

DOLLAR TREE INC
Form 10-K
March 13, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended January 31, 2015

Commission File No.0-25464

DOLLAR TREE, INC.

(Exact name of registrant as specified in its charter)

Virginia

26-2018846

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

500 Volvo Parkway, Chesapeake, VA 23320

(Address of principal executive offices)

Registrant's telephone number, including area code: (757) 321-5000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock (par value \$.01 per share)

NASDAQ

Securities Registered Pursuant to Section 12(g) of the Act:

None

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes (X) No ()

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes () No (X)

Indicate by check mark whether Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes (X) No ()

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes (X) No ()

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ()

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer (X)

Accelerated filer ()

Non-accelerated filer ()

Smaller reporting company ()

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ()

No (X)

The aggregate market value of Common Stock held by non-affiliates of the Registrant on August 1, 2014, was \$10,784,848,842, based on a \$54.61 average of the high and low sales prices for the Common Stock on such date. For purposes of this computation, all executive officers and directors have been deemed to be affiliates. Such determination should not be deemed to be an admission that such executive officers and directors are, in fact, affiliates of the Registrant.

On March 4, 2015, there were 205,759,864 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information regarding securities authorized for issuance under equity compensation plans called for in Item 5 of Part II and the information called for in Items 10, 11, 12, 13 and 14 of Part III are incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Stockholders of the Company to be held June 18, 2015, which will be filed with the Securities and Exchange Commission not later than May 29, 2015.

DOLLAR TREE, INC.
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A WARNING ABOUT FORWARD-LOOKING STATEMENTS: This document contains "forward-looking statements" as that term is used in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address future events, developments and results. They include statements preceded by, followed by or including words such as "believe," "anticipate," "expect," "intend," "plan," "view," "target" or "estimate." For example, our forward-looking statements include statements regarding:

- the timing of the regulatory approvals and closing of the proposed acquisition of Family Dollar Stores, Inc. ("Family Dollar");
- the consideration to be paid to the Family Dollar shareholders in the proposed acquisition and the number of outstanding Family Dollar shares of common stock at closing;
- acquisition-related expenses and financing costs;
- the benefits, results and effects of the proposed Family Dollar acquisition and the combined company's plans, objectives, expectations (financial or otherwise), including synergies, the cost to achieve synergies, and the effect on earnings per share;
- the outcome and costs of pending or potential litigation or governmental investigations against either us or Family Dollar;
- regulatory approvals and expected store divestitures in connection with the proposed Family Dollar acquisition;
- the inability to retain key personnel at Family Dollar;
- our anticipated sales, including comparable store net sales, net sales growth and earnings growth;
- costs of pending and possible future legal claims;
- our growth plans, including our plans to add, expand or relocate stores, our anticipated square footage increase, and our ability to renew leases at existing store locations;
- the average size of our stores to be added in 2015 and beyond;
- the effect on merchandise mix of consumables and the increase in the number of our stores with freezers and coolers on gross profit margin and sales;
- the net sales per square foot, net sales and operating income of our stores;
- the potential effect of inflation and other economic changes on our costs and profitability, including the potential effect of future changes in minimum wage rates, shipping rates, domestic and import freight costs, fuel costs and wage and benefit costs;
- our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative and other fixed costs;
- our seasonal sales patterns including those relating to the length of the holiday selling seasons;
- the capabilities of our inventory supply chain technology and other systems;
- the reliability of, and cost associated with, our sources of supply, particularly imported goods such as those sourced from China;
- the capacity, performance and cost of our distribution centers;
- our cash needs, including our ability to fund our future capital expenditures and working capital requirements;
- our expectations regarding competition and growth in our retail sector; and
- management's estimates associated with our critical accounting policies, including inventory valuation, accrued expenses and income taxes.

For a discussion of the risks, uncertainties and assumptions that could affect our future events, developments or results, you should carefully review the risk factors described in Item 1A "Risk Factors" beginning on page 10, as well as Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 25 of this Form 10-K.

Our forward-looking statements could be wrong in light of these risks, uncertainties and assumptions. The future events, developments or results described in this report could turn out to be materially different. We have no obligation to publicly update or revise our forward-looking statements after the date of this annual report and you should not expect us to do so.

Investors should also be aware that while we do, from time to time, communicate with securities analysts and others, it is against our policy to selectively disclose to them any material, nonpublic information or other confidential commercial information. Accordingly, shareholders should not assume that we agree with any statement or report issued by any securities analyst regardless of the content of the statement or report as we have a policy against confirming information issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not our responsibility.

INTRODUCTORY NOTE: Unless otherwise stated, references to "we," "our" and "Dollar Tree" generally refer to Dollar Tree, Inc. and its direct and indirect subsidiaries on a consolidated basis. Unless specifically indicated otherwise, any references to

“2015” or “fiscal 2015”, “2014” or “fiscal 2014”, “2013” or “fiscal 2013”, and “2012” or “fiscal 2012”, relate to as of or for the periods ended January 30, 2016, January 31, 2015, February 1, 2014 and February 2, 2013, respectively.

AVAILABLE INFORMATION

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on our website at www.dollartree.com as soon as reasonably practicable after electronic filing of such reports with the SEC.

PART I

Item 1. BUSINESS

Overview

We are the leading operator of discount variety stores offering merchandise at the fixed price of \$1.00. We believe the variety and value of products we sell for \$1.00 sets us apart from our competitors. At January 31, 2015, we operated 5,367 discount variety retail stores. Our stores operate under the names of Dollar Tree, Deals, Dollar Tree Deals, Dollar Tree Canada, Dollar Giant and Dollar Bills. In 5,148 of these stores, we sell substantially all items for \$1.00 or less in the United States and \$1.25(CAD) or less in Canada. In substantially all of the remaining stores, operating as Deals or Dollar Tree Deals, we sell items for \$1.00 or less but also sell items for more than \$1.00.

We believe our optimal store size is between 8,000 and 10,000 selling square feet. This store size provides the appropriate amount of space for our broad merchandise offerings while allowing us to provide ease of shopping to our customers. As we have been expanding our merchandise offerings, we have added freezers and coolers to approximately 3,620 stores to increase sales and shopping frequency. At January 29, 2011, we operated 4,101 stores in the United States and Canada. At January 31, 2015, we operated 5,157 stores in 48 states and the District of Columbia, as well as 210 stores in Canada. Our revenue and assets in Canada are not material. Our selling square footage increased from approximately 35.1 million square feet in January 2011 to 46.5 million square feet in January 2015. Our store growth has resulted primarily from opening new stores.

Business Strategy

Value Merchandise Offering. We strive to exceed our customers' expectations of the variety and quality of products that they can purchase for \$1.00 by offering items that we believe typically sell for higher prices elsewhere. We buy approximately 59% to 61% of our merchandise domestically and import the remaining 39% to 41%. Our domestic purchases include basic, seasonal, closeouts and promotional merchandise. We believe our mix of imported and domestic merchandise affords our buyers flexibility that allows them to consistently exceed the customer's expectations. In addition, direct relationships with manufacturers permit us to select from a broad range of products and customize packaging, product sizes and package quantities that meet our customers' needs.

Mix of Basic Variety and Seasonal Merchandise. We maintain a balanced selection of products within traditional variety store categories. We offer a wide selection of everyday basic products and we supplement these basic, everyday items with seasonal, closeout and promotional merchandise. We attempt to keep certain basic consumable merchandise in our stores continuously to establish our stores as a destination and increase the traffic in our stores. Closeout and promotional merchandise is purchased opportunistically and represents less than 10% of our purchases.

Our merchandise mix consists of:

- consumable merchandise, which includes candy and food, health and beauty care, and everyday consumables such as paper and chemicals, and in select stores, frozen and refrigerated food;

- variety merchandise, which includes toys, durable housewares, gifts, party goods, greeting cards, softlines, and other items; and

- seasonal goods, which include, among others, Valentine's Day, Easter, Halloween and Christmas merchandise.

We added freezers and coolers to certain stores and increased the amount of consumable merchandise carried by those stores. We believe this initiative helps drive additional transactions and allows us to appeal to a broader demographic mix. We added freezers and coolers to 460 additional stores in 2014. Therefore, as of January 31, 2015, we have freezers and coolers in 3,620 of our stores. We plan to install them in 320 additional stores by the end of fiscal 2015. The following table shows the percentage of net sales of each major product group for the years ended January 31, 2015 and February 1, 2014:

Merchandise Type	January 31, 2015	February 1, 2014	
Consumable	49.3	% 49.4	%
Variety categories	46.4	% 46.3	%
Seasonal	4.3	% 4.3	%

At any point in time, we carry approximately 6,800 items in our stores and as of the end of 2014 approximately 35% of our items are automatically replenished. The remaining items are pushed to the stores and a portion can be reordered by our store managers on a weekly basis. Through automatic replenishment and our store managers' ability to order product, each store manager is able to satisfy the demands of his or her particular customer base.

Customer Payment Methods. All of our stores in the United States accept cash, checks, debit cards and credit cards. Along with the rollout of freezers and coolers, we have increased the number of stores accepting Electronic Benefits Transfer (EBT) cards and food stamps (under the Supplemental Nutrition Assistance Program ("SNAP")) to approximately 5,000 stores as of January 31, 2015.

Convenient Locations and Store Size. We primarily focus on opening new stores in strip shopping centers anchored by large retailers who draw target customers we believe to be similar to ours. Our stores are successful in metropolitan areas, mid-sized cities and small towns. The range of our store sizes allows us to target a particular location with a store that best suits that market and takes advantage of available real estate opportunities. Our stores are attractively designed and create an inviting atmosphere for shoppers by using bright lighting, vibrant colors and decorative signs. We enhance the store design with attractive merchandise displays. We believe this design attracts new and repeat customers and enhances our image as both a destination and impulse purchase store.

For more information on retail locations and retail store leases, see Item 2 "Properties" beginning on page 19 of this Form 10-K.

Profitable Stores with Strong Cash Flow. We maintain a disciplined, cost-sensitive approach to store site selection in order to minimize the initial capital investment required and maximize our potential to generate high operating margins and strong cash flows. We believe that our stores have a relatively small shopping radius, which allows us to profitably concentrate multiple stores within a single market. Our ability to open new stores is dependent upon, among other factors, locating suitable sites and negotiating favorable lease terms.

The strong cash flows generated by our stores allow us to self-fund infrastructure investment and new stores. Over the past five years, cash flows from operating activities have exceeded capital expenditures.

For more information on our results of operations, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 25 of this Form 10-K.

Cost Control. We believe that our substantial buying power and our flexibility in making sourcing decisions contributes to our successful purchasing strategy, which includes targeted merchandise margin goals by category. We also believe our ability to select quality merchandise helps to minimize markdowns. We buy products on an order-by-order basis and have no material long-term purchase contracts or other assurances of continued product supply or guaranteed product cost. No vendor accounted for more than 10% of total merchandise purchased in any of the past five years.

Our supply chain systems continue to provide us with valuable sales information to assist our buyers and improve merchandise allocation to our stores. Controlling our inventory levels has resulted in more efficient distribution and store operations.

Information Systems. We believe that investments in technology help us to increase sales and control costs. Our inventory management system has allowed us to improve the efficiency of our supply chain, improve merchandise flow, increase inventory turnover and control distribution and store operating costs. It is also used to provide information to calculate our estimate of inventory cost under the retail inventory method, which is widely used in the retail industry. Our automatic replenishment system replenishes key items, based on actual store level sales and inventory. At the end of 2014, approximately 35% of our items are on automatic replenishment.

Point-of-sale data allows us to track sales and inventory by merchandise category at the store level and assists us in planning for future purchases of inventory. We believe that this information allows us to ship the appropriate product to stores at the quantities commensurate with selling patterns. Using this point-of-sale data to plan purchases of inventory has helped us manage our inventory levels.

Corporate Culture and Values. We believe that honesty and integrity, doing the right things for the right reasons, and treating people fairly and with respect are core values within our corporate culture. We believe that running a business, and certainly a public company, carries with it a responsibility to be above reproach when making operational and financial decisions. Our executive management team visits and shops our stores like every customer,

and ideas and individual creativity on the part of our associates are encouraged, particularly from our store managers who know their stores and their customers. We have standards for store displays, merchandise presentation, and store operations. We maintain an open door

policy for all associates. Our distribution centers are operated based on objective measures of performance and virtually everyone in our store support center is available to assist associates in the stores and distribution centers. Our disclosure committee meets at least quarterly and monitors our internal controls over financial reporting to ensure that our public filings contain discussions about the risks our business faces. We believe that we have the controls in place to be able to certify our financial statements. Additionally, we have complied with the listing requirements for the Nasdaq Stock Market.

Seasonality. For information on the impact of seasonality, see Item 1A. "Risk Factors" beginning on page 10 of this Form 10-K and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 25 of this Form 10-K.

Growth Strategy

Store Openings and Square Footage Growth. The primary factors contributing to our net sales growth have been new store openings, an active store expansion and remodel program, and selective mergers and acquisitions. In the last five years, net sales increased at a compound annual growth rate of 10.0%. We expect that the majority of our future sales growth will come primarily from new store openings and from our store expansion and relocation program. The following table shows the average selling square footage of our stores and the selling square footage per new store opened over the last five years. Our growth and productivity statistics are reported based on selling square footage because our management believes the use of selling square footage yields a more accurate measure of store productivity.

Year	Number of Stores	Average Selling Square Footage Per Store	Average Selling Square Footage Per New Store Opened
2010	4,101	8,570	8,400
2011	4,351	8,640	8,360
2012	4,671	8,660	8,060
2013	4,992	8,660	8,020
2014	5,367	8,660	8,060

We expect to increase the selling square footage in our Dollar Tree stores in the future by opening new stores in underserved markets and strategically increasing our presence in our existing markets via new store openings and store expansions (expansions include store relocations). In fiscal 2015 and beyond, we plan to predominantly open Dollar Tree stores that are approximately 8,000 - 10,000 selling square feet and we believe this size allows us to achieve our objectives in the markets in which we plan to expand. At January 31, 2015, approximately 2,974 of our stores, totaling 65% of our selling square footage, were 8,000 selling square feet or larger.

Our Deals stores, which offer an expanded assortment of merchandise including items that sell for more than \$1.00, provide us an opportunity to leverage our Dollar Tree infrastructure in different merchandise concepts, including higher price points, without disrupting the single-price point model in our Dollar Tree stores. We operated 219 Deals stores as of January 31, 2015.

In addition to new store openings, we plan to continue our store expansion program to increase our net sales per store and take advantage of market opportunities. We target stores for expansion based on the current sales per selling square foot and changes in market opportunities. Stores targeted for expansion are generally less than 6,000 selling square feet in size. Store expansions generally increase the existing store size by approximately 2,750 selling square feet.

Since 1995, we have added a total of 695 stores through several mergers and acquisitions. Our acquisition strategy has been to target companies that have a similar single-price point concept that have shown success in operations or companies that provide a strategic advantage. We evaluate potential acquisition opportunities as they become available. On July 27, 2014, we executed an Agreement and Plan of Merger to acquire Family Dollar Stores, Inc. For more information regarding the pending acquisition, see "Family Dollar Acquisition" below and Item 8. "Financial Statements and Supplementary Data, Note 11 - Pending Acquisition and Related Debt" beginning on page 61 of this Form 10-K.

From time to time, we also acquire the rights to store leases through bankruptcy or other proceedings. We will continue to take advantage of these opportunities as they arise depending upon several factors including their fit within our location and selling square footage size parameters.

Merchandis