COST has performed highly consistently, reflecting the resilience of the business model and strong execution

Costco has consistently gained share vs. core retail sales; this compares to Sam's Club's mixed track record



COST has consistently generated LDD EPS growth over the past decade



We believe that COST has another ~50+ years of growth runway, supported by whitespace opportunities internationally

We estimate that COST could expand to 45 markets globally (vs. 14 today) and operate close to 1,500 warehouses outside the US and Canada (vs. just over 160 today)

Market Name	GDP	Pop	GDP per Capita	Governance Index (Aggregate)	Infrastructure Quality	Cars per 1k ppl	Total Cars	% of Population with income higher than \$50,000	# of Pop with income higher than \$50,000	Urban Land Area (km²)	# of Stores Currently in the Market	Stores per million of eligible population	Stores per thousand km²	Max # of Stores (due to land area)	Target for # of Stores by Country (with geo constant)	New Store Potential
United States	23,315,080,560,000	331,893,745	70,249	1.03	87.9	831	275,913,237	31.4%	104,145,353	186,573	614	5.9	3.29	1,493	730	116
China	17,734,062,645,371	1,412,360,000	12,556	(0.25)	77.9	226	319,000,000	5.3%	74,238,866	522,345	7	0.1	0.01	4,179	520	513
Japan	4,940,877,780,755	125,681,593	39,313	1.34	93.2	624	78,461,953	11.5%	14,473,299	53,452	35	2.4	0.65	428	102	67
Germany	4,259,934,911,822	83,196,078	51,204	1.43	90.2	628	52,275,833	21.2%	17,639,421	36,996	-	-	-	296	124	124
United Kingdom	3,131,377,762,926	67,326,569	46,510	1.28	88.9	600	40,800,000	13.6%	9,165,990	22,676	29	3.2	1.28	182	65	36
France	2,957,879,759,264	67,749,632	43,659	1.10	89.7	668	45,297,000	17.6%	11,957,155	23,031	2	0.2	0.09	185	84	82
Italy	2,107,702,842,670	59,109,668	35,657	0.57	84.1	755	45,487,900	11.8%	6,992,692	20,917	-	-	-	168	49	49
Canada	1,988,336,331,717	38,246,108	51,988	1.48	80.8	790	30,754,600	20.6%	7,895,425	13,965	108	13.7	7.72	112	108	-
Korea, Rep.	1,810,955,871,381	51,744,876	34,998	1.00	92.1	485	25,167,409	11.4%	5,908,669	12,473	19	3.2	1.52	100	42	23
Australia	1,552,867,363,236	25,688,079	60,443	1.50	79.2	782	20,335,000	28.3%	7,272,763	11,946	14	1.9	1.17	96	51	37
Spain	1,427,380,681,295	47,415,750	30,104	0.83	90.3	627	29,707,581	10.6%	5,025,854	15,655	4	0.8	0.26	128	36	32
Mexico	1,272,830,334,119	126,705,138	10,046	(0.51)	72.4	391	50,400,000	6.1%	7,704,973	28,588	40	5.2	1.40	229	54	14
Netherlands	1,012,846,760,977	17,533,044	57,768	1.62	94.3	588	10,248,388	33.7%	5,915,436	8,322	-	-	-	67	42	42
Switzerland	800,640,155,387	8,703,405	91,992	1.71	93.2	604	5,215,774	35.6%	3,097,902	4,017	-	-	-	33	22	22
Taiwan	774,730,000,000	23,380,000	33,136	1.22	86.7	350	8,366,113	26.8%	6,209,581	2,083	15	2.4	7.17	17	17	2
Poland	679,444,832,854	37,747,124	18,000	0.54	81.2	771	29,369,800	8.2%	3,103,425	14,774	-	-	-	119	22	22
Sweden	635,863,801,202	10,415,811	61,029	1.63	94	545	5,637,469	29.8%	3,106,115	4,064	1	0.3	0.25	33	22	21
Belgium	594,104,177,540	11,592,952	51,247	1.20	87.3	590	6,820,078	24.1%	2,799,004	7,731	-	-	-	62	20	20
Ireland	504,182,603,276	5,033,165	100,172	1.42	77	535	2,672,032	34.7%	1,744,890	1,261	-	-	-	11	11	11
Israel	488,526,545,879	9,364,000	52,171	0.65	83	380	3,684,154	18.7%	1,752,110	2,744	-	-	-	22	13	13
Norway	462,174,854,482	5,408,320	89,154	1.74	75.8	635	3,416,216	44.8%	2,414,808	2,008	-	-	-	17	17	17
Austria	480,368,403,893	8,955,797	53,638	1.38	89	632	5,633,525	22.4%	2,002,519	2,974	-	-	-	24	15	15
United Arab Emi	415,021,590,683	9,365,145	44,316	0.65	88.5	354	3,500,000	29.4%	2,752,886	2,263	-	-	-	19	19	19
Denmark	398,303,272,764	5,856,733	68,008	1.77	87.1	540	3,147,315	32.6%	1,907,746	2,235	-	-	-	18	14	14
Malaysia	372,980,957,208	33,573,874	11,109	0.40	78	542	17,728,482	9.1%	3,053,477	11,418	-	-	-	92	22	22
Chile	317,058,508,652	19,493,184	16,265	0.75	76.3	293	5,600,000	8.0%	1,549,878	3,580	-	-	-	29	11	11
Finland	297,301,883,523	5,541,017	53,655	1.80	83.4	790	4,368,796	18.5%	1,022,505	2,243	-	-	-	18	8	8
Czechia	281,777,887,121	10,505,772	26,821	1.03	83.8	648	6,931,618	6.0%	6,311,817	4,023	-	-	-	33	5	5
Portugal	253,663,144,586	10,325,147	24,568	0.97	83.6	639	6,591,000	9.5%	977,299	4,165	-	-	-	34	7	7
New Zealand	249,885,887,030	5,122,800	48,781	1.71	75.5	884	4,529,700	13.8%	706,063	1,970	1	1.4	0.51	16	5	4
Greece	214,873,879,834	10,641,221	20,193	0.43	77.7	606	6,491,063	5.5%	586,070	2,749	-	-	-	22	5	5
Hungary	181,848,022,234	9,709,891	18,728	0.49	80.7	463	4,515,769	5.1%	494,801	3,929	-	-	-	32	4	4
Qatar	179,677,211,794	2,688,235	66,838	0.58	81.6	591	1,701,346	30.5%	819,789	678	-	-	-	6	6	6
Slovak Republic	116,527,101,096	5,547,247	21,392	0.64	78.6	513	2,799,302	5.3%	286,674	1,805	-	-	-	15	3	3
Oman	88,191,977,373	4,520,471	19,509	0.00	80.5	335	1,551,496	9.6%	433,501	1,500	-	-	-	13	4	4
Luxembourg	85,506,243,834	640,064	133,590	1.67	85	784	506,000	40.4%	258,555	283	-	-	-	3	2	2
Croatia	68,955,083,280	3,899,000	17,685	0.46	78.2	479	1,940,098	6.2%	241,335	1,648	-	-	-	14	2	2
Lithuania	66,445,256,585	2,800,839	23,723	1.03	77	507	1,416,467	14.9%	416,001	1,186	-	-	-	10	3	3
Slovenia	61,748,586,535	2,108,079	29,291	0.91	78.1	660	1,385,371	9.9%	209,197	805	-	-	-	7	2	2
Latvia	39,853,501,580	1,884,490	21,148	0.90	76	394	749,483	8.3%	156,952	676	-	-	-	6	2	2
Bahrain	38,868,663,032	1,463,265	26,563	0.33	78.4	430	731,935	13.7%	199,765	330	-	-	-	3	2	2
Estonia	37,191,166,152	1,330,932	27,944	1.31	75.8	715	950,000	12.3%	163,335	450	-	-	-	4	2	2
Cyprus	28,407,867,534	1,244,188	31,552	0.66	74.9	785	1,000,000	7.8%	97,440	519	-	-	-	5	1	1
Iceland	25,602,419,210	372,520	68,728	1.58	76.4	720	270,900	36.5%	135,837	108	1	7.4	9.30	1	1	-
Malta	17,364,044,944	518,536	33,487	0.82	75	786	419,254	19.9%	103,108	174	-	0	-	2	1	1
Total	76,788,831,936,631	2,724,303,304						11.8%	321,769,284	1,047,362	890	2.8	0.85	8,401	2,297	1,407

Note: Markets that Costco is already in are highlighted in orange.

Criteria to identify new markets:

- GDP per capita above \$10,000
- Governance score of greater than -0.51
- More than 225 cars per 1k people
- Infrastructure quality score of greater than 72

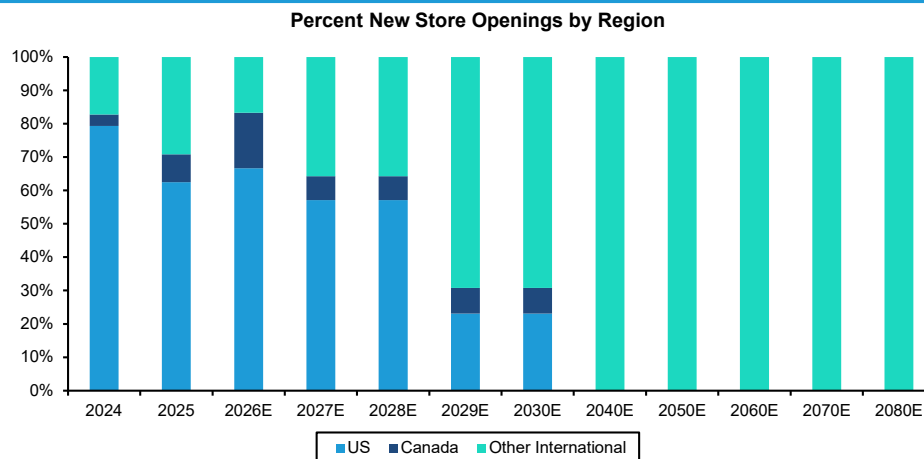
Assumptions to estimate # of stores each mkt can support:

- Max 7 stores per million of eligible population with >\$50,000 income
- Max 8 stores per 1,000 km² of urban land area

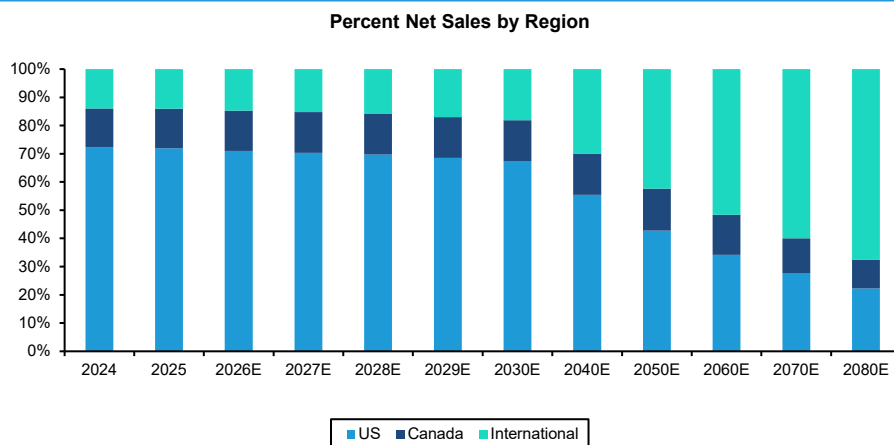
Sources: Company disclosures, World Bank, World Economic Forum, World Inequality Database, IMF, Taiwan NDC, CEIC Data, Bernstein estimates and analysis

We expect international to become a much bigger growth driver

We expect that Costco opens ~24-28 new warehouses per year, with the mix shifting from most US-driven in the 2020's to entirely international driven from 2040 onward



With these assumptions, COST will become a much more global company, with Other International being >2/3 of sales by 2080



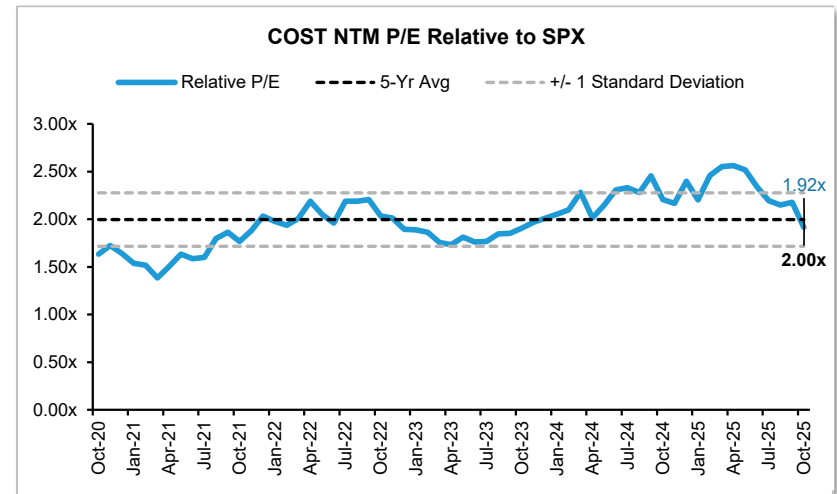
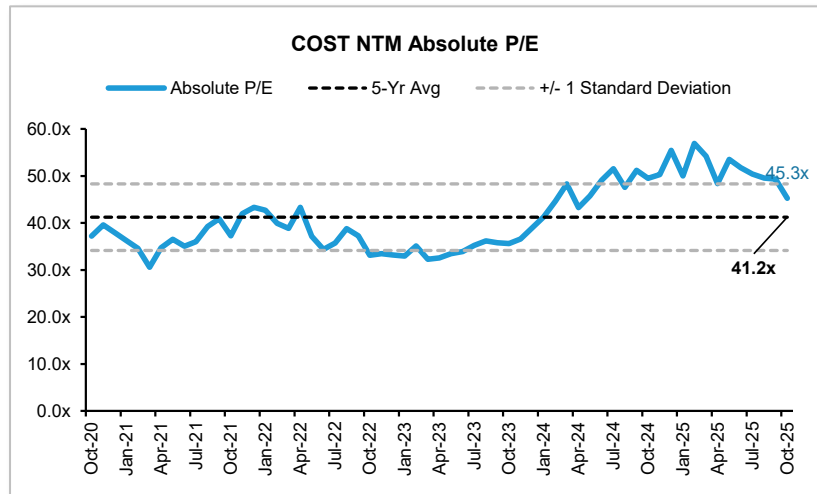
Our ultra long-term DCF through 2080 suggests a ~30% upside

We assume COST grows FCF by HSD-LDD through 2080 (supported by international growth), a terminal growth rate of 5%, and a WACC of 9.2%

COST DCF												
In \$ Millions	2025	2026E	2027E	2028E	2029E	2030E	2040E	2050E	2060E	2070E	2080E	Terminal value
Net Sales	269,912	294,428	318,316	343,766	370,727	399,791	849,009	1,628,759	3,017,431	5,545,747	10,158,170	
Net Sales Growth %	8.1%	9.1%	8.1%	8.0%	7.8%	7.8%	6.6%	6.3%	6.3%	6.2%	6.3%	
US Net Sales	194,181	208,926	223,906	239,581	254,133	269,556	470,798	696,896	1,031,576	1,526,985	2,260,311	
US Net Sales Growth	7.5%	7.6%	7.2%	7.0%	6.1%	6.1%	4.0%	4.0%	4.0%	4.0%	4.0%	
Comp Sales Growth (ex Fuel and FX)	7.3%	6.1%	5.5%	5.5%	5.5%	5.5%	4.0%	4.0%	4.0%	4.0%	4.0%	
New Store Growth	1.5%	1.9%	1.5%	1.4%	0.5%	0.5%	0.0%	0.0%	0.0%	0.0%	0.0%	
Number of Stores	629	649	665	681	687	693	734	734	734	734	734	
Net Adds	15	20	16	16	6	6	0	0	0	0	0	
New Store Year 1 Contribution Multiplier	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	
Canada Net Sales	37,865	42,089	45,820	49,551	53,575	57,917	124,191	242,018	429,329	692,672	1,025,324	
Canada Net Sales Growth	10.7%	11.2%	8.9%	8.1%	8.1%	8.1%	7.0%	6.0%	5.0%	4.0%	4.0%	
Comp Sales Growth (ex Fuel and FX)	8.3%	7.1%	7.1%	7.1%	7.1%	7.1%	7.0%	6.0%	5.0%	4.0%	4.0%	
New Store Growth	1.1%	2.7%	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Number of Stores	110	115	117	119	121	123	141	141	141	141	141	
Net Adds	2	5	2	2	2.0	2.0	0.0	0	0	0	0	
New Store Year 1 Contribution Multiplier	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	
Other International Net Sales	37,866	43,413	48,590	54,633	63,019	72,318	254,020	689,844	1,556,525	3,326,090	6,872,535	
Other International Net Sales Growth	8.9%	14.6%	11.9%	12.4%	15.4%	14.8%	11.7%	9.0%	8.2%	7.7%	7.4%	
Comp Sales Growth (ex Fuel and FX)	8.2%	8.2%	8.2%	8.2%	8.2%	8.2%	7.0%	6.0%	6.0%	6.0%	6.0%	
New Store Growth	3.3%	2.3%	4.4%	4.2%	7.2%	6.6%	4.7%	3.0%	2.2%	1.7%	1.4%	
Number of Stores	175	180	190	200	218	236	451	701	951	1,201	1,451	
Net Adds	7	5	10	10	18.0	18.0	25.0	25.0	25.0	25.0	25.0	
New Store Year 1 Contribution Multiplier	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	
Membership Income	5,323	5,982	6,401	6,849	7,329	8,135	18,533	42,222	96,191	219,144	499,258	
Membership Income Growth %	10.3%	12.4%	7.0%	7.0%	7.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	
Membership Income % of EBIT	51.3%	50.9%	47.7%	46.6%	45.5%	45.4%	40.2%	39.0%	39.7%	41.2%	43.3%	
Total EBIT Margin %	3.8%	4.0%	4.2%	4.3%	4.3%	4.5%	5.4%	6.6%	8.0%	9.6%	11.4%	
EBIT Margin % - Core	1.9%	2.0%	2.2%	2.3%	2.4%	2.4%	3.2%	4.0%	4.8%	5.6%	6.4%	
EBIT Margin % - Membership Income	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	
Capex as % sales	2.0%	2.1%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	
D&A as % sales	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	
FCFF	5,112	4,612	7,096	7,788	8,545	9,596	25,939	64,130	149,980	340,226	756,946	19,869,823
YoY Growth	26.0%	-9.8%	53.9%	9.8%	9.7%	12.3%	11.0%	10.3%	9.8%	9.5%	9.5%	5.0%
WACC	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Discount Factor	1.09	1.19	1.30	1.41	1.54	1.68	3.97	9.40	22.25	52.68	124.71	124.71
PV of FCFF	4,690	3,882	5,479	5,517	5,554	5,722	6,533	6,823	6,740	6,459	6,070	159,333

Thesis recap

1. We expect COST to consistently deliver **MSD-HSD net sales growth, HSD-LDD EBIT growth, and LDD EPS growth**
2. We see another **~50+ years of growth runway** for COST, supported by **international markets**
3. We illustrate the value of COST's long-term earnings power through our **DCF**



COST is very expensive on a P/E basis, but we see further upside given its consistent earnings power and significant growth runway

Table of Contents

- **The Retail Value Pool**
- **Retail Success Factors**
- **Stock Calls**
 - ☐ Walmart
 - ☐ Costco
 - ☐ Dollar General

Dollar General: Turnaround story on sale

Investment thesis

DG has lost share on the back of a series of execution missteps. While the turnaround path is likely messy, we like the risk/reward from here against low expectations.

- 1. We see early signs of improvement**, with our proprietary Reddit analysis showing an improvement in sentiment.
- We have also mapped out **meaningful gross margin recovery potential** (~270bps in total by reducing shrink, growing PL, normalizing category mix etc.) We model **~190bps** by FY28.
- We don't believe DG's business model is broken.** Although WMT has expanded its reach with e-commerce, DG's core low-income consumers cannot afford to shop online very frequently. DG's rural, low-income focus makes its business model more defensive.

Bernstein vs Consensus

		2024A	2025E	2026E	2027E
Comp Sales Growth	BERN	1.4%	2.6%	2.2%	2.4%
	CONS	1.4%	2.5%	2.4%	2.4%
Net Sales Growth	BERN	5.0%	4.7%	4.1%	4.2%
	CONS	5.0%	4.7%	4.2%	4.2%
Gross Margin	BERN	29.6%	30.3%	30.7%	31.1%
	CONS	29.6%	30.5%	30.8%	31.1%
Adj. EBIT Margin	BERN	4.2%	4.8%	5.0%	5.2%
	CONS	4.2%	4.7%	4.9%	5.1%
Diluted Adj. EPS	BERN	\$5.11	\$6.23	\$6.99	\$7.90
	CONS	\$5.11	\$6.20	\$6.71	\$7.43

What we are watching for

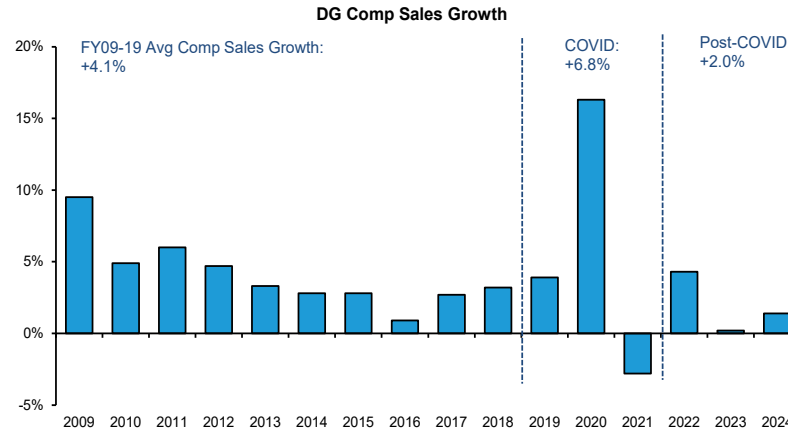
- Traffic & share trends
- Store manager / associate turnover
- Store operations & shrink
- Category mix & PL

Risks

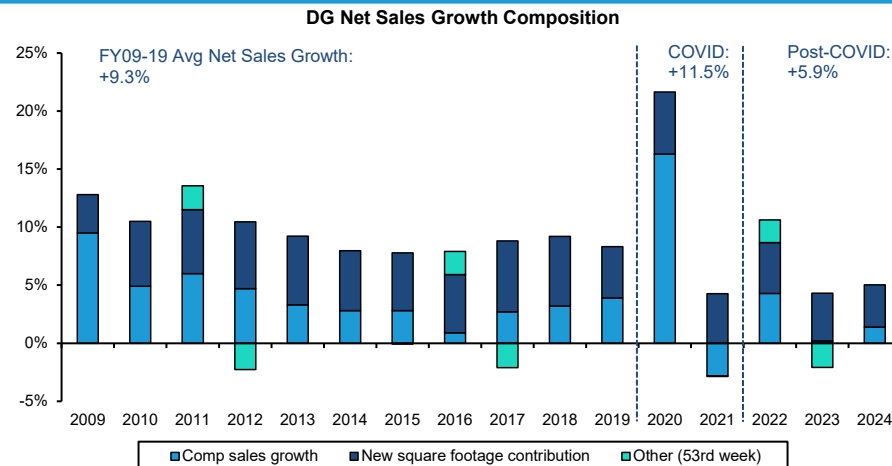
- Unexpected softening in macro environment for low-income consumers
- Slower-than-expected improvement in store operations
- Increased competition from WMT and others

DG ran into a series of execution issues, which weighed on top line growth...

Dollar General's comp sales growth decelerated over the past year as execution missteps weighed on operations



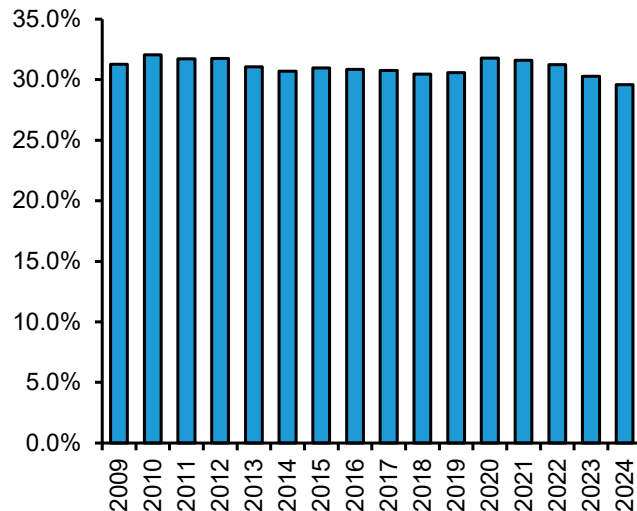
Similarly, DG's net sales growth decelerated



...EBIT margin also plummeted in 2023 due to higher shrink, markdowns on excessive inventory, and one-time labor investment

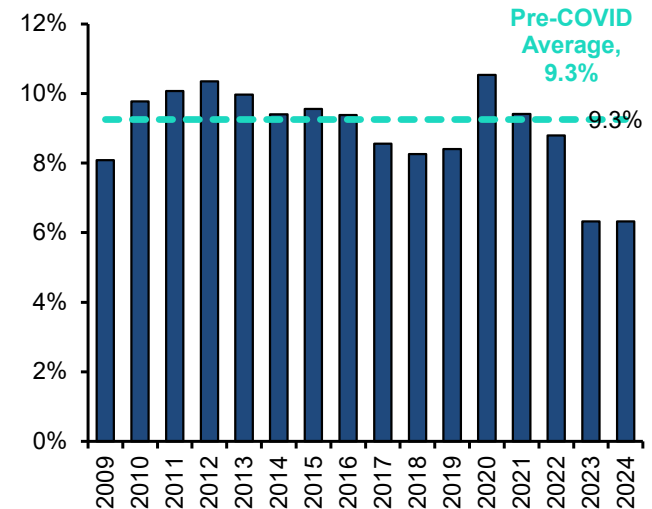
Dollar General's gross margin has been fluctuating in the ~30-32% range over the past 14 years

DG Gross Margin



EBIT margin reached a low at 6.3% in 2023 due to shrink, markdowns, labor investment, and sales deleverage

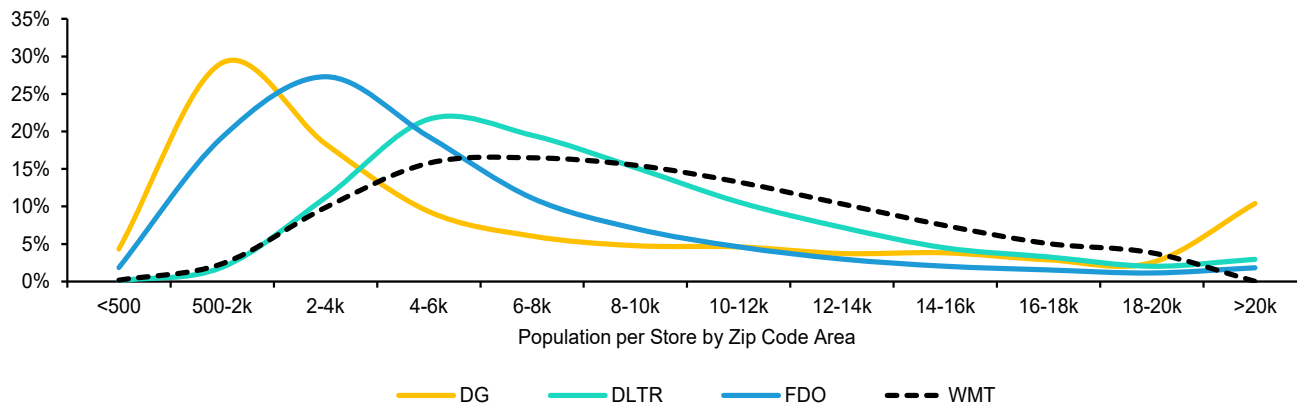
DG Adj. EBIT Margin



We don't believe the DG business model is fundamentally broken

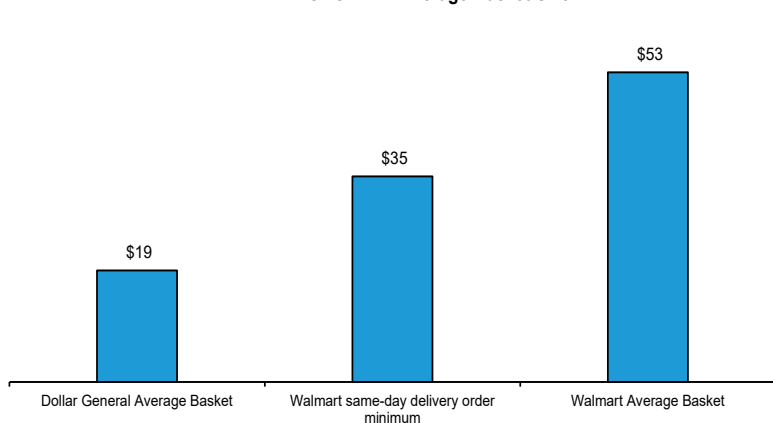
DG serves rural, low-income consumers who are traditionally underserved by other retailers

Dollar Stores - Population Density by Zip Code Distribution



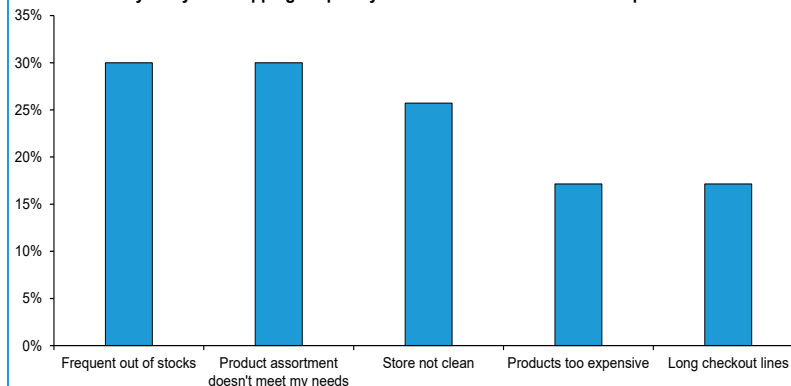
Low-income consumers cannot afford to shop online as frequently. People spend an average of \$19 per trip at DG vs. WMT's \$35 order minimum for free same-day delivery

DG vs. WMT Average Basket Size



Instead, consumers primarily cited store operational issues as reasons why they may have shopped less

Why has your shopping frequency decreased at Dollar General? Top 5 reasons.



DG outlined ~270bps of gross margin expansion opportunities, of which we model ~190bps...

FY24 Gross Margin	29.6%
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Potential Margin Expansion Opportunities

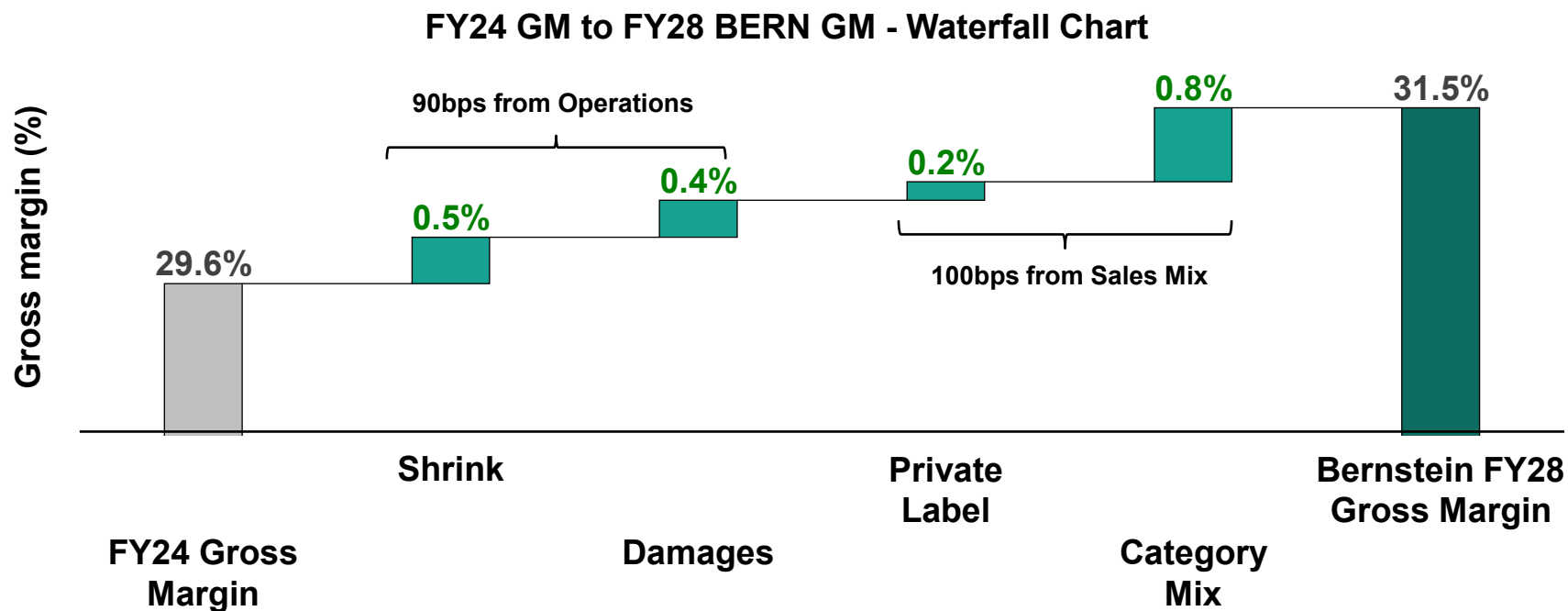
Initiatives (Media, NCI, Private Label)	150bps
Shrink	80bps
Damages	40bps
Total	270bps

vs. FY24

Implied FY29 Gross Margin	32.3%	270bps
Bernstein FY28 Gross Margin	31.5%	189bps
Consensus FY28 Gross Margin	31.2%	163bps

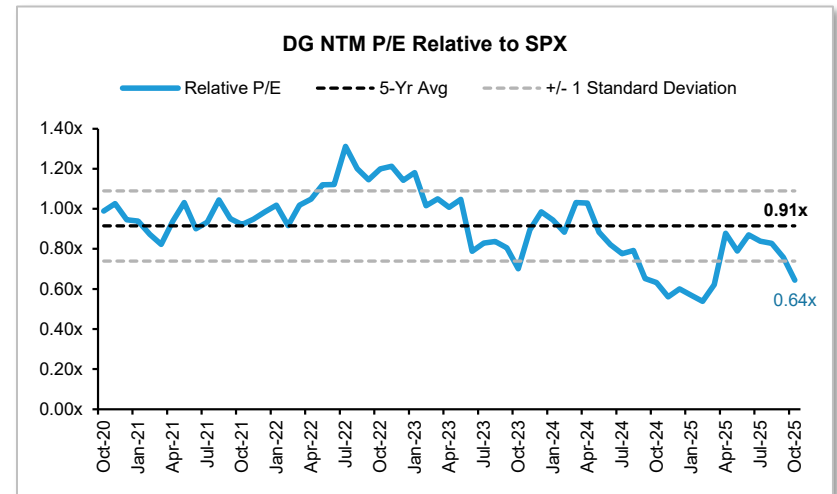
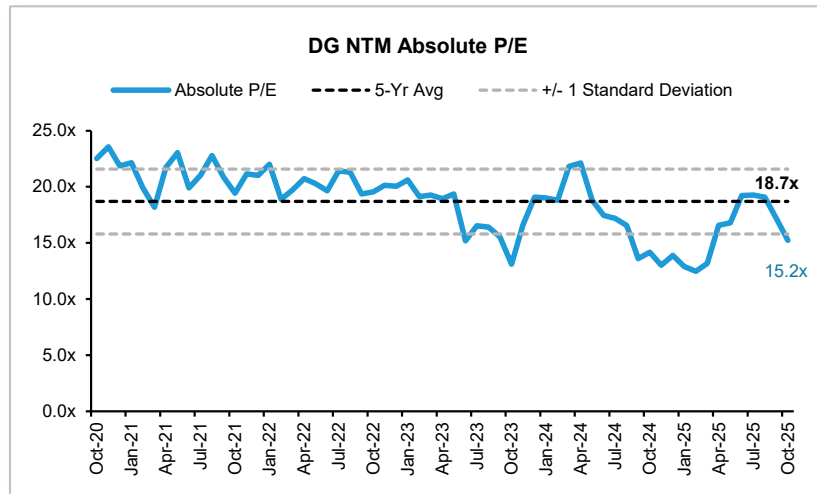
We're not baking in full GM potential, only low-hanging fruit

Of the 270bps upside, we bake in ~190bps (90bps from mix, and 100bps from better operations)



Thesis recap

1. Near-term execution issues but we are seeing **early signs of improvement**
2. We believe DG has **~270bps gross margin expansion opportunities**. We conservatively model **~190bps** of gross margin expansion by FY27
3. **We don't believe the DG business model is fundamentally broken** given its focus on rural, low-income consumers who are traditionally underserved and cannot afford to shop online very frequently



As DG is trading well below its historical average and consensus expectations remain undemanding, we like the risk reward from here

BERNSTEIN TICKER TABLE

Ticker	Rating	Cur	3 Oct 2025	Price Target	TTM	Cur	Adjusted EPS			Adjusted P/E (x)		
			Closing Price		Rel. Perf.		2024A	2025E	2026E	2024A	2025E	2026E
WMT	O	USD	102.07	117.00	8.3%	USD	2.51	2.59	3.11	40.7	39.4	32.8
COST	O	USD	915.38	1,140.00	(14.2)%	USD	18.21	20.96	23.75	50.3	43.7	38.5
TGT	U	USD	89.03	87.00	(59.6)%	USD	8.86	6.89	7.13	10.0	12.9	12.5
DG	O	USD	100.21	134.00	1.0%	USD	5.11	6.23	6.99	19.6	16.1	14.3
FIVE	M	USD	156.05	160.00	65.5%	USD	5.04	5.27	5.55	31.0	29.6	28.1
DLTR	M	USD	89.98	100.00	9.1%	USD	5.10	5.43	6.46	17.6	16.6	13.9
HD	M	USD	395.06	403.00	(21.1)%	USD	15.24	14.95	15.54	25.9	26.4	25.4
LOW	O	USD	246.35	279.00	(25.8)%	USD	11.99	12.25	13.27	20.5	20.1	18.6
SPX			6,715.79									
			--									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

WMT, COST base year is 2025;

Source: Bloomberg, Bernstein estimates and analysis.

BERNSTEIN

SOCIETE GENERALE GROUP

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