

DOLLAR TREE INC  
Form 10-K  
March 16, 2018

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

FORM 10-K  
(Mark One)

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

For the fiscal year ended February 3, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 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, Virginia 23320

(Address of principal executive offices) (Zip Code)

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
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Common Stock, par value \$.01 per share	NASDAQ
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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  No

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

Yes  No

Indicate by check mark whether the 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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant on July 28, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was \$16,537,291,776, based upon the closing sale price for the registrant's 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 12, 2018, there were 237,335,999 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 21, 2018, which will be filed with the Securities and Exchange Commission not later than June 1, 2018.

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**A WARNING ABOUT FORWARD-LOOKING STATEMENTS:** This Annual Report on Form 10-K (this "Form 10-K") 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 and are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. Forward-looking statements include, without limitation, statements preceded by, followed by or including words such as "believe," "anticipate," "expect," "intend," "plan," "view," "target" or "estimate," "may," "will," "should," "predict," "possible," "potential," "continue," "strategy," and similar expressions. For example, our forward-looking statements include, without limitation, statements regarding: the benefits, results and effects of the Family Dollar acquisition and integration 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 ability to retain key personnel at Family Dollar and Dollar Tree;

our anticipated sales, including comparable store net sales, net sales growth and earnings growth;

the potential effect of future law changes, including taxes and tariffs, the Fair Labor Standards Act as it relates to the qualification of our managers for exempt status, minimum wage and health care law;

the outcome and costs of pending or potential litigation or governmental investigations;

our growth plans, including our plans to add, rebanner, 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 2018 and beyond;

- the effect on our merchandise mix of consumables and the increase in the number of our stores with freezers and coolers on Dollar Tree's gross profit margin and sales;

the effect of the Family Dollar renovation initiative and other initiatives on Family Dollar's sales;

the net sales per square foot, net sales and operating income of our stores;

the potential effect of inflation or deflation and other general business or economic conditions on our costs and profitability, including the potential effect of future changes in prevailing wage rates and overtime regulations and our plans to address these changes, shipping rates, domestic and import freight costs, fuel costs and wage and benefit costs, consumer spending levels, population, employment and job growth and/or losses in our markets;

our gross profit margin, earnings, inventory levels and ability to leverage selling, general and administrative and other fixed costs;

the effect of recent changes in tax laws;

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 and our ability to service our debt obligations;

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, valuations for impairment analyses and income taxes.

You should not rely on forward-looking statements as predictions of future events. The outcome of the events described in these forward-looking statements is subject to various risks, uncertainties and other factors, including without limitation those described in "Item 1A. Risk Factors" beginning on page 12 of this Form 10-K, as well as "Item 7. Management's Discussion and

Analysis of Financial Condition and Results of Operations" beginning on page 26 of this Form 10-K and elsewhere in this Form 10-K.

Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements. We do not undertake to publicly update or revise any forward-looking statements after the date of this Form 10-K, whether as a result of new information, future events, or otherwise.

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 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. Furthermore, we have a policy against confirming projections, forecasts or opinions 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 "us" generally refer to Dollar Tree, Inc. and its direct and indirect subsidiaries on a consolidated basis. Unless specifically indicated otherwise, any references to "2018" or "fiscal 2018", "2017" or "fiscal 2017", "2016" or "fiscal 2016", and "2015" or "fiscal 2015", relate to as of or for the years ended February 2, 2019, February 3, 2018, January 28, 2017 and January 30, 2016, 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 of 1934 are available free of charge on our website at [www.dollartree.com](http://www.dollartree.com) as soon as reasonably practicable after electronic filing of such reports with the Securities and Exchange Commission ("SEC").

## PART I

### Item 1. BUSINESS

#### Overview

We are a leading operator of discount variety stores. We believe the convenience and value we offer are key factors in growing our base of loyal customers. At February 3, 2018, we operated 14,835 discount variety retail stores. Our stores operate under the names of Dollar Tree, Family Dollar and Dollar Tree Canada.

On July 6, 2015, we completed our purchase of Family Dollar Stores, Inc. and its more than 8,200 stores. This transformational transaction created the largest discount retailer (by store count) in North America. The Dollar Tree and Family Dollar banners have complementary business models. Everything is \$1.00 at Dollar Tree while Family Dollar is a neighborhood variety store offering merchandise largely for \$10.00 or less. Also, on October 13, 2015, we announced our plans to convert all Deals and Dollar Tree Deals stores to one of our two primary banners, Dollar Tree or Family Dollar. On November 1, 2015, we completed the transaction pursuant to which we divested 330 Family Dollar stores, 325 of which were open at the time of the divestiture, to Dollar Express LLC ("Dollar Express"), a portfolio company of Sycamore Partners, in order to satisfy a condition as required by the Federal Trade Commission in connection with our purchase of Family Dollar.

We operate in two reporting business segments: Dollar Tree and Family Dollar. For discussion of the operating results of our reporting business segments, refer to "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Segment Information" beginning on page 26 of this Form 10-K and "Note 10 - Segment Reporting" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K.

#### Dollar Tree

Our Dollar Tree segment is the leading operator of discount variety stores offering merchandise at the fixed price point of \$1.00. The Dollar Tree segment includes 6,650 stores operating under the Dollar Tree and Dollar Tree Canada brands, 11 distribution centers in the United States and two in Canada and a Store Support Center in Chesapeake, Virginia. Our stores predominantly range from 8,000 - 10,000 selling square feet. In our Dollar Tree stores in the United States, we sell all items for \$1.00 or less and in our Dollar Tree Canada stores, we sell all items for \$1.25(CAD) or less. Our revenue and assets in Canada are not material.

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 58% to 60% of our merchandise domestically and import the remaining 40% to 42%. Our domestic purchases include basic, seasonal, home, closeouts and promotional merchandise. We believe our mix of imported and domestic merchandise affords our buyers flexibility that allows them to consistently exceed our 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.

The addition of frozen and refrigerated merchandise to more of our Dollar Tree stores has been one of our ongoing initiatives. We believe this initiative helps drive additional transactions and allows us to appeal to a broader demographic mix. We added freezers and coolers to 420 additional stores in 2017. As of February 3, 2018, we have freezers and coolers in approximately 5,205 of our Dollar Tree stores. We plan to install them in 500 new and existing stores by the end of fiscal 2018.

At any point in time, we carry approximately 7,250 items in our stores and as of the end of 2017 approximately 39% 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 their particular customer base.

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 traffic in our stores. Closeout and promotional merchandise is purchased opportunistically and represents less than 10% of our purchases.

The merchandise mix in our Dollar Tree stores consists of:

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



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

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

The following table displays the percentage of net sales of each major product group for the years ended February 3, 2018 and January 28, 2017:

Merchandise Type	February	January
	3, 2018	28, 2017
Consumable	49.0 %	48.9 %
Variety	46.3 %	46.5 %
Seasonal	4.7 %	4.6 %

**Family Dollar**

Our Family Dollar segment operates general merchandise discount retail stores providing customers with a selection of competitively-priced merchandise in convenient neighborhood stores. The Family Dollar segment consists of our store operations under the Family Dollar brand, 11 distribution centers and a Store Support Center in Matthews, North Carolina. Our stores predominantly range from 6,000 - 8,000 selling square feet. In our 8,185 Family Dollar stores, we sell merchandise at prices that generally range from \$1.00 to \$10.00.

Our Family Dollar stores provide customers with a quality, high-value assortment of basic necessities and seasonal merchandise. We offer competitively-priced national brands from leading manufacturers alongside name brand equivalent-value, lower-priced private labels. We purchase merchandise from a wide variety of suppliers and generally have not experienced difficulty in obtaining adequate quantities of merchandise. In fiscal 2017, we purchased approximately 16% of our merchandise through our relationship with McLane Company, Inc., which distributes consumable merchandise from multiple manufacturers. In addition, approximately 18% of our merchandise is imported directly.

We are currently executing a store renovation initiative at our Family Dollar stores. During fiscal 2017, we completed approximately 375 Family Dollar renovations. These renovations have focused on creating an exciting and more productive Family Dollar shopping experience. Renovations bring some of the oldest stores to our brand standard, including creating more productive end-caps, highlighting more relevant and prominent seasonal offerings, expanding the assortments in beverage and snacks, hair care, and food in coolers and freezers. Category adjacencies and updating our front-end checkout are also part of the renovation program. We are making a number of improvements to the conditions of our stores to provide our customers with a consistent and improved shopping experience. In addition, we have focused on re-branding our private brand labels in our stores. These private brands are being developed to provide national brand comparable quality and great values for our customers, as part of our Compare and Save marketing program. We are adding additional coolers and freezers to facilitate expansion of our product offerings. While the number of items in a given store can vary based on the store's size, geographic location, merchandising initiatives and other factors, our typical store generally carries approximately 7,000 basic items alongside items that are ever-changing and seasonally-relevant throughout the year.

The merchandise mix in our Family Dollar stores consists of:

- consumable merchandise, which includes food, tobacco, health and beauty aids, household chemicals, paper products, hardware and automotive supplies, diapers, batteries, and pet food and supplies;
- home products, which includes housewares, home décor, giftware, and domestics, including comforters, sheets and towels;
- apparel and accessories merchandise, which includes clothing, fashion accessories and shoes; and
- seasonal and electronics merchandise, which includes Valentine's Day, Easter, Halloween and Christmas merchandise, personal electronics, including pre-paid cellular phones and services, stationery and school supplies, and toys.

The following table displays the percentage of net sales of each major product group for the years ended February 3, 2018 and January 28, 2017:

Merchandise Type	February 3, 2018		January 28, 2017	
Consumable	75.3	%	74.6	%
Home products	8.4	%	8.7	%
Apparel and accessories	6.6	%	7.0	%
Seasonal and electronics	9.7	%	9.7	%

#### Business Strategy

Continue to execute our proven and best in class retail business strategy. We will continue to execute our proven strategies that have generated a history of success and continued growth for the Company. Key elements of our strategy include:

- continuously aiming to “Wow” the customer with a compelling, fun and fresh merchandise assortment comprising a variety of the things you want and things you need, all at incredible values in bright, clean and friendly stores;
- maintaining a flexible sourcing merchandise model that allows a variety of products to be sold as long as desired merchandise margin thresholds are met;
- growing both the Dollar Tree and Family Dollar banners;
- pursuing a “more, better, faster” approach to the rollout of new Dollar Tree and Family Dollar stores to broaden our geographic footprint;
- maintaining customer relevance by ensuring that we reinvent ourselves constantly through new merchandise categories;
- leveraging the complementary merchandise expertise of each banner including Dollar Tree's sourcing and product development expertise and Family Dollar's consumer package goods and national brands sourcing expertise; and
- maintaining a prudent approach with our use of capital for the benefit of our shareholders.

Operate a diversified and complementary business model across both fixed price and multi price point strategies. We plan to operate and grow both the Dollar Tree and Family Dollar banners. We will utilize the reach and scale of our combined company to serve a broader range of customers in more ways, offering better prices and more value for the customer. Dollar Tree stores will continue to operate as single price point retail stores. At Dollar Tree, everything is \$1.00, offering the customer a balanced mix of things they need and things they want. Our shopping experience will remain fun and friendly as we exceed our customers’ expectations for what they can buy for \$1.00. Dollar Tree primarily serves middle income customers in suburban locations. Family Dollar stores will continue to operate using multiple price points, serving customers as their “neighborhood discount store,” offering great values on everyday items and a convenient shopping experience. Family Dollar primarily serves a lower income customer in urban and rural locations. We will benefit from an expanded target customer profile and utilize the store concepts of both Dollar Tree and Family Dollar to serve a broader range of customer demographics to drive further improvements in sales and profitability.

Deliver significant synergy opportunities through integration of Family Dollar. Our acquisition of Family Dollar has provided us with significant opportunities to achieve meaningful cost synergies. We are executing a detailed integration plan and expect to achieve our target of approximately \$300 million of estimated annual run rate cost synergies by July 2018. This synergy target does not account for one-time costs to achieve synergies, investments back into the business, integration costs, or cost increases due to inflation, vendor increases, or other factors that are not caused by the business combination. We expect to incur \$300 million in one-time costs to achieve these target synergies. Sources of synergies include the following:

- Savings from sourcing and procurement of merchandise and non-merchandise goods and services driven by leveraging the combined volume of the Dollar Tree and Family Dollar banners, among other things;
- Rebanning to optimize store formats;
- A reduction in overhead and corporate selling, general and administrative expenses by eliminating redundant positions and optimizing processes; and

Savings resulting from the optimization of distribution and logistics networks.

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Take advantage of significant white-space opportunity. Over the past decade we have built a solid and scalable infrastructure, which provides a strong foundation for our future growth. We are committed to growing our combined business to take advantage of significant white space opportunities that we believe exist for both the Dollar Tree and Family Dollar store concepts. Using our proven real estate strategy across our combined business, we intend to drive future store openings by capitalizing on data driven insights regarding location, target customer profile, competitive dynamics and cost structure. Over the long-term, we believe that the market can support more than 10,000 Dollar Tree stores and 15,000 Family Dollar stores across the United States.

**Convenient Locations and Store Size.** We focus primarily on opening new Dollar Tree 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. We open new Family Dollar stores in strip shopping centers, freestanding buildings and downtown buildings. The range of our store sizes, 8,000 - 10,000 selling square feet for Dollar Tree and 6,000 - 8,000 selling square feet for Family Dollar, 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 18 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 26 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. Targeting 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, enhance 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 automated replenishment system replenishes key items, based on actual store-level sales and inventory.

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 has helped us manage our inventory levels.

**Corporate Culture and Values.** We believe that honesty and integrity, 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 at 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 centers is available to assist associates in our 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 potential risks our business faces. We believe that we have appropriate 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 12 of this Form 10-K and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 26 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 29.8%, including the addition of Family Dollar. We expect that the majority of our future sales growth will come primarily from new store openings in our Dollar Tree and Family Dollar banners and from our store expansion and relocation program.

At February 1, 2014, we operated 4,992 stores in the United States and Canada. At February 3, 2018, we operated 14,610 stores in 48 states and the District of Columbia, as well as 225 stores in Canada. Our selling square footage increased from approximately 43.2 million square feet at February 1, 2014 to 116.6 million square feet at February 3, 2018. Our store growth has resulted from opening new stores and our July 2015 acquisition of more than 8,200 Family Dollar stores.

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. We expect to increase the selling square footage in our 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 2018 and beyond, we plan to predominantly open Dollar Tree stores that are approximately 8,000 - 10,000 selling square feet and Family Dollar stores that are approximately 6,000 - 8,000 selling square feet. We believe these store sizes allow us to achieve our objectives in the markets in which we plan to expand.

In addition to new store openings, we plan to continue our Dollar Tree 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. At February 3, 2018, approximately 3,686 of our Dollar Tree stores, totaling 64% of our Dollar Tree banner selling square footage, were 8,000 selling square feet or larger.

Since 1995, we have added a total of 695 stores through several mergers and acquisitions, excluding our acquisition of Family Dollar. Historically, 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 6, 2015, we completed our acquisition of Family Dollar which allowed us to create a diversified company with complementary business models. See "Note 2 - Acquisition" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 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.

**Merchandising and Distribution.** Expanding our customer base is important to our growth plans. We plan to continue to stock our stores with a compelling mix of ever-changing merchandise that our customers have come to appreciate. Consumable merchandise typically leads to more frequent return trips to our stores resulting in increased sales. The presentation and display of merchandise in our stores are critical to communicating value to our customers and creating a more exciting shopping experience. We believe our approach to visual merchandising results in higher sales volume and an environment that encourages impulse purchases.

A strong and efficient distribution network is critical to our ability to grow and to maintain a low-cost operating structure. In 2017, we began construction on our Warrensburg, Missouri distribution center, which will be 1.0 million square feet and automated, and will serve stores in our Dollar Tree banner. We expect this facility to be operational in the third quarter of 2018. In 2016, we completed our Cherokee County, South Carolina distribution center, which is 1.5 million square feet, automated and serves stores in our Dollar Tree banner. In addition, we expanded our Dollar

Tree Stockton, California distribution center to 0.9 million square feet. We believe our distribution center network is currently capable of supporting approximately \$26.5 billion in annual sales in the United States. New distribution sites are strategically located to reduce stem miles, maintain flexibility and improve efficiency in our store service areas. We also are a party to an agreement which provides distribution services from two facilities in Canada.

Our Dollar Tree stores receive approximately 90% of their inventory from our distribution centers via contract carriers and our Family Dollar stores receive approximately 75% of their inventory from our distribution centers. The remaining store inventory, primarily perishable consumable items and other vendor-maintained display items, are delivered directly to our stores from vendors. Our Family Dollar stores receive approximately 16% of their merchandise from McLane Company, Inc. For more information on our distribution center network, see "Item 2. Properties" beginning on page 18 of this Form 10-K.

#### Competition

Our segment of the retail industry is fragmented and highly competitive and we expect competition to increase in the future. We operate in the discount retail sector, which is currently and is expected to continue to be highly competitive with respect to price, store location, merchandise quality, assortment and presentation and customer service. Our competitors include single-price dollar stores, multi-price dollar stores, mass merchandisers, discount retailers, drug stores, convenience stores, independently-operated discount stores and a wide variety of other retailers. In addition, several competitors have sections within their stores devoted to "one dollar" price point merchandise, which further increases competition. We believe we differentiate ourselves from other retailers by providing high-value, high-quality, low-cost merchandise in attractively-designed stores that are conveniently located. Our sales and profits could be reduced by increases in competition. There are no significant economic barriers for others to enter our retail sector.

#### Trademarks

We are the owners of several federal service mark registrations including "Dollar Tree," the "Dollar Tree" logo, and the Dollar Tree logo with a "1." In addition, we own a registration for "Dollar Bill\$." We also acquired the rights to use trade names previously owned by Everything's A Dollar, a former competitor in the \$1.00 price point industry. Several trade names were included in the purchase, including the mark "Everything's \$1.00." We also own the logo mark for "Everything's \$1." With the acquisition of Dollar Giant, we became the owner of several trademarks in Canada. With the acquisition of Family Dollar, we became the owners of the trademarks "Family Dollar," "Family Dollar Stores" and other names and designs of certain merchandise sold in Family Dollar stores. We have federal trademark registrations for a number and variety of private labels that we use to market many of our product lines. Our trademark registrations have various expiration dates; however, assuming that the trademark registrations are properly maintained and renewed, they have a perpetual duration.

#### Employees

We employed approximately 56,300 full-time and 119,800 part-time associates on February 3, 2018. Part-time associates work an average of less than 30 hours per week. The number of part-time associates fluctuates depending on seasonal needs. We consider our relationship with our associates to be good, and we have not experienced significant interruptions of operations due to labor disagreements.



## Item 1A. RISK FACTORS

An investment in our common stock involves a high degree of risk. Any failure to meet market expectations, including our comparable store sales growth rate, earnings and earnings per share or new store openings, could cause the market price of our stock to decline. You should carefully consider the specific risk factors listed below together with all other information included or incorporated in this report and other filings that we make from time to time with the SEC, including our consolidated financial statements and accompanying notes. Any of the following risks may materialize, and additional risks not known to us, or that we now deem immaterial, may arise. In such event, our business, financial condition, results of operations or prospects could be materially adversely affected.

Our profitability is vulnerable to cost increases.

Future increases in costs such as wage and benefit costs, the cost of merchandise, duties, merchandise loss (due to theft, damage, or errors), shipping rates, freight costs, fuel costs and store occupancy costs would reduce our profitability. Wage rates, labor costs, and inflation are expected to increase in 2018. The minimum wage has increased in certain states and local jurisdictions and is scheduled to increase further in 2018.

In our Dollar Tree segment, we do not raise the sales price of our merchandise to offset cost increases because we are committed to selling primarily at the \$1.00 price point to continue to provide value to the customer. We are dependent on our ability to adjust our product assortment, to operate more efficiently or to increase our comparable store net sales in order to offset cost increases. We can give no assurance that we will be able to operate more efficiently or increase our comparable store net sales in the future. Although Family Dollar, unlike Dollar Tree, can raise the price of merchandise, customers would buy fewer products if prices were to increase. Please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 26 of this Form 10-K for further discussion of the effect of inflation and other economic factors on our operations.

Risks associated with our domestic and foreign suppliers, including, among others, increased taxes, duties, tariffs or other restrictions on trade, could adversely affect our financial performance.

We are dependent on our vendors to supply merchandise in a timely and efficient manner. If a vendor fails to deliver on its commitments due to financial or other difficulties, we could experience merchandise shortages which could lead to lost sales or increased merchandise costs if alternative sources must be used.

We rely on the availability of imported goods at favorable wholesale prices. Merchandise imported directly accounts for approximately 40% to 42% of our Dollar Tree segment's total retail value purchases and 17% to 19% of our Family Dollar segment's total retail value purchases. In addition, we believe that a significant portion of our goods purchased from domestic vendors is imported. China is the source of a substantial majority of our imports. Imported goods are generally less expensive than domestic goods and increase our profit margins. A disruption in the flow of our imported merchandise or an increase in the cost of those goods may significantly decrease our profits. Risks associated with our reliance on imported goods may include disruptions in the flow of or increases in the cost of imported goods because of factors such as:

- an increase in duties, tariffs or other restrictions on trade;
- raw material shortages, work stoppages, strikes and political unrest;
- economic crises and international disputes or conflicts;
- changes in currency exchange rates or policies and local economic conditions, including inflation in the country of origin;
- changes in leadership and the political climate in countries from which we import products; and
- failure of the United States to maintain normal trade relations with China and other countries.

Integrating Family Dollar's operations with ours may be more difficult, costly or time consuming than expected and the anticipated benefits, synergies and cost savings of the Acquisition may not be realized.

The success of the Family Dollar acquisition (the "Acquisition"), including anticipated benefits, synergies and cost savings, will depend, in part, on our ability to successfully combine and integrate the businesses and cultures of the Family Dollar segment into our company. The integration is not yet complete. It is possible that the remaining integration process will take longer than anticipated and could result in the loss of key employees, higher than expected costs or unexpected costs, ongoing diversion of management attention, increased competition, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our

ability to maintain relationships with customers, vendors and employees. If we

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experience difficulties with the integration process, the anticipated benefits of the Acquisition may not be realized fully, or may take longer to realize than expected, which could adversely affect our results of operations or business. Our business could be adversely affected if we fail to attract and retain qualified associates and key personnel. Our growth and performance is dependent on the skills, experience and contributions of our associates, executives and key personnel for both Dollar Tree and Family Dollar. Various factors, including the Acquisition, the integration process, constraints on overall labor availability, wage rates, regulatory or legislative impacts, and benefit costs could impact our ability to attract and retain qualified associates at our stores, distribution centers and corporate offices. A significant disruption in our computer and technology systems could adversely affect our results of operation or business.

We rely extensively on our computer and technology systems and, in certain cases, those of third-party service providers to manage inventory, process credit card and customer transactions and summarize results. We are continuing to integrate the Dollar Tree and Family Dollar systems. Systems may be subject to damage or interruption from power outages, telecommunication failures, computer viruses, security breaches and catastrophic or other events. If these systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, may experience loss of critical data and interruptions or delays in our ability to manage inventories or process customer transactions and may receive negative publicity, which could adversely affect our results of operation or business.

If we are unable to secure our customers' credit card and confidential information, or other private data relating to our associates, suppliers or our business, we could be subject to negative publicity, costly government enforcement actions or private litigation, which could damage our business reputation and adversely affect our results of operation or business.

We have procedures and technology in place to safeguard our customers' debit and credit card information, our associates' private data, suppliers' data, and our business records and intellectual property and other sensitive information. Despite these measures, cyber-attacks are rapidly evolving and becoming increasingly sophisticated and difficult to detect and we may be vulnerable to, and unable to anticipate, detect and appropriately respond to, data security breaches and data loss, including cyber-security attacks. Other sophisticated retailers have recently suffered serious security breaches. If we or any third-party systems we use experience a data security breach, we could be exposed to negative publicity, government enforcement actions, private litigation, or costly response measures. In addition, our reputation within the business community and with our customers may be affected, which could result in our customers discontinuing the use of debit or credit cards in our stores or not shopping in our stores altogether. In addition, the unavailability of information systems or failure of these systems or software to perform as anticipated for any reason and any inability to respond to, or recover from, such an event, could disrupt our business, impact our customers and could result in decreased performance, increased overhead costs and increased risk for liability. Any of these factors could have an adverse effect on our results of operation or business.

Our growth is dependent on our ability to increase sales in existing stores and to expand our square footage profitably. Existing store sales growth is critical to good operating results and is dependent on a variety of factors including merchandise quality, relevance and availability, store operations and customer satisfaction. In addition, increased competition could adversely affect our sales. Our highest sales periods are during the Christmas and Easter seasons, and we generally realize a disproportionate amount of our net sales and our operating and net income during the fourth quarter. In anticipation, we stock extra inventory and hire many temporary employees to prepare our stores. A reduction in sales during these periods could adversely affect our operating results, particularly operating and net income, to a greater extent than if a reduction occurred at other times of the year. Untimely merchandise delays due to receiving or distribution problems could have a similar effect. When Easter is observed earlier in the year, the selling season is shorter and, as a result, our sales could be adversely affected. Easter was observed on March 27, 2016 and April 16, 2017, and will be observed on April 1, 2018.

Expanding our square footage profitably depends on a number of uncertainties, including our ability to locate, lease, build out and open or expand stores in suitable locations on a timely basis under favorable economic terms. Obtaining an increasing number of profitable stores is an ever increasing challenge. In addition, our expansion is dependent upon third-party developers' abilities to acquire land, obtain financing, and secure necessary permits and approvals. We also

open or expand stores within our established geographic markets, where new or expanded stores may draw sales away from our existing stores. We may not manage our expansion effectively, and our failure to achieve our expansion plans could materially and adversely affect our business, financial condition and results of operations.

We could encounter disruptions in our distribution network or additional costs in distributing merchandise.

Our success is dependent on our ability to transport merchandise to our distribution centers and then ship it to our stores in a timely and cost-effective manner. We also rely on third parties to deliver certain merchandise directly from vendors to our stores.

We may not anticipate, respond to or control all of the challenges of operating our receiving and distribution systems. Additionally, if a vendor fails to deliver on its commitments, we could experience merchandise shortages that could lead to lost sales or increased costs. Some of the factors that could have an adverse effect on our distribution network or costs are:

- Shipping disruption. Our oceanic shipping schedules may be disrupted or delayed from time to time.
  - Shipping costs. We could experience increases in shipping rates imposed by the trans-Pacific ocean carriers.
  - Changes in import duties, import quotas and other trade sanctions could increase our costs.
- Efficient Operations. Distribution centers and other aspects of our distribution network are difficult to operate efficiently and we could experience a reduction in operating efficiency.
- Diesel fuel costs. We have experienced volatility in diesel fuel costs over the past few years.
- Vulnerability to natural or man-made disasters. A fire, explosion or natural disaster at a port or any of our distribution facilities could result in a loss of merchandise and impair our ability to adequately stock our stores. Some facilities are vulnerable to earthquakes, hurricanes or tornadoes.
- Labor disagreement. Labor disagreements, disruptions or strikes may result in delays in the delivery of merchandise to our distribution centers or stores and increase costs.
- War, terrorism and other events. War and acts of terrorism in the United States, the Middle East, or in China or other parts of Asia, where we buy a significant amount of our imported merchandise, could disrupt our supply chain or increase our transportation costs.
- Economic conditions. Suppliers may encounter financial or other difficulties.

Our profitability is affected by the mix of products we sell.

Our gross profit margin could decrease if we increase the proportion of higher cost goods we sell in the future.

Imported merchandise is generally lower cost than domestic goods. If duties increase, increasing the cost of imported goods, we may sell less imported goods and our profitability may suffer. In recent years, the percentage of our sales from higher cost consumable products has increased and we can give no assurance that this trend will not continue. As a result, our gross profit margin could decrease unless we are able to maintain our current merchandise cost sufficiently to offset any decrease in our product margin percentage. We can give no assurance that we will be able to do so.

In our Family Dollar segment, our success also depends on our ability to select and obtain sufficient quantities of relevant merchandise at prices that allow us to sell such merchandise at profitable and appropriate prices. A sales price that is too high causes products to be less attractive to our customers and our sales at Family Dollar could suffer. We are continuing to implement our everyday low price strategy at Family Dollar to drive customer loyalty and have a strategic pricing team to improve our value and to increase profitability. Inability to successfully implement our pricing strategies at Family Dollar could have a negative effect on our business.

In addition, our Family Dollar segment has a substantial number of private brand items and the number of items has been increasing. We believe our success in maintaining broad market acceptance of our private brands depends on many factors, including our pricing, costs, quality and customer perception. We may not achieve or maintain our expected sales for our private brands and, as a result, our business and results of operations could be adversely impacted. Additionally, the increased number of private brands could negatively impact our existing relationships with our non-private brand suppliers.

Litigation may adversely affect our business, financial condition and results of operations.

Our business is subject to the risk of litigation involving employees, consumers, suppliers, competitors, shareholders, government agencies, or others through private actions, class actions, governmental investigations, administrative proceedings, regulatory actions or other litigation. Our products could also cause illness or injury, harm our reputation, and subject us to litigation. We are dependent on our vendors to ensure that the products we buy comply with all applicable safety standards. However, product liability, personal injury or other claims may be asserted against us relating to product contamination, product tampering, mislabeling, recall and other safety issues with respect to the products that we sell. We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our vendors, and if we do not have adequate contractual indemnification or insurance available, such product liability or safety claims could adversely affect our business, financial condition and results of

operations. Our ability to obtain the benefit of contractual indemnification from foreign vendors may be hindered by our ability to enforce contractual indemnification obligations against such vendors. Our litigation expenses could increase as well, which also

could have a materially negative impact on our results of operations even if a product liability claim is unsuccessful or is not fully pursued.

For example, we are currently defendants in national and state employment-related class and collective actions and litigation concerning injury from products. The outcome of litigation is difficult to assess or quantify. Plaintiffs in these types of lawsuits or proceedings may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss may remain unknown for substantial periods of time. In addition, certain of these matters, if decided adversely to us or settled by us, may result in an expense that may be material to our financial statements as a whole or may negatively affect our operating results if changes to our business operation are required. The cost to defend current and future litigation or proceedings may be significant. There also may be adverse publicity associated with litigation, including litigation related to product or food safety, customer information and environmental or safety requirements, which could negatively affect customer perception of our business, regardless of whether the allegations are valid or whether we are ultimately found liable.

For a discussion of current legal matters, please see "Item 3. Legal Proceedings" beginning on page 21 of this Form 10-K and "Note 5 - Commitments and Contingencies" under the caption "Contingencies" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K. Resolution of these matters, if decided against the Company, could have a material adverse effect on our results of operations, accrued liabilities or cash flows.

Pressure from competitors may reduce our sales and profits.

The retail industry is highly competitive. The marketplace is highly fragmented as many different retailers compete for market share by utilizing a variety of store formats and merchandising strategies, including mobile and online shopping. We expect competition to increase in the future. There are no significant economic barriers for others to enter our retail sector. Some of our current or potential competitors have greater financial resources than we do. We cannot guarantee that we will continue to be able to compete successfully against existing or future competitors. Please see "Item 1. Business" beginning on page 6 of this Form 10-K for further discussion of the effect of competition on our operations.

A downturn or changes in economic conditions could impact our sales or profitability.

Deterioration in economic conditions, such as those caused by a recession, inflation, higher unemployment, consumer debt levels, trade disputes or international conflict, as well as adverse weather conditions or terrorism, could reduce consumer spending or cause customers to shift their spending to products we either do not sell or do not sell as profitably. Adverse economic conditions could disrupt consumer spending and significantly reduce our sales, decrease our inventory turnover, cause greater markdowns or reduce our profitability due to lower margins.

Furthermore, factors that could adversely affect consumer disposable income could decrease our customers' spending on products we sell. Factors that could reduce our customers' disposable income and over which we exercise no influence include but are not limited to adverse economic conditions described above as well as increases in fuel or other energy costs and interest rates, lack of available credit, higher tax rates and other changes in tax laws, concerns over government mandated participation in health insurance programs, increasing healthcare costs, and changes in, decreases in, or elimination of, government subsidies such as unemployment and food assistance programs.

Many of the factors identified above that affect disposable income, as well as commodity rates, transportation costs (including the costs of diesel fuel), costs of labor, insurance and healthcare, foreign exchange rate fluctuations, lease costs, barriers or increased costs associated with international trade and other economic factors also affect our ability to implement our corporate strategy effectively, our cost of goods sold and our selling, general and administrative expenses, and may have other adverse consequences which we are unable to fully anticipate or control, all of which may adversely affect our sales or profitability. We have limited or no ability to control many of these factors.

Changes in federal, state or local law, or our failure to comply with such laws, could increase our expenses and expose us to legal risks.

Our business is subject to a wide array of laws and regulations. The minimum wage has increased or is scheduled to increase in multiple states, provinces and local jurisdictions. Significant legislative changes in regulations such as the health-care legislation, that impact our relationship with our workforce could increase our expenses and adversely affect our operations. Changes in other regulatory areas, such as consumer credit, privacy and information security,

product and food safety, worker safety or environmental protection, among others, could cause our expenses to increase or product recalls. In addition, if we fail to comply with applicable laws and regulations, particularly wage and hour laws, we could be subject to legal risk, including government enforcement action and class action civil litigation, which could adversely affect our results of operations.



The price of our common stock is subject to market and other conditions and may be volatile.

The market price of our common stock may fluctuate significantly in response to a number of factors. These factors, some of which may be beyond our control, include the perceived prospects and actual results of operation of our business; changes in estimates of our results of operation by analysts, investors or us; trading activity by our large shareholders; trading activity by sophisticated algorithms (high-frequency trading); our actual results of operation relative to estimates or expectations; actions or announcements by us or our competitors; litigation and judicial decisions; legislative or regulatory actions or changes; and changes in general economic or market conditions. In addition, the stock market in general has from time to time experienced extreme price and volume fluctuations. These market fluctuations could reduce the market price of our common stock for reasons unrelated to our operating performance.

Our substantial indebtedness could adversely affect our financial condition, limit our ability to obtain additional financing, restrict our operations and make us more vulnerable to economic downturns and competitive pressures. In connection with the Acquisition, we substantially increased our indebtedness, which could adversely affect our ability to fulfill our obligations and have a negative impact on our financing options and liquidity position. As of February 3, 2018, our total indebtedness is \$5,732.7 million. In addition, we have \$1,250.0 million of additional borrowing availability under our Tranche A Revolving Credit Facility, less amounts outstanding for letters of credit totaling \$158.2 million.

Our high level of debt could have significant consequences, including the following:

- limiting our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or other general corporate purposes;
- requiring a substantial portion of our cash flows to be dedicated to debt service payments, instead of other purposes, thereby reducing the amount of cash flows available for working capital, capital expenditures, acquisitions and other general corporate purposes;
- limiting our ability to refinance our indebtedness on terms acceptable to us or at all;
- imposing restrictive covenants on our operations;
- placing us at a competitive disadvantage to competitors carrying less debt; and
- making us more vulnerable to economic downturns and limiting our ability to withstand competitive pressures.

In addition, our credit ratings impact the cost and availability of future borrowings and, accordingly, our cost of capital. Our ratings reflect the opinions of the ratings agencies of our financial strength, operating performance and ability to meet our debt obligations. There can be no assurance that we will achieve a particular rating or maintain a particular rating in the future.

The terms of the agreements governing our indebtedness may restrict our current and future operations, particularly our ability to respond to changes or to pursue our business strategies, and could adversely affect our capital resources, financial condition and liquidity.

The agreements that govern our indebtedness contain a number of restrictive covenants that impose significant operating and financial restrictions on us and may limit our ability to engage in acts that may be in our long-term best interests, including, among other things, restrictions on our ability to:

- incur, assume or guarantee additional indebtedness;
- declare or pay dividends or make other distributions with respect to, or purchase or otherwise acquire or retire for value, equity interests;
- make principal payments on, or redeem or repurchase, subordinated debt;
- make loans, advances or other investments;
- incur liens;
- sell or otherwise dispose of assets, including capital stock of subsidiaries;
- enter into sale and lease-back transactions;
- consolidate or merge with or into, or sell all or substantially all of our assets to, another person; and



- enter into transactions with affiliates.

In addition, certain of these agreements require us to comply with certain financial maintenance covenants. Our ability to satisfy these financial maintenance covenants can be affected by events beyond our control, and we cannot assure you that we will meet them.

A breach of the covenants under these agreements could result in an event of default under the applicable indebtedness, which, if not cured or waived, could result in us having to repay our borrowings before their due dates. Such default may allow the debt holders to accelerate the related debt and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies. If we are forced to refinance these borrowings on less favorable terms or if we were to experience difficulty in refinancing the debt prior to maturity, our results of operations or financial condition could be materially affected. In addition, an event of default under our credit facilities may permit the lenders under our credit facilities to terminate all commitments to extend further credit under such credit facilities. Furthermore, if we are unable to repay the amounts due and payable under our credit facilities, those lenders may be able to proceed against the collateral granted to them to secure that indebtedness. In the event our lenders or holders of notes accelerate the repayment of such borrowings, we cannot assure you that we will have sufficient assets to repay such indebtedness.

As a result of these restrictions, we may be:

- limited in how we conduct our business;
  - unable to raise additional debt or equity financing to operate during general economic or business downturns; or
  - unable to compete effectively, take advantage of new business opportunities or grow in accordance with our plans.
- Our variable-rate indebtedness subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

Certain of our indebtedness, including borrowings under our Tranche A Revolving Credit Facility, is subject to variable rates of interest and exposes us to interest rate risk. Interest rates, while historically low, have recently begun to increase. When interest rates increase, our debt service obligations on the variable rate indebtedness increase even though the amount borrowed remains the same, and our net income decreases. An increase (decrease) of 1.0% on the interest rate would result in an increase (decrease) of \$15.3 million in annual interest expense. Although we may enter into interest rate swaps, involving the exchange of floating- for fixed-rate interest payments, to reduce interest rate volatility, we cannot assure you we will be able to do so.

Certain provisions in our Articles of Incorporation and Bylaws could delay or discourage a change of control transaction that may be in a shareholder's best interest.

Our Articles of Incorporation and Bylaws currently contain provisions that may delay or discourage a takeover attempt that a shareholder might consider in his best interest. These provisions, among other things:

- provide that only the Board of Directors, chairman or president may call special meetings of the shareholders;
- establish certain advance notice procedures for nominations of candidates for election as directors and for shareholder proposals to be considered at shareholders' meetings; and
- permit the Board of Directors, without further action of the shareholders, to issue and fix the terms of preferred stock, which may have rights senior to those of the common stock.

However, we believe that these provisions allow our Board of Directors to negotiate a higher price in the event of a takeover attempt which would be in the best interest of our shareholders.

#### Item 1B. UNRESOLVED STAFF COMMENTS

None.

## Item 2. PROPERTIES

## Stores

As of February 3, 2018, we operated 14,835 stores in 48 states and the District of Columbia, and five Canadian provinces as detailed below:

United States	Dollar Tree	Family Dollar	Total
Alabama	130	167	297
Arizona	124	164	288
Arkansas	76	115	191
California	574	131	705
Colorado	94	128	222
Connecticut	62	55	117
Delaware	31	29	60
District of Columbia	3	3	6
Florida	486	601	1,087
Georgia	243	397	640
Idaho	36	47	83
Illinois	254	224	478
Indiana	137	211	348
Iowa	54	31	85
Kansas	54	47	101
Kentucky	103	217	320
Louisiana	111	324	435
Maine	38	61	99
Maryland	117	98	215
Massachusetts	121	96	217
Michigan	235	388	623
Minnesota	116	71	187
Mississippi	75	161	236
Missouri	143	116	259
Montana	14	14	28
Nebraska	26	37	63
Nevada	53	53	106
New Hampshire	36	31	67
New Jersey	159	106	265
New Mexico	48	132	180
New York	315	315	630
North Carolina	251	454	705
North Dakota	11	23	34
Ohio	261	476	737
Oklahoma	77	138	215
Oregon	92	—	92
Pennsylvania	297	316	613
Rhode Island	30	28	58
South Carolina	116	241	357
South Dakota	11	30	41
Tennessee	172	228	400
Texas	489	1,062	1,551
Utah	61	59	120

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Vermont	11	14	25
Virginia	179	244	423
Washington	122	—	122
West Virginia	46	126	172
Wisconsin	118	145	263
Wyoming	13	31	44
Total	6,425	8,185	14,610

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Canada	Dollar Tree
Alberta	38
British Columbia	51
Manitoba	12
Ontario	109
Saskatchewan	15
Total	225

We lease the vast majority of our stores and expect to lease the majority of our new stores as we expand. Our leases typically provide for a short initial lease term, generally five years, with options to extend; however, in some cases we have initial lease terms of seven to fifteen years. We believe this leasing strategy enhances our flexibility to pursue various expansion opportunities resulting from changing market conditions. As current leases expire, we believe that we will be able to obtain lease renewals, if desired, for present store locations, or to obtain leases for equivalent or better locations in the same general area.

#### Distribution Centers

The following table includes information about the distribution centers that we operate in the United States. Except for 0.4 million square feet of our distribution center in San Bernardino, CA, all of our distribution center capacity is owned. In 2016, we completed our 1.5 million square foot Cherokee County, South Carolina distribution center and expanded our Stockton, California distribution center by 0.3 million square feet. We believe our distribution center network is currently capable of supporting approximately \$26.5 billion in annual sales in the United States.

In 2017, we began construction on our Warrensburg, Missouri distribution center, which will be 1.0 million square feet and automated, and will serve stores in our Dollar Tree banner. We expect this facility to be operational in the third quarter of 2018.

Location	Size in Square Feet
Dollar Tree:	
Chesapeake, Virginia	400,000
Olive Branch, Mississippi	425,000
Joliet, Illinois	1,470,000
Stockton, California	854,000
Savannah, Georgia	1,014,000
Briar Creek, Pennsylvania	1,003,000
Marietta, Oklahoma	1,004,000
San Bernardino, California	802,000
Ridgefield, Washington	665,000
Windsor, Connecticut	1,001,000
Cherokee County, South Carolina	1,512,000
Family Dollar:	
Matthews, North Carolina	930,000
West Memphis, Arkansas	850,000
Front Royal, Virginia	907,000
Duncan, Oklahoma	907,000
Morehead, Kentucky	907,000
Maquoketa, Iowa	907,000
Odessa, Texas	907,000
Marianna, Florida	907,000
Rome, New York	907,000
Ashley, Indiana	814,000

St. George, Utah

814,000

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Each of our distribution centers contains advanced materials handling technologies, including radio-frequency inventory tracking equipment and specialized information systems. With the exception of our Ridgefield, Washington Dollar Tree facility and our Matthews, North Carolina Family Dollar facility, each of our distribution centers in the United States also contains automated conveyor and sorting systems.

Distribution services in Canada are provided by a third party from facilities in British Columbia and Ontario.

#### Store Support Center

Our Dollar Tree Store Support Center is located in an approximately 190,000 square foot building, which we own in Chesapeake, Virginia. We are constructing an expansion to this facility which will add approximately 320,000 square feet of office space and we expect the expansion to be complete in 2018. Our Family Dollar Store Support Center is located in two buildings totaling approximately 310,000 square feet, which we own in Matthews, North Carolina.

We are also developing mixed-use property on the campus of our Dollar Tree Store Support Center.

For more information on financing of our new and expanded stores, distribution centers and the expansion of our Dollar Tree Store Support Center, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" under the caption "Funding Requirements" beginning on page 26 of this Form 10-K.



Item 3. LEGAL PROCEEDINGS

From time to time, we are defendants in ordinary, routine litigation or proceedings incidental to our business, including allegations regarding:

- employment-related matters;
- infringement of intellectual property rights;
- personal injury/wrongful death claims;
- product safety matters, which may include product recalls in cooperation with the Consumer Products Safety Commission or other jurisdictions;
- real estate matters related to store leases; and
- environmental and safety issues.

In addition, we are currently defendants in national and state employment-related class and collective actions and litigation concerning injury from products. These proceedings are described in "Note 5 - Commitments and Contingencies" under the caption "Contingencies" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K.

We will vigorously defend ourselves in these matters. We do not believe that any of these matters will, individually or in the aggregate, have a material effect on our business or financial condition. We cannot give assurance, however, that one or more of these lawsuits will not have a material effect on our results of operations for the period in which they are resolved. Based on the information available, including the amount of time remaining before trial, the results of discovery and the judgment of internal and external counsel, we are unable to express an opinion as to the outcome of those matters which are not settled and cannot estimate a potential range of loss except as specified in Note 5. When a range is expressed, we are currently unable to determine the probability of loss within that range.

Item 4. MINE SAFETY DISCLOSURES

None.

## PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on The Nasdaq Global Select Market®. Our common stock has been traded on Nasdaq under the symbol "DLTR" since our initial public offering in 1995. The following table gives the high and low sales prices of our common stock as reported by Nasdaq for the periods indicated.

	High	Low
Fiscal year ended January 28, 2017:		
First Quarter	\$83.72	\$72.52
Second Quarter	97.45	73.02
Third Quarter	99.93	74.36
Fourth Quarter	91.41	72.55
Fiscal year ended February 3, 2018:		
First Quarter	\$83.21	\$72.89
Second Quarter	83.48	65.63
Third Quarter	93.68	71.19
Fourth Quarter	116.65	90.30

On March 12, 2018, the last reported sale price for our common stock, as quoted by Nasdaq, was \$94.29 per share. As of March 12, 2018, we had approximately 2,657 shareholders of record.

We did not repurchase any shares of common stock on the open market in fiscal 2017, fiscal 2016 or fiscal 2015. At February 3, 2018, we had \$1.0 billion remaining under Board repurchase authorization.

We anticipate that substantially all of our cash flow from operations in the foreseeable future will be retained for the development and expansion of our business, the repayment of indebtedness and, as authorized by our Board of Directors, the repurchase of stock. Management does not anticipate paying dividends on our common stock in the foreseeable future.

Stock Performance Graph

The following graph sets forth the yearly percentage change in the cumulative total shareholder return on our common stock during the five fiscal years ended February 3, 2018, compared with the cumulative total returns of the S&P 500 Index and the S&P Retailing Index. The comparison assumes that \$100 was invested in our common stock on February 2, 2013, and, in each of the foregoing indices on February 2, 2013, and that dividends were reinvested.

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## Item 6. SELECTED FINANCIAL DATA

The following table presents a summary of our selected financial data for the fiscal years ended February 3, 2018, January 28, 2017, January 30, 2016, January 31, 2015, and February 1, 2014. Fiscal 2017 included 53 weeks, commensurate with the retail calendar, while all other fiscal years reported in the table contain 52 weeks. The selected income statement and balance sheet data have been derived from our consolidated financial statements that have been audited by our independent registered public accounting firm. This information should be read in conjunction with the consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial information found elsewhere in this report.

As a result of the acquisition of Family Dollar on July 6, 2015, the income statement data below for the year ended January 30, 2016 includes the results of operations of Family Dollar since that date. In addition, the balance sheet information below includes the Family Dollar assets acquired and liabilities assumed for periods after the July 6, 2015 acquisition date.

Comparable store net sales compares net sales for stores open before December of the year prior to the two years being compared, including expanded stores. Both our Dollar Tree stores and our acquired Family Dollar stores are included in the comparable store net sales calculation for the year ended February 3, 2018. For all prior years, only our Dollar Tree stores are included in the comparable store net sales calculation. Net sales per store and net sales per selling square foot are calculated for stores open throughout the period presented.

As a result of the enactment of the Tax Cuts and Jobs Act ("TCJA") in 2017, "Net income" and "Diluted net income per share" for the year ended February 3, 2018 increased by \$583.7 million and \$2.45 per share, respectively.

Amounts in the following tables are in millions, except per share data, number of stores data, net sales per selling square foot data and inventory turns.

	Year Ended					
	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014	
<b>Income Statement Data:</b>						
Net sales	\$22,245.5	\$20,719.2	\$15,498.4	\$8,602.2	\$7,840.3	
Gross profit	7,021.9	6,394.7	4,656.7	3,034.0	2,789.8	
Selling, general and administrative expenses	5,022.8	4,689.9	3,607.0	1,993.8	1,819.5	
Operating income	1,999.1	1,704.8	1,049.7	1,040.2	970.3	
Net income	1,714.3	896.2	282.4	599.2	596.7	
<b>Margin Data (as a percentage of net sales):</b>						
Gross profit	31.6	% 30.8	% 30.1	% 35.3	% 35.6	%
Selling, general and administrative expenses	22.6	% 22.6	% 23.3	% 23.2	% 23.2	%
Operating income	9.0	% 8.2	% 6.8	% 12.1	% 12.4	%
Net income	7.7	% 4.3	% 1.8	% 7.0	% 7.6	%
<b>Per Share Data:</b>						
Diluted net income per share	\$7.21	\$3.78	\$1.26	\$2.90	\$2.72	
Diluted net income per share increase (decrease)	90.7	% 200.0	% (56.6	)% 6.6	% 1.5	%

	As of				
	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014
<b>Balance Sheet Data:</b>					
Cash and cash equivalents and short-term investments	\$1,097.8	\$ 870.4	\$ 740.1	\$ 864.1	\$ 267.7
Working capital	1,717.2	1,832.1	1,840.5	1,133.0	692.2
Total assets	16,332.8	15,701.6	15,901.2	3,492.7	2,767.7
Total debt, including capital lease obligations	5,732.7	6,391.8	7,465.5	757.0	769.8
Shareholders' equity	7,182.3	5,389.5	4,406.9	1,785.0	1,170.7

	Year Ended					
	February 3, 2018	January 28, 2017	January 30, 2016	January 31, 2015	February 1, 2014	
<b>Selected Operating Data:</b>						
Number of stores open at end of period	14,835	14,334	13,851	5,367	4,992	
Dollar Tree	6,650	6,360	5,954	5,367	4,992	
Family Dollar	8,185	7,974	7,897	—	—	
Gross square footage at end of period	143.9	138.8	132.1	58.3	54.3	
Dollar Tree	71.6	68.5	64.2	58.3	54.3	
Family Dollar	72.3	70.3	67.9	—	—	
Selling square footage at end of period	116.6	112.4	108.4	46.5	43.2	
Dollar Tree	57.3	54.7	51.3	46.5	43.2	
Family Dollar	59.3	57.7	57.1	—	—	
Selling square footage annual growth <sup>(2)</sup>	3.7	% 3.7	% 10.3	% 7.4	% 6.9	%
Net sales annual growth <sup>(1)</sup>	7.4	% 8.6	% 8.5	% 9.7	% 6.0	%
Comparable store net sales increase <sup>(1)</sup>	1.9	% 1.8	% 2.1	% 4.3	% 2.4	%
Net sales per selling square foot <sup>(2)</sup>	\$194	\$ 188	\$ 191	\$ 192	\$ 187	
Net sales per store <sup>(2)</sup>	\$1.5	\$ 1.5	\$ 1.6	\$ 1.7	\$ 1.6	
<b>Selected Financial Ratios:</b>						
Return on assets <sup>(2)</sup>	10.7	% 5.7	% 11.4	% 19.1	% 21.6	%
Return on equity <sup>(2)</sup>	27.3	% 18.3	% 31.5	% 40.5	% 42.1	%
Inventory turns <sup>(2)</sup>	4.4	4.1	4.5	4.4	4.1	

<sup>(1)</sup> Family Dollar was only included in the determination of these items for the year ended February 3, 2018

<sup>(2)</sup> Family Dollar was only included in the determination of these items for the years ended February 3, 2018 and January 28, 2017

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In Management's Discussion and Analysis, we explain the general financial condition and the results of operations for our company, including:

- what factors affect our business;
- what our net sales, earnings, gross margins and costs were in 2017, 2016 and 2015;
- why those net sales, earnings, gross margins and costs were different from the year before;
- how all of this affects our overall financial condition;
- what our expenditures for capital projects were in 2017 and 2016 and what we expect them to be in 2018; and
- where funds will come from to pay for future expenditures.

As you read Management's Discussion and Analysis, please refer to our consolidated financial statements, included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K, which present the results of operations for the fiscal years ended February 3, 2018, January 28, 2017 and January 30, 2016. In Management's Discussion and Analysis, we analyze and explain the annual changes in some specific line items in the consolidated financial statements for fiscal year 2017 compared to fiscal year 2016 and for fiscal year 2016 compared to fiscal year 2015. We also provide information regarding the performance of each of our operating segments. Unless otherwise indicated, references to "we," "our" or "us" refer to Dollar Tree, Inc. and its direct and indirect subsidiaries on a consolidated basis.

### Key Events and Recent Developments

Several key events have had or are expected to have a significant effect on our operations. They are listed below:

• On February 23, 2015, we completed the offering of \$3.25 billion of acquisition notes which we used in connection with our financing of the acquisition of Family Dollar Stores, Inc. ("Family Dollar") (the "Acquisition").

• On March 9, 2015, we entered into a credit agreement and term loan facilities and received \$3.95 billion under the Term Loan B which we used in connection with our financing of the Acquisition.

• On June 11, 2015, we amended the terms of the New Senior Secured Credit Facilities to refinance the existing \$3.95 billion Term Loan B tranche with \$3.3 billion in aggregate principal amount of floating-rate Term Loan B-1 and \$650.0 million in aggregate principal amount of fixed-rate Term Loan B-2.

• On July 6, 2015, we repaid all amounts outstanding under our Senior Notes issued in 2013.

• On July 6, 2015 (the "Acquisition Date"), we completed our acquisition of Family Dollar.

• On January 26, 2016, we prepaid \$1.0 billion of the \$3.3 billion Term Loan B-1.

• In May 2016, we completed construction of a new 1.5 million square foot distribution center in Cherokee County, South Carolina.

• In August 2016, we completed a 0.3 million square foot expansion of our distribution center in Stockton, California. The Stockton distribution center is now an 854,000 square foot, automated facility.

• On August 4, 2016, we announced the elimination of 370 positions, including 100 vacant positions, at our Family Dollar store support center in Matthews, North Carolina. The eliminations were part of the establishment of shared services and our ongoing efforts to achieve \$300 million in combined run rate annual synergies by the end of July 2018.

• On August 30, 2016, we amended the terms of the New Senior Secured Credit Facilities to reduce the applicable interest rate margin of the Term Loan A tranche and our New Revolving Credit Facility.

• On September 22, 2016, we amended the terms of the New Senior Secured Credit Facilities to provide for the incurrence of \$1,275.0 million in aggregate principal amount of additional loans under the Term Loan A-1 tranche and \$750.0 million in aggregate principal amount of Term Loan B-3. In addition, we used \$242.0 million of cash on hand to prepay the remainder of the Term Loan B-1.

• In October 2016, we began construction on a 320,000 square foot expansion of our Chesapeake, Virginia Store Support Center.

On January 20, 2017, we prepaid the \$748.1 million remaining outstanding under the Term Loan B-3.

In June 2017, we began construction of a new 1.0 million square foot distribution center in Warrensburg, Missouri, which is expected to be operational in the third quarter of 2018.

On July 27, 2017, we prepaid \$500.0 million of the then outstanding \$2.2 billion under the Term Loan A-1.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law which lowered the federal corporate tax rate from 35% to 21% and made numerous other law changes, effective as of January 1, 2018.

On January 30, 2018, we provided an irrevocable notice to the 2020 Notes holders to call the \$750.0 million 2020 Notes on March 1, 2018. In connection with the early redemption of the 2020 Notes, we recorded a make-whole premium of \$9.8 million which was payable on the call date of March 1, 2018. We paid the \$759.8 million on March 1, 2018. The remaining \$6.1 million of amortizable non-cash deferred financing costs at February 3, 2018 were fully expensed at the call date of March 1, 2018.

#### Overview

We are a leading operator of more than 14,800 discount retail stores and we conduct our operations in two reporting segments. Our Dollar Tree segment is the leading operator of discount variety stores offering merchandise at the fixed price of \$1.00. Our Family Dollar segment operates general merchandise retail discount stores providing consumers with a selection of competitively-priced merchandise in convenient neighborhood stores.

Our net sales are derived from the sale of merchandise. Two major factors tend to affect our net sales trends. First is our success at opening new stores or adding new stores through mergers or acquisitions. Second is the performance of stores once they are open. Sales vary at our existing stores from one year to the next. We refer to this as a change in comparable store net sales, because we include only those stores that are open throughout both of the periods being compared, beginning after the first fifteen months of operation. We include sales from stores expanded during the year in the calculation of comparable store net sales, which has the effect of increasing our comparable store net sales. The term 'expanded' also includes stores that are relocated. Our acquired Family Dollar stores are included in the comparable store net sales calculation beginning in the fourth quarter of fiscal 2016; however, they are not included in the annual comparable store net sales calculation until fiscal 2017. Stores that have been rebannered are considered to be new stores and are not included in the calculation of the comparable store net sales change until after the first fifteen months of operation under the new banner.

At February 3, 2018, we operated stores in 48 states and the District of Columbia, as well as stores in five Canadian provinces. A breakdown of store counts and square footage by segment for the years ended February 3, 2018 and January 28, 2017 is as follows:

	Year Ended			Year Ended		
	February 3, 2018			January 28, 2017		
	Dollar Tree	Family Dollar	Total	Dollar Tree	Family Dollar	Total
Store Count:						
Beginning	6,360	7,974	14,334	5,954	7,897	13,851
New stores	315	288	603	359	225	584
Rebannered stores	—	—	—	91	(91)	—
Closings	(25)	(77)	(102)	(44)	(57)	(101)
Ending	6,650	8,185	14,835	6,360	7,974	14,334
Relocations	82	31	113	64	120	184

#### Selling Square Feet (in millions):

Beginning	54.7	57.7	112.4	51.3	57.1	108.4
New stores	2.6	2.1	4.7	2.9	1.6	4.5
Rebannered stores	—	—	—	0.7	(0.7)	—
Closings	(0.2)	(0.5)	(0.7)	(0.3)	(0.4)	(0.7)
Relocations	0.2	—	0.2	0.1	0.1	0.2

Ending	57.3	59.3	116.6	54.7	57.7	112.4
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Stores are included as rebanners when they close or open, respectively. Comparable store net sales for Dollar Tree may be negatively affected when a Family Dollar store is rebannered near an existing Dollar Tree store.

The average size of stores opened in 2017 was approximately 8,180 selling square feet (or about 10,180 gross square feet) for the Dollar Tree segment and 7,160 selling square feet (or about 8,860 gross square feet) for the Family Dollar segment. For 2018, we continue to plan to open stores that are approximately 8,000 - 10,000 selling square feet (or about 10,000 - 12,000 gross square feet) for the Dollar Tree segment and approximately 6,000 - 8,000 selling square feet (or about 7,000 - 9,000 gross square feet) for the Family Dollar segment. We believe that these size stores are our optimal sizes operationally and give our customers a shopping environment which invites them to shop longer, buy more and make return visits, which increases our customer traffic.

Fiscal 2017 ended on February 3, 2018 and included 53 weeks, commensurate with the retail calendar. The 53rd week in 2017 added approximately \$406.6 million in sales. Fiscal 2016 and fiscal 2015 which ended on January 28, 2017 and January 30, 2016, respectively, each included 52 weeks.

In fiscal 2017, comparable store net sales increased by 1.9% on a constant currency basis. This increase is based on a 53-week comparison for both years. Constant currency basis refers to the calculation excluding the impact of currency exchange rate fluctuations. We calculated the constant currency basis increase by translating the current year's comparable store net sales in Canada using the prior year's currency exchange rates. We believe that the constant currency basis provides a more accurate measure of comparable store net sales performance. Including the impact of currency, comparable store net sales increased the same 1.9% as a result of a 0.9% increase in the number of transactions and a 1.0% increase in average ticket. On a constant currency basis, comparable store net sales increased 3.4% in the Dollar Tree segment and increased 0.4% in the Family Dollar segment in fiscal 2017. Comparable store net sales in the Dollar Tree segment increased 3.5% when adjusted for the impact of Canadian currency fluctuations. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and are negatively affected when we open new stores, rebanner stores or expand stores near existing stores.

We believe comparable store net sales continued to be positively affected by a number of our Dollar Tree initiatives, as debit and credit card penetration continued to increase in 2017, and we continued the roll-out of frozen and refrigerated merchandise to more of our Dollar Tree stores. At February 3, 2018, the Dollar Tree segment had frozen and refrigerated merchandise in approximately 5,205 stores, which includes re-bannered stores, compared to approximately 4,785 stores at January 28, 2017. We believe that the addition of frozen and refrigerated product enables us to increase sales and earnings by increasing the number of shopping trips made by our customers.

We believe our initiatives at Family Dollar are positively affecting the comparable store net sales performance. Among these is a store renovation initiative. During fiscal 2017, we completed approximately 375 Family Dollar renovations. These renovations have focused on creating an exciting and more productive Family Dollar shopping experience. Renovations bring some of the oldest stores to our brand standard, including more productive end-caps, highlighting more relevant and prominent seasonal offerings, assortment expansions in beverage and snacks, hair care, and food in coolers and freezers. Category adjacencies and updating our front-end checkout are also part of the renovation program. We are making a number of improvements to the conditions of our stores to provide our customers with a consistent and improved shopping experience. In addition, we have focused on re-branding our private brand labels in our stores. These private brands are being developed to provide national brand comparable quality and great values for our customers, as part of our Compare and Save marketing program. We are adding additional coolers and freezers to facilitate expansion of our product offerings.

Our point-of-sale technology provides us with valuable sales and inventory information to assist our buyers and improve our merchandise allocation to our stores. We believe that this has enabled us to better manage our inventory flow in our stores resulting in more efficient distribution and store operations.

We must continue to control our merchandise costs, inventory levels and our general and administrative expenses as increases in these items could negatively impact our operating results.

#### Acquisition and Divestiture

On July 6, 2015 we completed the Acquisition and Family Dollar became a direct, wholly-owned subsidiary. Under the Acquisition, the Family Dollar shareholders received \$59.60 in cash and 0.2484 shares of our common stock for

each share of Family Dollar common stock they owned, plus cash in lieu of fractional shares (the "Merger Consideration").

As of the Acquisition Date, each outstanding performance share right of Family Dollar common stock was canceled in exchange for the right of the holder to receive the Merger Consideration (the "PSR Payment"). The aggregate amount we paid for the Merger Consideration and PSR Payment was \$6.8 billion in cash and we issued 28.5 million shares of our common stock, valued at \$2.3 billion based on the closing price of our common stock on July 2, 2015.

For a complete description of the Acquisition refer to our Current Report on Form 8-K filed with the SEC on July 8, 2015.

We incurred \$39.2 million in acquisition-related expenses in 2015, excluding acquisition-related interest expense. We also expended approximately \$165.7 million in capitalizable debt-issuance costs related to the financing of the Acquisition and \$61.5 million and \$78.8 million of debt-issuance costs was included as a reduction in "Long-term debt, net, excluding current portion" at February 3, 2018 and January 28, 2017, respectively.

We expect to achieve approximately \$300 million in annual cost savings synergies by July 2018, and we will incur \$300 million in one-time costs to achieve these synergies.

In 2015, we completed the offering of \$3.25 billion of senior notes and entered into a credit facility and term loan providing for \$6.2 billion in senior secured credit facilities. See "Liquidity and Capital Resources" for a further discussion of these transactions.

In connection with the Acquisition, we divested 330 Family Dollar stores to settle Federal Trade Commission charges that the Acquisition would be anticompetitive in certain local markets. The 330 Family Dollar stores, 325 of which were open at the time of the divestiture, represented approximately \$45.5 million of annual operating income. In accordance with purchase accounting, the net effect of the divestiture on our assets and liabilities is fully reflected in the table summarizing the estimates of fair value set forth in "Note 2 - Acquisition".

In the first and second quarters of 2017, we evaluated the collectability of certain receivables from Dollar Express relating to the divestiture. Based on information then available, we determined that outstanding amounts totaling \$53.5 million were not recoverable and recorded impairment charges to write down the receivables to zero. In the fourth quarter of 2017, a settlement was reached, under which Sycamore Partners and Dollar Express paid us \$35.0 million which resulted in a partial reversal of the receivables impairment in our fiscal fourth quarter 2017.

#### Results of Operations

	Year Ended					
	February 3, 2018		January 28, 2017		January 30, 2016	
Net sales	100.0	%	100.0	%	100.0	%
Cost of sales	68.4	%	69.2	%	69.9	%
Gross profit	31.6	%	30.8	%	30.1	%
Selling, general and administrative expenses	22.6	%	22.6	%	23.3	%
Operating income	9.0	%	8.2	%	6.8	%
Interest expense, net	1.3	%	1.8	%	3.9	%
Other expense, net	—	%	—	%	—	%
Income before income taxes	7.7	%	6.4	%	2.9	%
Provision for income taxes	—	%	2.1	%	1.1	%
Net income	7.7	%	4.3	%	1.8	%

Fiscal year ended February 3, 2018 compared to fiscal year ended January 28, 2017

**Net Sales.** Net sales increased 7.4%, or \$1,526.3 million, in 2017 compared to 2016, resulting from sales in new Dollar Tree and Family Dollar stores, increased comparable store net sales and the 53rd week in 2017, which accounted for \$406.6 million of the increase. Comparable store net sales increased 1.9% on a constant currency basis as a result of increases in average ticket and customer count. This increase is based on a 53-week comparison for both periods. Comparable store net sales also increased 1.9% when adjusted for the impact of Canadian currency fluctuations. On a constant currency basis, comparable store net sales increased 3.4% in the Dollar Tree segment and increased 0.4% in the Family Dollar segment. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and are negatively affected when we open new stores, rebanner stores or expand stores near existing stores.

**Gross profit.** Gross profit increased by \$627.2 million or 9.8%, to \$7,021.9 million in 2017 compared to \$6,394.7 million in 2016. Gross profit margin increased to 31.6% in 2017 from 30.8% in 2016. Our gross profit margin improvement was primarily the result of lower merchandise costs as a percentage of sales resulting from improved mark-on in fiscal 2017, fewer markdowns in the current year and leverage from the sales in the 53rd week.



Selling, general and administrative expenses. Selling, general and administrative expenses increased to \$5,022.8 million in 2017 from \$4,689.9 million in 2016, an increase of \$332.9 million or 7.1%. As a percentage of sales, selling, general and administrative expenses were 22.6% in 2017 and 2016. Fiscal 2017, includes an \$18.5 million receivable impairment related to the divestiture and a \$12.6 million increase to the Dollar Tree workers' compensation reserves to record these on an undiscounted basis. Excluding the receivable impairment and the workers' compensation reserve increase, selling, general and administrative expenses decreased to 22.4%, as a percentage of sales, due to the leverage from the 53rd week and the net of the following:

• lower depreciation costs;

• lower store operating costs as a percentage of sales;

• higher advertising costs; and,

• higher payroll costs.

Operating income. Operating income for 2017 increased to \$1,999.1 million compared with \$1,704.8 million in 2016 and operating income margin increased to 9.0% in 2017 from 8.2% in 2016.

In the fourth quarter of 2017, we benefited with respect to the TCJA. We expect to continue to benefit going forward and estimate the benefit to be approximately \$250.0 million in fiscal 2018. We plan to reinvest approximately \$100.0 million of this tax savings into the following:

• increased store hours, including training for associates;

• higher average hourly rates;

• adding Family Dollar eligible associates to the Dollar Tree Retirement Savings Plan starting in fiscal 2017 and increasing contributions in fiscal 2018; and,

• instituting paid maternity leave for eligible associates.

This reinvestment could reduce operating income margin in 2018.

Interest expense, net. Interest expense, net was \$301.8 million in 2017 compared to \$375.5 million in 2016. The decrease is due to lower debt outstanding in the current year as a result of \$990.1 million in prepayments in the third and fourth quarters of 2016 as well as the \$500.0 million prepayment in the second quarter of 2017. Fiscal 2016 also includes the expensing of \$26.6 million of amortizable non-cash deferred financing costs and \$2.6 million in fees associated with the refinancing of the New Senior Secured Credit Facilities. On January 30, 2018, we provided an irrevocable notice to the 2020 Notes holders to call the \$750.0 million 2020 Notes on March 1, 2018. In connection with the early redemption of the 2020 Notes, we recorded a make-whole premium of \$9.8 million which was payable on the call date of March 1, 2018.

Income taxes. Our effective tax rate in 2017 was a benefit of 0.6% compared to expense of 32.6% in 2016. The decrease is due to the TCJA that was signed into law on December 22, 2017, which lowered the federal corporate tax rate from 35% to 21% and made numerous other law changes, effective as of January 1, 2018. Our fiscal 2017 includes 34 days in calendar year 2018, therefore our overall 2017 statutory federal corporate tax rate is 33.7%. The effective tax rate also includes a \$562.0 million benefit resulting from the re-measurement of our net deferred tax liabilities to reflect the lower statutory federal rate of 21%. The 2017 tax rate was also lower as a result of a reduction to the North Carolina statutory tax rate which resulted in a decrease in the deferred tax liability related to the trade name intangible asset and a \$9.9 million decrease in tax expense. The 2017 rate also includes a reduction of approximately \$5.6 million in the reserve for uncertain tax positions resulting from statute expirations and the reduction of interest accrued on method changes. The tax rate in fiscal 2016 includes benefits resulting from a one-time election allowing the Family Dollar acquisition to be treated as an asset purchase for certain state tax purposes and a 1.0% decrease in North Carolina's state tax rate which resulted in a reduction in the deferred tax liability related to the trade name intangible asset.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which provides guidance on accounting for the impact of the TCJA, in effect allowing an entity to use a methodology similar to the measurement period in a business combination. Pursuant to the disclosure provisions of SAB 118, as of February 3, 2018, we have not completed our analysis of all of the effects of the TCJA. Additionally, future guidance from the Internal Revenue Service ("IRS"), SEC, or the Financial Accounting Standards Board ("FASB") could result in changes to our accounting for the tax effects of the TCJA. While we are

able to make a reasonable estimate of the impact of the reduction in the statutory federal corporate tax rate, the rate may be affected by other analyses related to the TCJA including, but not limited to, federal temporary differences resulting from accounting method changes or other adjustments. For further discussion of the

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impact of the TCJA, refer to "Note 4 - Income Taxes" under the caption "Income Tax Accounting Implications of the Tax Cuts and Jobs Act" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K.

We expect our effective tax rate to approximate 23% in fiscal 2018, subject to adjustments related to the SAB 118 items noted above.

Fiscal year ended January 28, 2017 compared to fiscal year ended January 30, 2016

Net sales. Net sales increased 33.7%, or \$5,220.8 million, in 2016 compared to 2015, resulting from \$4,418.5 million of incremental net sales from Family Dollar due to 22 additional weeks of operations in fiscal year 2016 compared to fiscal year 2015, sales in the Dollar Tree segment's new stores and increased comparable store net sales partially offset by the loss of sales in the 325 stores which were divested on November 1, 2015 in satisfaction of a Federal Trade Commission requirement in connection with the Family Dollar acquisition. Comparable store net sales increased 1.8% on a constant currency basis. Including the impact of currency, comparable store net sales also increased 1.8% due to an increase in average ticket as well as customer count. Comparable store net sales are positively affected by our expanded and relocated stores, which we include in the calculation, and are negatively affected when we open new stores, rebanner stores or expand stores near existing stores.

Gross profit. Gross profit increased by \$1,738.0 million or 37.3%, to \$6,394.7 million in 2016 compared to \$4,656.7 million in 2015. The dollar increase in gross profit was primarily driven by \$1,402.6 million of incremental gross profit for Family Dollar, due to an additional 22 weeks of operations in 2016 compared to 2015, as well as higher sales for Dollar Tree partially offset by the loss of gross profit from the 325 stores which were divested on November 1, 2015. Gross profit margin increased to 30.8% in 2016 from 30.1% in 2015 as a result of the prior year including \$73.0 million of markdown expense related to sku rationalization and planned liquidations and \$70.2 million in amortization expense for Family Dollar related to the stepped-up inventory which was sold during the 52 weeks ended January 30, 2016. In addition, the current year gross profit margin reflects lower merchandise cost due to higher initial mark-on and favorable freight costs. Our gross profit margin in the current year included an additional 22 weeks of Family Dollar's operations which have a lower-margin product mix. This negatively impacted the current year's results in relation to the prior year's results.

Selling, general and administrative expenses. Selling, general and administrative expenses for 2016 increased to \$4,689.9 million from \$3,607.0 million in 2015, an increase of \$1,082.9 million or 30.0%. The increase was primarily due to an incremental \$972.3 million of expense for Family Dollar due to the 22 additional weeks of operations in 2016 compared to 2015 partially offset by lower selling, general and administrative expenses resulting from the divestiture of 325 stores on November 1, 2015. As a percentage of sales, selling, general and administrative expenses decreased to 22.6% in 2016 from 23.3% in 2015. In 2015, we incurred \$39.1 million or 25 basis points of acquisition expenses. Excluding acquisition expenses, the selling, general and administrative rate for 2016 as a percentage of sales decreased 40 basis points to 22.6% from 23.0% as a result of lower payroll-related costs and depreciation as a percentage of net sales and lower professional fees and legal fees partially offset by higher store repairs and maintenance as a percentage of net sales.

Operating income. Operating income for 2016 increased to \$1,704.8 million compared with \$1,049.7 million in 2015. Operating income margin increased to 8.2% in 2016 from 6.8% in 2015. The increase in operating income is the result of an incremental \$430.3 million of operating income in the Family Dollar segment, due to the additional 22 weeks of operations in 2016 compared to 2015 and a \$224.8 million increase in operating income in the Dollar Tree segment partially offset by the loss of operating income from the 325 stores which were divested on November 1, 2015. In the prior year, the Family Dollar segment incurred an operating loss of \$30.8 million as a result of unusually high markdowns related to sku rationalization and planned liquidations and the amortization of stepped-up inventory that was sold during the period.

Interest expense, net. Interest expense, net was \$375.5 million in 2016 compared to \$599.4 million in 2015. The variance is due to the following:

- An \$89.5 million breakage fee related to the prepayment of the Senior Notes in 2015;

- A \$39.5 million prepayment fee, a \$17.4 million write-off of the original issuance discount and a \$5.9 million write-off of deferred financing costs related to the Term Loan B refinancing in 2015;

A \$1.0 billion prepayment of Term Loan B-1 principal in the fourth quarter of 2015, which resulted in the accelerated expensing of \$19.0 million of amortizable non-cash deferred financing costs in 2015 and lower interest expense in 2016;

An additional \$242.0 million prepayment of Term Loan B-1 in the third quarter of 2016 which resulted in lower interest expense in 2016;

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The term loans were refinanced in the third quarter of 2016 which resulted in lower interest rates and the accelerated expensing of \$26.6 million of amortizable non-cash deferred financing costs and \$2.6 million in fees; and, A \$748.1 million prepayment of the remaining principal for Term Loan B-3 in the fourth quarter of 2016, which resulted in the accelerated expensing of \$11.7 million of amortizable non-cash deferred financing costs.

Income taxes. Our effective tax rate in 2016 was 32.6% compared to 37.0% in 2015. The decrease in the tax rate is primarily the result of a one-time election allowing the Family Dollar acquisition to be treated as an asset purchase for certain state tax purposes, a 1.0% decrease in North Carolina's state tax rate which resulted in a reduction in the deferred tax liability related to the trade name intangible asset and the adoption of ASU No. 2016-09 under which the incremental tax benefit recognized upon RSU vestings and stock option exercises is recorded in income tax expense.

#### Segment Information

We operate a chain of more than 14,800 retail discount stores in 48 states and five Canadian provinces. Our operations are conducted in two reporting business segments: Dollar Tree and Family Dollar. We define our segments as those operations whose results our chief operating decision maker ("CODM") regularly reviews to analyze performance and allocate resources.

The Dollar Tree segment is the leading operator of discount variety stores offering merchandise at the fixed price of \$1.00. The Dollar Tree segment includes our operations under the "Dollar Tree" and "Dollar Tree Canada" brands, 11 distribution centers in the United States, two distribution centers in Canada and a Store Support Center in Chesapeake, Virginia.

The Family Dollar segment operates a chain of general merchandise retail discount stores providing consumers with a selection of competitively-priced merchandise in convenient neighborhood stores. The Family Dollar segment consists of our operations under the "Family Dollar" brand, 11 distribution centers and a Store Support Center in Matthews, North Carolina.

We measure the results of our segments using, among other measures, each segment's net sales, gross profit and operating income (loss). We may revise the measurement of each segment's operating income (loss), including the allocation of distribution center and Store Support Center costs, as determined by the information regularly reviewed by the CODM. If the measurement of a segment changes, prior period amounts and balances would be reclassified to be comparable to the current period's presentation.

#### Dollar Tree

The following table summarizes the operating results of the Dollar Tree segment:

	Year Ended					
	February 3, 2018		January 28, 2017		January 30, 2016	
(in millions)	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales
Net sales	\$11,164.4		\$10,138.7		\$9,336.4	
Gross profit	3,998.5	35.8%	3,584.7	35.4%	3,249.3	34.8%
Operating income	1,481.9	13.3%	1,305.3	12.9%	1,080.5	11.6%

Fiscal year ended February 3, 2018 compared to fiscal year ended January 28, 2017

Net sales for Dollar Tree increased 10.1%, or \$1,025.7 million in 2017 compared to 2016 due to sales from new stores, the 53rd week in 2017, which accounted for \$199.2 million of the increase, and a comparable store net sales increase of 3.4% on a constant currency basis resulting from increases in customer count and average ticket.

Gross profit margin for Dollar Tree increased to 35.8% in 2017 compared to 35.4% in 2016. The increase is due to the following:

- lower merchandise cost, due primarily to improved mark-on;
- lower occupancy costs resulting primarily from the leverage from the increase in comparable store net sales and the 53rd week; and,
- lower shrink expense resulting from improved physical inventory results in the current year.



Operating income margin for Dollar Tree increased to 13.3% in 2017 compared to 12.9% in 2016. The increase in operating income margin in 2017 was the result of higher gross profit margin. Selling, general and administrative expenses, as a percentage of sales were 22.5% for both 2017 and 2016. The fluctuations in selling, general and administrative expenses as a percentage of sales were as follows:

- higher payroll costs, resulting primarily from higher store hourly wages and higher incentive compensation expense; and,

- lower depreciation costs and utility costs as a percentage of sales resulting from the leverage from the comparable store net sales increase and sales in the 53rd week.

Fiscal year ended January 28, 2017 compared to fiscal year ended January 30, 2016

Net sales for Dollar Tree increased 8.6% in 2016 compared to 2015 due to sales from new stores and a comparable store net sales increase of 1.8% on a constant currency basis.

Gross profit margin for Dollar Tree increased to 35.4% in 2016 compared to 34.8% in 2015. Variances in gross profit margin include:

- lower merchandise cost, as a percentage of sales, due to higher initial mark-on and favorable freight costs;

- lower markdowns due to Deals markdowns in 2015 in preparation for their conversion to Dollar Tree stores; and,

- higher distribution and occupancy costs as a percentage of net sales.

Operating income margin for Dollar Tree increased to 12.9% in 2016 compared to 11.6% in 2015. Excluding acquisition costs of \$0.5 million in 2016 and \$39.2 million or 40 basis points in 2015, operating income margin was 12.9% and 12.0% in 2016 and 2015, respectively. Excluding acquisition costs, the increase in operating income margin was the result of higher gross profit margin as noted above and lower legal fees and advertising expenses partially offset by higher payroll costs as a percentage of net sales due to higher store hourly payroll expenses.

#### Family Dollar

The following table summarizes the operating results of the Family Dollar segment:

(in millions)	Year Ended					
	February 3, 2018		January 28, 2017		January 30, 2016	
	\$	% of Net Sales	\$	% of Net Sales	\$	% of Net Sales
Net sales	\$11,081.1		\$10,580.5		\$6,162.0	
Gross profit	3,023.4	27.3%	2,810.0	26.6%	1,407.4	22.8%
Operating income (loss)	517.2	4.7%	399.5	3.8%	(30.8)	(0.5)%

Fiscal year ended February 3, 2018 compared to fiscal year ended January 28, 2017

Net sales for Family Dollar increased \$500.6 million or 4.7% in 2017 compared to 2016 due to sales from new stores, the 53rd week in 2017 which accounted for \$207.4 million of the increase and a comparable store net sales increase of 0.4% resulting primarily from increases in average ticket, partially offset by a slight decrease in customer count.

Gross profit for Family Dollar increased \$213.4 million or 7.6% in 2017 compared to 2016. The gross profit margin for Family Dollar increased to 27.3% in 2017 compared to 26.6% in 2016. The increase is due to the net of the following:

- lower merchandise cost, including freight resulting primarily from higher initial mark-on;

- lower markdown expense resulting from lower promotional markdowns due to the improved sales performance; and

- higher shrink expense.

Operating income margin for Family Dollar increased to 4.7% in 2017 compared to 3.8% in 2016. Operating income was reduced by the \$18.5 million receivable impairment in 2017. Operating income margin excluding the receivable impairment increased to 4.8% for 2017. The increase, excluding the receivable impairment is due to the gross profit margin increase noted

above and decreased selling, general and administrative expenses, as a percentage of sales. The decrease in selling, general and administrative expenses as a percentage of sales, excluding the receivable impairment was due to the leverage from the sales in the 53rd week and the net of the following:

• lower depreciation costs;

• lower repairs and maintenance costs as a percentage of sales; and,

• higher advertising costs and store supply costs.

Fiscal year ended January 28, 2017 compared to fiscal year ended January 30, 2016

Net sales for Family Dollar increased \$4,418.5 million or 71.7% in 2016 compared to 2015 resulting from 22 additional weeks of operations in fiscal year 2016 compared to fiscal year 2015 partially offset by the loss of sales due to the required divestiture of 325 stores and the re-bannering of 296 stores from Family Dollar to Dollar Tree since the Acquisition.

Gross profit for Family Dollar increased \$1,402.6 million or 99.7% in 2016 compared to 2015 due to an additional 22 weeks of operations in 2016 compared to 2015. Gross profit, as a percentage of sales, increased to 26.6% in 2016 compared to 22.8% in 2015. The 380 basis point increase in gross profit margin was due to lower merchandise cost due to a decrease in inventory step-up amortization, synergy efforts and lower markdowns. Gross profit margin was negatively impacted in 2015 due to \$73.0 million of markdown expense related to sku rationalization and planned liquidations and \$70.2 million in amortization expense related to stepped-up inventory which was sold in 2015. Operating income for Family Dollar increased \$430.3 million or 1,397.1% in 2016 compared to 2015 due to an additional 22 weeks of operations in 2016 compared to 2015. Operating income, as a percentage of sales, increased primarily due to improved gross profit margin as noted above.

#### Liquidity and Capital Resources

Our business requires capital to build and open new stores, expand our distribution network and operate and expand our existing stores. Our working capital requirements for existing stores are seasonal in nature and typically reach their peak in the months of September and October. Historically, we have satisfied our seasonal working capital requirements for existing stores and have funded our store opening and distribution network expansion programs from internally generated funds and borrowings under our credit facilities.

The following table compares cash-flow related information for the years ended February 3, 2018, January 28, 2017 and January 30, 2016:

	Year Ended		
	February 3, 2018	January 28, 2017	January 30, 2016
(in millions)			
Net cash provided by (used in):			
Operating activities	\$1,510.2	\$1,673.3	\$802.5
Investing activities	(627.9 )	(483.6 )	(6,978.4
Financing activities	(651.5 )	(1,060.5 )	6,048.8

Net cash provided by operating activities decreased \$163.1 million in 2017 compared to 2016 primarily due to increases in inventories and other current assets, partially offset by higher net income, net of depreciation and amortization and the revaluation of deferred income tax liabilities.

Net cash provided by operating activities increased \$870.8 million in 2016 compared to 2015 due primarily to higher net income, net of depreciation and amortization, increases in other current liabilities and decreases in other current assets and inventories. These are partially offset by decreases in accounts payable and deferred income tax liabilities.

Net cash used in investing activities increased \$144.3 million in 2017 compared with 2016 due to net restricted cash proceeds in 2016 and increased capital expenditures in the current year.

Net cash used in investing activities decreased \$6,494.8 million in 2016 compared with 2015 due to cash used for the Acquisition of Family Dollar in 2015.

In 2017, net cash used in financing activities decreased \$409.0 million compared to 2016 primarily due to lower principal payments compared to the prior year.

In 2016, net cash provided by financing activities decreased \$7,109.3 million compared to 2015 primarily due to lower debt proceeds partially offset by lower principal payments compared to the prior year.

At February 3, 2018, our long-term borrowings were \$5,732.7 million. We also have \$120.0 million, \$110.0 million and \$100.0 million Letter of Credit Reimbursement and Security Agreements, under which approximately \$168.0 million were committed to letters of credit issued for routine purchases of imported merchandise at February 3, 2018. In September 2013, we entered into a Note Purchase Agreement ("NPA") with institutional accredited investors in which we issued and sold \$750.0 million of senior notes (the "Notes") in an offering exempt from the registration requirements of the Securities Act of 1933. The Notes consisted of three tranches: \$300.0 million of 4.03% Senior Notes due September 16, 2020; \$350.0 million of 4.63% Senior Notes due September 16, 2023; and \$100.0 million of 4.78% Senior Notes due September 16, 2025. Interest on the Notes was payable semi-annually on January 15 and July 15 of each year. The Notes were unsecured and ranked pari passu in right of repayment with our other senior unsecured indebtedness. We could prepay some or all of the Notes at any time in an amount not less than 5% of the original aggregate principal amount of the Notes to be prepaid, at a price equal to the sum of (a) 100% of the principal amount thereof, plus accrued and unpaid interest, and (b) the applicable make-whole amount. In the event of a change in control (as defined in the Note Purchase Agreement), we could have been required to prepay the Notes. The Note Purchase Agreement contained customary affirmative and restrictive covenants. We used the net proceeds of the Notes to finance share repurchases.

On January 20, 2015, we entered into the First Amendment (the "Notes Amendment") to the Note Purchase Agreement, with a majority of the noteholders party thereto. The Notes Amendment was entered into in connection with our pending acquisition of Family Dollar. The Notes Amendment allowed, among other things, a newly-formed subsidiary of Dollar Tree to issue debt and hold the proceeds in escrow pending consummation of the Acquisition (such debt, the "Escrow Debt"). Pursuant to the terms of the Notes Amendment, in certain circumstances the amount of interest due on the Notes could increase by 1.0% per annum. The Notes Amendment also contained certain negative covenants and other restrictions applicable during the period in which any Escrow Debt is outstanding. On the Acquisition date, we prepaid the Notes outstanding of \$750.0 million and paid \$89.5 million of a make-whole premium, determined in accordance with the provisions of the Dollar Tree NPA plus additional interest in accordance with the provisions of the first amendment to the Dollar Tree NPA.

In June 2012, we entered into a five-year \$750.0 million unsecured Credit Agreement (the Agreement). The Agreement provided for a \$750.0 million revolving line of credit, including up to \$150.0 million in available letters of credit. The interest rate on the Agreement was based, at our option, on a LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The Agreement also bore a facilities fee, calculated as a percentage, as defined, of the amount available under the line of credit, payable quarterly. The Agreement also bore an administrative fee payable annually. The Agreement, among other things, required the maintenance of certain specified financial ratios, restricted the payment of certain distributions and prohibited the incurrence of certain new indebtedness.

In September 2013, we amended the Agreement to enable the issuance of the Notes.

On August 15, 2014, we entered into an amendment (the "Credit Amendment") to the Agreement. The Credit Amendment further amended the Agreement to facilitate the issuance and/or borrowings of certain third-party debt financing to finance the Acquisition. The Credit Amendment also facilitated escrow arrangements related to the Acquisition. On the Acquisition Date, we paid in full all amounts owing under the Agreement and terminated all commitments to extend further credit thereunder.

On February 23, 2015, we completed the offering of \$750.0 million aggregate principal amount of 5.25% senior notes due 2020 (the "2020 Notes") and \$2.5 billion aggregate principal amount of 5.75% senior notes due 2023 (the "2023 Notes", and together with the 2020 notes, the "Acquisition Notes"). The Acquisition Notes were offered only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States, only to non-U.S. investors pursuant to Regulation S under the Securities Act. We used the proceeds of the Acquisition Notes to finance in part the Acquisition. On August 1, 2016, we completed the exchange of the Acquisition Notes for registered notes with substantially identical terms. The Acquisition Notes are fully,

unconditionally, jointly and severally guaranteed on an unsecured, unsubordinated basis, subject to certain exceptions, by each of our subsidiaries which guarantee the obligations under our senior secured credit facilities or certain other indebtedness, including Family Dollar and certain of its subsidiaries.

The 2020 notes, which mature on March 1, 2020, were issued pursuant to an indenture, dated as of February 23, 2015, with U.S. Bank National Association, as trustee (the “2020 Notes Indenture”). The 2023 notes, which mature on March 1, 2023, were issued pursuant to an indenture, dated as of February 23, 2015, with U.S. Bank National Association, as trustee (the “2023 Notes Indenture”, and together with the 2020 notes indenture, the “Indentures”).

Interest on the Acquisition Notes is due semiannually on March 1 and September 1 of each year and commenced on September 1, 2015. No principal is due on the Acquisition Notes until their maturity dates.

The Indentures contain covenants that limit our and certain of our subsidiaries ability to, among other things and subject to certain significant exceptions: (i) incur, assume or guarantee additional indebtedness; (ii) declare or pay dividends or make other distributions with respect to, or purchase or otherwise acquire or retire for value, equity interests; (iii) make any principal payment on, or redeem or repurchase, subordinated debt; (iv) make loans, advances or other investments; (v) incur liens; (vi) sell or otherwise dispose of assets, including capital stock of subsidiaries; (vii) consolidate or merge with or into, or sell all or substantially all assets to, another person; and (viii) enter into transactions with affiliates. The Indentures also provide for certain events of default, which, if any of them occurs, would permit or require the principal, premium, if any, interest and any other monetary obligations on all the then outstanding Acquisition Notes under the applicable indenture to be declared immediately due and payable.

The restriction in the Indentures on our ability to pay dividends is subject to certain significant exceptions, including an exception that permits us to pay dividends and make other distributions regardless of dollar amount so long as, after giving pro forma effect thereto, we would have a consolidated total net leverage ratio, as defined under the Indentures, no greater than 3.50 to 1.00. As of February 3, 2018, our consolidated total net leverage ratio, as defined in the Indentures, was below 3.50 to 1.00. So long as our consolidated total net leverage ratio remains below 3.50 to 1.00, the Indentures do not restrict our ability to pay dividends.

On January 30, 2018, we provided an irrevocable notice to the 2020 Notes holders to call the \$750.0 million 2020 Notes on March 1, 2018. In connection with the early redemption of our 2020 Notes, we recorded a make-whole premium of \$9.8 million which was payable on the call date of March 1, 2018. We paid the \$759.8 million on March 1, 2018. The remaining \$6.1 million of amortizable non-cash deferred financing costs at February 3, 2018 were fully expensed at the call date of March 1, 2018.

On March 9, 2015, we entered into a credit agreement, with JPMorgan Chase Bank, N.A., as administrative agent, providing for \$6.2 billion in senior secured credit facilities (the "New Senior Secured Credit Facilities") consisting of a \$1.25 billion revolving credit facility (the "New Revolving Credit Facility") and \$4.95 billion of term loan facilities (the "New Term Loan Facilities"). The New Term Loan Facilities consisted of a \$1.0 billion Term Loan A tranche and a \$3.95 billion Term Loan B tranche. The New Revolving Credit Facility and the borrowings under the Term Loan A tranche mature five years after the Acquisition Date, unless any of the 2020 Notes remain outstanding as of 91 days prior to their stated maturity, in which case the New Revolving Credit Facility and the borrowings under the Term Loan A tranche will mature at such time. The borrowings under the Term Loan B tranche mature seven years after the Acquisition Date.

Upon the consummation of the Acquisition, we drew the term loans under the Term Loan A facility and have the ability to borrow under the New Revolving Credit Facility.

The New Senior Secured Credit Facilities were not guaranteed by us or any of our subsidiaries prior to the consummation of the Acquisition, but upon and after the Acquisition Date, the New Senior Secured Credit Facilities are guaranteed by certain of our direct or indirect wholly-owned U.S. subsidiaries, including Family Dollar and certain of its subsidiaries (collectively, the "Credit Agreement Guarantors"). Upon and after the Acquisition Date, the New Senior Secured Credit Facilities are secured by a security interest in substantially all of the assets of Dollar Tree and the Credit Agreement Guarantors, subject to certain exceptions.

The New Senior Secured Credit Facilities contain representations and warranties, events of default and affirmative and negative covenants. These include, among other things and subject to certain significant exceptions, restrictions on our ability to declare or pay dividends, repay the Acquisition Notes, create liens, incur additional indebtedness, make investments, dispose of assets and merge or consolidate with any other person. In addition, a financial maintenance covenant based on our consolidated first lien secured net leverage ratio will apply to the New Revolving Credit Facility and the Term Loan A tranche of the New Term Loan Facilities.

The restriction in the New Senior Secured Credit Facilities on our ability to pay dividends is subject to certain significant exceptions, including an exception that permits us to pay dividends and make other restricted payments regardless of dollar amount so long as, after giving pro forma effect thereto, we would have a consolidated total net leverage ratio, as defined under the New Senior Secured Credit Facilities, no greater than 3.50 to 1.00. As of

February 3, 2018, our consolidated total net leverage ratio, as defined in the New Senior Secured Credit Facilities, was below 3.50 to 1.00. So long as our consolidated total net leverage ratio remains below 3.50 to 1.00, the New Senior Secured Credit Facilities do not restrict our ability to pay dividends.

On June 11, 2015, we amended the terms of the New Senior Secured Credit Facilities to refinance the Term Loan B tranche with \$3.3 billion of floating-rate Term Loan B-1 and \$650.0 million of 4.25% fixed-rate Term Loan B-2. The Term Loan B-2 does not require amortization payments prior to maturity.



The New Term Loan Facilities, excluding the Term Loan B-2, require mandatory prepayments in connection with certain asset sales and out of excess cash flow, among other things, and subject in each case to certain significant exceptions. We will pay certain commitment fees in connection with the New Revolving Credit Facility. The Term Loan B-2 required us to pay a 2.0% prepayment fee if it was repaid in the second year after the refinance date and requires us to pay a 1.0% prepayment fee if it is repaid in the third year after the refinance date.

On January 26, 2016, we prepaid \$1.0 billion of the \$3.3 billion Term Loan B-1.

On August 30, 2016, we entered into an amendment (the "Third Amendment") to the New Senior Secured Credit Facilities. The Third Amendment reduced the applicable interest rate margin with respect to the Term Loan A tranche of our New Term Loan Facilities, which had \$937.5 million outstanding immediately prior to the date of the Third Amendment, and our New Revolving Credit Facility, which was undrawn other than letters of credit immediately prior to the date of the Third Amendment. The reduction in the interest rate margins was accomplished by replacing the existing Term Loan A tranche with a new Term Loan A-1 tranche and the New Revolving Credit Facility with new revolving facility commitments (the "Tranche A Revolving Credit Facility") that, except as set forth below, have terms identical to the existing Term Loan A tranche and New Revolving Credit Facility. As a result, the total amount borrowed under the Third Amendment was unchanged from the total amount borrowed under the New Senior Secured Credit Facilities.

Loans made under the Tranche A Revolving Credit Facility or the Term Loan A-1 tranche bore interest at LIBOR plus 1.75% annually (or a base rate plus 0.75%) until we delivered our quarterly compliance certificate to the lenders outlining our secured net leverage ratio for the quarter ended January 28, 2017. Prior to that date, we paid a commitment fee on the unused portion of the Tranche A Revolving Credit Facility of 0.30% annually. After January 28, 2017, loans made under the Tranche A Revolving Credit Facility or the Term Loan A-1 tranche bear interest at LIBOR plus 1.50% to 2.25% or at a base rate plus 0.50% to 1.25% and we pay a commitment fee on the unused portion of the Tranche A Revolving Credit Facility ranging from 0.25% to 0.375% (in each case, determined based on our secured net leverage ratio).

Beginning on January 13, 2017, loans made under the Term Loan A-1 tranche required quarterly amortization payments of 1.25% of the original principal amount until April 15, 2017. After April 15, 2017, loans made under the Term Loan A-1 tranche require quarterly amortization payments of 1.875% of the original principal amount. The restrictive covenants and events of default in the Third Amendment are unchanged from the provisions in the New Senior Secured Credit Facilities.

On September 22, 2016, we entered into an amendment (the "Fourth Amendment") to the New Senior Secured Credit Facilities. The Fourth Amendment provided for an additional \$1,275.0 million in additional principal amounts under the Term Loan A-1 tranche and \$750.0 million in total principal amount of Term Loan B-3. The proceeds of the additional loans under the Term Loan A-1 tranche and the Term Loan B-3 were used to prepay the \$2,025.0 million of existing Term Loan B-1. In addition, we used \$242.0 million of cash on hand to prepay the remainder of the Term Loan B-1.

The additional loans under the Term Loan A-1 tranche have terms identical to the Term Loan A-1 tranche made under the Third Amendment to the New Senior Secured Credit Facilities. The Term Loan B-3 had terms identical to the Term Loan B-1 under the New Senior Secured Credit Facilities, except as set forth below.

The Term Loan B-3 bore interest at LIBOR plus 2.50% annually (or a base rate plus 1.50%).

Beginning on January 13, 2017, the Term Loan B-3 required quarterly amortization payments of 0.25% of the original principal amount until maturity.

The obligations and additional loans under the Tranche A Revolving Credit Facilities, the Term Loan A-1 tranche and the Term Loan B-3 are secured by the same collateral and subject to the same guarantees as the other classes of loans under the New Senior Secured Credit Facilities. The restrictive covenants and events of default in the Fourth Amendment are substantially the same as the provisions in the New Senior Secured Credit Facilities.

On January 20, 2017, we prepaid the \$748.1 million remaining outstanding under the Term Loan B-3.

On July 27, 2017, we prepaid \$500.0 million of the then outstanding \$2.2 billion under the Term Loan A-1. The prepayment resulted in an acceleration of the amortization of debt-issuance costs associated with the Term Loan A-1 of \$1.2 million.

Historically we have used cash to repurchase shares but we did not repurchase any shares in fiscal 2017, 2016 or 2015. At February 3, 2018, we have \$1.0 billion remaining under Board repurchase authorization.

## Funding Requirements

### Overview, Including Off-Balance Sheet Arrangements

We expect our cash needs for opening new stores and expanding existing stores in fiscal 2018 to total approximately \$371.3 million, which includes capital expenditures, initial inventory and pre-opening costs.

At February 3, 2018, we have \$1,250.0 million available under our Tranche A Revolving Credit Facility, less amounts outstanding for standby letters of credit totaling \$158.2 million.

Our estimated capital expenditures for fiscal 2018 are between \$875.0 million and \$890.0 million, including planned expenditures for our new and expanded stores, the addition of freezers and coolers to approximately 500 new and existing Dollar Tree banner stores, the expansion of freezers and coolers in 500 Family Dollar stores, 450 planned renovations of Family Dollar banner stores and the final phases of construction of a new Dollar Tree banner distribution center and the expansion of our Chesapeake, Virginia store support center. We believe that we can adequately fund our working capital requirements and planned capital expenditures for the next few years from net cash provided by operations and potential borrowings under our Tranche A Revolving Credit Facility.

The following tables summarize our material contractual obligations at February 3, 2018, including both on- and off-balance sheet arrangements, and our commitments, including interest on long-term borrowings (in millions):

Contractual Obligations	Total	2018	2019	2020	2021	2022	Thereafter
<b>Lease Financing</b>							
Operating lease obligations	\$7,403.2	\$1,381.5	\$1,244.6	\$1,030.3	\$894.6	\$695.8	\$2,156.4
<b>Long-term Borrowings</b>							
Acquisition notes	3,250.0	750.0	—	—	—	—	2,500.0
Term loans	2,182.7	165.9	165.9	1,200.9	—	650.0	—
Assumed secured senior notes	300.0	—	—	—	300.0	—	—
Interest on long-term borrowings	1,009.7	247.0	235.2	185.8	170.9	157.6	13.2
<b>Total obligations</b>	<b>\$14,145.6</b>	<b>\$2,544.4</b>	<b>\$1,645.7</b>	<b>\$2,417.0</b>	<b>\$1,365.5</b>	<b>\$1,503.4</b>	<b>\$4,669.6</b>
<b>Commitments</b>							
	Total	Expiring in 2018	Expiring in 2019	Expiring in 2020	Expiring in 2021	Expiring in 2022	Thereafter
Letters of credit and surety bonds	\$412.4	\$383.0	\$29.0	\$0.4	\$—	\$—	\$—
Purchase obligations	130.3	83.0	40.0	4.7	1.9	0.7	—
<b>Total commitments</b>	<b>\$542.7</b>	<b>\$466.0</b>	<b>\$69.0</b>	<b>\$5.1</b>	<b>\$1.9</b>	<b>\$0.7</b>	<b>\$—</b>

### Lease Financing

Operating lease obligations. Our operating lease obligations are primarily for payments under noncancelable store leases. The commitment includes amounts for leases that were signed prior to February 3, 2018 for stores that were not yet open on February 3, 2018.

### Long-term Borrowings

Acquisition Notes. In February 2015, we completed the offering of \$750.0 million aggregate principal amount of 5.25% senior notes due March 1, 2020 (the "2020 Notes") and \$2.5 billion aggregate principal amount of 5.75% senior notes due March 1, 2023 (the "2023 Notes", and together with the 2020 Notes, the "Acquisition Notes"). The Acquisition Notes were offered only to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"), and outside the United States, only to non-U.S. investors pursuant to Regulation S under the Securities Act. On August 1, 2016, we completed the exchange of the Acquisition Notes for registered notes with substantially identical terms. The Acquisition Notes are fully, unconditionally, jointly and severally guaranteed on an unsecured, unsubordinated basis, subject to certain exceptions, by each of our subsidiaries which guarantee the obligations under our senior secured credit facilities or certain other indebtedness, including Family Dollar and certain of its subsidiaries. Interest on the Acquisition Notes is due semiannually on March 1 and September 1 and commenced on September 1, 2015. On January 30, 2018, we provided an irrevocable notice to the 2020 Notes holders to call the \$750.0 million 2020 Notes on March 1, 2018. In connection with the early redemption of our 2020 Notes, we recorded a make-whole premium of \$9.8 million which was payable on the call date of March 1, 2018. We paid the \$759.8 million on March 1, 2018. The remaining \$6.1 million of amortizable non-cash deferred financing costs at February 3, 2018 were fully expensed at



the call date of March 1, 2018. For complete terms of the Acquisition Notes please see "Note 6 - Long-Term Debt" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K.

Credit Facility and Term Loans. On March 9, 2015, we entered into a credit agreement, with JPMorgan Chase Bank, N.A., as administrative agent, providing for \$6.2 billion in senior secured credit facilities (the "New Senior Secured Credit Facilities") consisting of a \$1.25 billion revolving credit facility (the "New Revolving Credit Facility") and \$4.95 billion of term loan facilities (the "New Term Loan Facilities"). The New Term Loan Facilities consisted of a \$1.0 billion Term Loan A tranche and a \$3.95 billion Term Loan B tranche. The New Revolving Credit Facility and the borrowings under the Term Loan A tranche mature five years after the Acquisition Date, unless any of the 2020 Notes remain outstanding as of 91 days prior to their stated maturity, in which case the New Revolving Credit Facility and the borrowings under the Term Loan A tranche will mature at such time. The borrowings under the Term Loan B tranche mature seven years after the Acquisition Date. Upon and after the Acquisition Date, the New Senior Secured Credit Facilities are guaranteed by certain of our direct or indirect wholly-owned U.S. subsidiaries, including Family Dollar and certain of its subsidiaries (collectively, the "Credit Agreement Guarantors"). Upon and after the Acquisition Date, the New Senior Secured Credit Facilities are secured by a security interest in substantially all of our assets and those of the Credit Agreement Guarantors, subject to certain exceptions.

On June 11, 2015, we amended the terms of the New Senior Secured Credit Facilities to refinance the Term Loan B tranche with \$3.3 billion of floating-rate Term Loan B-1 and \$650.0 million of 4.25% fixed-rate Term Loan B-2.

On January 26, 2016, we prepaid \$1.0 billion of the \$3.3 billion Term Loan B-1.

On August 30, 2016, we amended the terms of the New Senior Secured Credit Facilities to refinance the Term Loan A tranche and the New Revolving Credit Facility by replacing the existing Term Loan A tranche with a new Term Loan A-1 tranche and the New Revolving Credit Facility with new revolving facility commitments (the "Tranche A Revolving Credit Facility"), reducing the applicable interest rate margins.

On September 22, 2016, we amended the terms of the New Senior Secured Credit Facilities to provide for \$1,275.0 million in additional principal amounts under the Term Loan A-1 tranche and \$750.0 million in total principal amount of Term Loan B-3. The proceeds of the additional loans under the Term Loan A-1 tranche and the Term Loan B-3 were used to prepay the \$2,025.0 million of existing Term Loan B-1. In addition, we used \$242.0 million of cash on hand to prepay the remainder of the Term Loan B-1.

Loans made under the Tranche A Revolving Credit Facility or the Term Loan A-1 tranche bear interest at LIBOR plus 1.50% to 2.25% or at a base rate plus 0.50% to 1.25% and we pay a commitment fee on the unused portion of the Tranche A Revolving Credit Facility ranging from 0.25% to 0.375% (in each case, determined based on our secured net leverage ratio). The Term Loan B-3 bore interest at LIBOR plus 2.50% annually (or a base rate plus 1.50%).

On January 20, 2017, we prepaid the \$748.1 million remaining outstanding under the Term Loan B-3.

On July 27, 2017, we prepaid \$500.0 million of the then outstanding \$2.2 billion under the Term Loan A-1.

For complete terms of the Credit Facility and Term Loans please see "Note 6 - Long-Term Debt" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K.

Secured Senior Notes. We assumed the liability for \$300.0 million of 5.0% senior notes due February 1, 2021 which were issued by Family Dollar on January 28, 2011 through a public offering. These unsecured notes became secured upon closing of the Acquisition. These notes are equally and ratably secured with the Term Loans.

Interest on long-term borrowings. These amounts represent interest payments on the Acquisition Notes, Term Loans and Senior Secured Notes using the interest rates for each at February 3, 2018.

#### Commitments

Letters of credit and surety bonds. We are a party to three Letter of Credit Reimbursement and Security Agreements providing \$120.0 million, \$110.0 million and \$100.0 million, respectively, for letters of credit. Letters of credit are generally issued for the routine purchase of imported merchandise and we had approximately \$168.0 million of purchases committed under these letters of credit at February 3, 2018.

We also have approximately \$158.2 million of letters of credit outstanding that serve as collateral for our large-deductible insurance programs and \$86.2 million of surety bonds outstanding primarily for certain utility payment obligations at some of our stores and self-insured insurance programs.



Purchase obligations. We have commitments totaling approximately \$130.3 million related to legally binding agreements for software licenses and support, telecommunication services and store technology assets and maintenance for our stores.

#### Critical Accounting Policies

The preparation of financial statements requires the use of estimates. Certain of our estimates require a high level of judgment and have the potential to have a material effect on the financial statements if actual results vary significantly from those estimates. Following is a discussion of the estimates that we consider critical.

#### Inventory Valuation

As discussed in "Note 1 - Summary of Significant Accounting Policies" under the caption "Merchandise Inventories" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K, inventories at the distribution centers are stated at the lower of cost or market with cost determined on a weighted-average basis. Cost is assigned to store inventories using the retail inventory method on a weighted-average basis. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are computed by applying a calculated cost-to-retail ratio to the retail value of inventories. The retail inventory method is an averaging method that is widely used in the retail industry and results in valuing inventories at lower of cost or market when markdowns are taken as a reduction of the retail value of inventories on a timely basis.

Inventory valuation methods require certain significant management estimates and judgments, including estimates of future merchandise markdowns and shrink, which significantly affect the ending inventory valuation at cost as well as the resulting gross margins. The averaging required in applying the retail inventory method and the estimates of shrink and markdowns could, under certain circumstances, result in costs not being recorded in the proper period.

We estimate our markdown reserve based on the consideration of a variety of factors, including, but not limited to, quantities of slow moving or seasonal carryover merchandise on hand, historical markdown statistics and future merchandising plans. The accuracy of our estimates can be affected by many factors, some of which are outside of our control, including changes in economic conditions and consumer buying trends. Historically, we have not experienced significant differences in our estimated reserve for markdowns compared with actual results.

Our accrual for shrink is based on the actual, historical shrink results of our most recent physical inventories adjusted, if necessary, for current economic conditions and business trends. These estimates are compared to actual results as physical inventory counts are taken and reconciled to the general ledger. Our physical inventory counts are generally taken between January and October of each year; therefore, the shrink accrual recorded at February 3, 2018 is based on estimated shrink for most of 2017, including the fourth quarter. We have not experienced significant fluctuations in historical shrink. The amounts recorded in the current year reflect the Dollar Tree and Family Dollar segments' historical results. We periodically adjust our shrink estimates to reflect our best estimates based on the factors described.

Our management believes that our application of the retail inventory method results in an inventory valuation that reasonably approximates cost and results in carrying inventory at the lower of cost or market each year on a consistent basis.

#### Accrued Expenses

On a monthly basis, we estimate certain expenses in an effort to record those expenses in the period incurred. Certain expenses require a high degree of judgment and our most material estimates are for our self-insurance accruals for workers' compensation and general liability costs. These accruals are recorded based on third-party actuarial valuations which we obtain at least annually. These actuarial valuations are estimates based on our historical loss development factors and the related accruals are adjusted as management's estimates change.

Differences in management's estimates and assumptions could result in expenses which are materially different from the calculated accruals; however, historically, the net total of these differences has not had a material effect on our financial condition or results of operations.

#### Goodwill and Other Indefinite-Lived Intangible Assets

Indefinite-lived intangible assets are initially recorded at their fair values. These assets, including goodwill, are not amortized but are evaluated annually for impairment. An additional evaluation is performed if events or circumstances indicate that impairment could have occurred. Such events or circumstances could include, but are not limited to,

significant negative industry or economic trends, unanticipated changes in the competitive environment and a significant sustained decline in the market price of our stock.

For purposes of our goodwill impairment evaluation, the reporting units are Family Dollar, Dollar Tree and Dollar Tree Canada. Goodwill has been assigned to the reporting units based on prior business combinations related to the brands. We estimate

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the fair value of our reporting units using projected future cash flows that are discounted using a weighted-average cost of capital analysis that reflects current market conditions.

The Family Dollar goodwill and tradename comprise a substantial portion of our indefinite-lived intangible assets and the management judgment utilized in the Family Dollar goodwill and tradename impairment evaluations is critical. The computations require management to make estimates and assumptions and actual values may differ significantly from these judgments, particularly if there are significant adverse changes in the operating environment. Critical assumptions that are used as part of the Family Dollar goodwill evaluation include:

The potential future cash flows of the reporting unit. The projections use management's estimates of economic and market conditions over the projected period, including growth rates in revenue, gross margin and expenses. The cash flows are based on our most recent business operating plans and various growth rates have been assumed for years beyond the current business plan period. We believe that the assumptions and rates used in our fiscal 2017 impairment evaluations are reasonable; however, variations in the assumptions and rates could result in significantly different estimates of fair value.

Selection of an appropriate discount rate. Calculating the present value of future cash flows requires the selection of an appropriate discount rate, which is based on a weighted-average cost of capital analysis. The discount rate is affected by changes in short-term interest rates and long-term yield as well as variances in the typical capital structure of marketplace participants. Given current economic conditions, it is possible that the discount rate will fluctuate in the near term. We engaged third party experts to assist in the determination of the weighted-average cost of capital used to discount the cash flows for our Family Dollar reporting unit. The weighted-average cost of capital used to discount the cash flows for our evaluation was 9.0% for our fiscal 2017 analysis.

Indefinite-lived intangible assets, such as the Family Dollar tradename, are not subject to amortization but are reviewed at least annually for impairment. The indefinite-lived intangible asset impairment evaluations are performed by comparing the fair value of the indefinite-lived intangible assets to their carrying values. We estimate the fair value of tradename intangible assets based on an income approach using the relief-from-royalty method. This approach is dependent upon a number of factors, including estimates of future growth and trends, royalty rates, discount rates and other variables. We base our fair value estimates on assumptions we believe to be reasonable, but which are unpredictable and inherently uncertain. The discount rate is consistent with the discount rate used in our Family Dollar goodwill impairment evaluation adjusted for revenue-specific growth risk.

Our impairment evaluation of indefinite-lived intangible assets did not result in impairment charges during fiscal 2017, 2016 or 2015. The fair value of the Family Dollar reporting unit was substantially in excess of its carrying value.

#### Income Taxes

Our income tax provision is estimated based on currently enacted tax rates and estimated state apportionment factors. Recent changes in tax law have been significant and the application of new laws requires management estimates and judgment. See "Note 4 - Income Taxes" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K for a detailed description of the impact of the TCJA.

Historically, we have not experienced significant differences in our estimates of our tax accrual.

#### Recent Accounting Pronouncements

See "Note 1 - Summary of Significant Accounting Policies" in "Item 8. Financial Statements and Supplementary Data" beginning on page 43 of this Form 10-K for a detailed description of recent accounting pronouncements.

**Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various types of market risk in the normal course of our business, including the impact of interest rate changes and diesel fuel cost changes. We may enter into interest rate or diesel fuel swaps to manage exposure to interest rate and diesel fuel price changes. We do not enter into derivative instruments for any purpose other than cash flow hedging and we do not hold derivative instruments for trading purposes.

**Interest Rate Risk**

At February 3, 2018, we had \$1.5 billion in borrowings subject to interest rate fluctuations, representing approximately 27% of our total debt. Borrowings under the Term Loan A-1 bear interest based on LIBOR plus 1.50% to 2.25%, determined based on our secured net leverage ratio. As of February 3, 2018, Term Loan A-1 bore interest at LIBOR plus 1.50%. A 50 basis point increase in the variable interest rate tied to our secured net leverage ratio would result in an annual increase in interest expense of \$7.7 million.

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Report of Independent Registered Public Accounting Firm  
To the Board of Directors and Shareholders  
Dollar Tree, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Dollar Tree, Inc. (the “Company”) as of February 3, 2018 and January 28, 2017, the related consolidated income statements, and statements of comprehensive income, shareholders’ equity, and cash flows for each of the years in the three year period ended February 3, 2018. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 3, 2018 and January 28, 2017, and the results of its operations and its cash flows for each of the years in the three year period ended February 3, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of February 3, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 16, 2018 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 1987.

Norfolk, Virginia  
March 16, 2018

DOLLAR TREE, INC.  
CONSOLIDATED INCOME STATEMENTS

	Year Ended		
	February 3, 2018	January 28, 2017	January 30, 2016
(in millions, except per share data)			
Net sales	\$22,245.5	\$20,719.2	\$15,498.4
Cost of sales	15,223.6	14,324.5	10,841.7
Gross profit	7,021.9	6,394.7	4,656.7
Selling, general and administrative expenses, excluding Receivable impairment	5,004.3	4,689.9	3,607.0
Receivable impairment	18.5	—	—
Selling, general and administrative expenses	5,022.8	4,689.9	3,607.0
Operating income	1,999.1	1,704.8	1,049.7
Interest expense, net	301.8	375.5	599.4
Other (income) expense, net	(6.7	) (0.1	) 2.1
Income before income taxes	1,704.0	1,329.4	448.2
Provision for income taxes	(10.3	) 433.2	165.8
Net income	\$1,714.3	\$896.2	\$282.4
Basic net income per share	\$7.24	\$3.80	\$1.27
Diluted net income per share	\$7.21	\$3.78	\$1.26
See accompanying Notes to Consolidated Financial Statements			

DOLLAR TREE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended		
	February	January	January
(in millions)	3,	28,	30,
	2018	2017	2016
Net income	\$1,714.3	\$ 896.2	\$282.4
Foreign currency translation adjustments	5.3	5.5	(9.0 )
Total comprehensive income	\$1,719.6	\$901.7	\$273.4

See accompanying Notes to Consolidated Financial Statements

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DOLLAR TREE, INC.  
CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share data)	February 3, 2018	January 28, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,097.8	\$866.4
Short-term investments	—	4.0
Merchandise inventories, net	3,169.3	2,865.8
Other current assets	309.2	201.8
Total current assets	4,576.3	3,938.0
Property, plant and equipment, net of accumulated depreciation of \$3,192.1 and \$2,694.5, respectively	3,200.7	3,115.8
Assets available for sale	8.0	9.0
Goodwill	5,025.2	5,023.5
Favorable lease rights, net of accumulated amortization of \$230.9 and \$159.3, respectively	375.3	468.6
Tradenname intangible asset	3,100.0	3,100.0
Other intangible assets, net	4.8	5.1
Other assets	42.5	41.6
Total assets	\$16,332.8	\$15,701.6
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$915.9	\$152.1
Accounts payable	1,174.8	1,119.6
Income taxes payable	31.5	90.0
Other current liabilities	736.9	744.2
Total current liabilities	2,859.1	2,105.9
Long-term debt, net, excluding current portion	4,762.1	6,169.7
Unfavorable lease rights, net of accumulated amortization of \$61.1 and \$39.6, respectively	100.0	124.0
Deferred tax liabilities, net	985.2	1,458.9
Income taxes payable, long-term	43.8	71.2
Other liabilities	400.3	382.4
Total liabilities	9,150.5	10,312.1
Commitments and contingencies		
Shareholders' equity:		
Common stock, par value \$0.01; 600,000,000 shares authorized, 237,325,963 and 236,136,439 shares issued and outstanding at February 3, 2018 and January 28, 2017, respectively	2.4	2.4
Additional paid-in capital	2,545.3	2,472.1
Accumulated other comprehensive loss	(32.3	) (37.6 )
Retained earnings	4,666.9	2,952.6
Total shareholders' equity	7,182.3	5,389.5
Total liabilities and shareholders' equity	\$16,332.8	\$15,701.6
See accompanying Notes to Consolidated Financial Statements		

## DOLLAR TREE, INC.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

YEARS ENDED FEBRUARY 3, 2018, JANUARY 28, 2017, AND JANUARY 30, 2016

(in millions)	Common Stock Shares	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Share- holders' Equity
Balance at January 31, 2015	205.7	\$ 2.1	\$ 43.0	\$ (34.1 )	\$ 1,774.0	\$ 1,785.0
Net income	—	—	—	—	282.4	282.4
Total other comprehensive loss	—	—	—	(9.0 )	—	(9.0 )
Acquisition of Family Dollar	28.5	0.3	2,289.8	—	—	2,290.1
Issuance of stock under Employee Stock Purchase Plan	0.1	—	5.1	—	—	5.1
Exercise of stock options, including income tax benefit of \$0.7	0.3	—	9.5	—	—	9.5
Stock-based compensation, net, including income tax benefit of \$12.1	0.4	—	43.8	—	—	43.8
Balance at January 30, 2016	235.0	2.4	2,391.2	(43.1 )	2,056.4	4,406.9
Net income	—	—	—	—	896.2	896.2
Total other comprehensive income	—	—	—	5.5	—	5.5
Issuance of stock under Employee Stock Purchase Plan	0.1	—	8.0	—	—	8.0
Exercise of stock options	0.6	—	33.5	—	—	33.5
Stock-based compensation, net	0.4	—	39.4	—	—	39.4
Balance at January 28, 2017	236.1	2.4	2,472.1	(37.6 )	2,952.6	5,389.5
Net income	—	—	—	—	1,714.3	1,714.3
Total other comprehensive income	—	—	—	5.3	—	5.3
Issuance of stock under Employee Stock Purchase Plan	0.2	—	8.4	—	—	8.4
Exercise of stock options	0.5	—	26.6	—	—	26.6
Stock-based compensation, net	0.5	—	38.2	—	—	38.2
Balance at February 3, 2018	237.3	\$ 2.4	\$ 2,545.3	\$ (32.3 )	\$ 4,666.9	\$ 7,182.3

See accompanying Notes to Consolidated Financial Statements



DOLLAR TREE, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	February 3, 2018	January 28, 2017	January 30, 2016
(in millions)			
Cash flows from operating activities:			
Net income	\$1,714.3	\$896.2	\$282.4
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	611.2	637.5	487.6
Provision for deferred income taxes	(473.5 )	(124.1 )	25.6
Stock-based compensation expense	65.7	61.6	53.2
Amortization of debt discount and debt-issuance costs	15.4	55.2	64.7
Receivable impairment	18.5	—	—
Other non-cash adjustments to net income	10.9	9.4	7.7
Changes in assets and liabilities increasing (decreasing) cash and cash equivalents:			
Merchandise inventories	(300.9 )	21.9	(87.8 )
Prepays and other current assets	(114.6 )	117.2	(63.5 )
Accounts payable	54.5	(133.8 )	183.9
Income taxes payable	(58.5 )	77.1	3.1
Other current liabilities	(22.7 )	30.4	(164.1 )
Other liabilities	(10.1 )	24.7	9.7
Net cash provided by operating activities	1,510.2	1,673.3	802.5
Cash flows from investing activities:			
Capital expenditures	(632.2 )	(564.7 )	(480.5 )
Acquisition of Family Dollar, net of common stock issued, equity compensation and cash acquired	—	—	(6,527.7 )
Purchase of restricted cash and investments	—	(36.1 )	(23.7 )
Proceeds from sale of restricted and unrestricted investments	4.0	118.1	53.0
Proceeds from (payments for) fixed asset disposition	0.3	(0.9 )	0.5
Net cash used in investing activities	(627.9 )	(483.6 )	(6,978.4 )
Cash flows from financing activities:			
Principal payments for long-term debt	(659.1 )	(4,036.2 )	(5,926.7 )
Proceeds from long-term debt, net of discount	—	2,962.5	12,130.2
Debt-issuance costs	—	(6.1 )	(159.8 )
Repayments of revolving credit facility	—	(140.0 )	—
Proceeds from revolving credit facility	—	140.0	—
Proceeds from stock issued pursuant to stock-based compensation plans	35.0	41.5	13.9
Cash paid for taxes on exercises/vesting of stock-based compensation	(27.4 )	(22.2 )	(21.6 )
Tax benefit of exercises/vesting of stock-based compensation	—	—	12.8
Net cash provided by (used in) financing activities	(651.5 )	(1,060.5 )	6,048.8
Effect of exchange rate changes on cash and cash equivalents	0.6	1.1	(0.9 )
Net increase (decrease) in cash and cash equivalents	231.4	130.3	(128.0 )
Cash and cash equivalents at beginning of year	866.4	736.1	864.1
Cash and cash equivalents at end of year	\$1,097.8	\$866.4	\$736.1
Supplemental disclosure of cash flow information:			
Cash paid for:			
Interest, net of amounts capitalized	\$286.5	\$329.1	\$487.0

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Income taxes	\$552.4	\$501.8	\$138.4
Non-cash transactions:			
Accrued capital expenditures	\$45.0	\$30.3	\$72.4
Acquisition cost paid in common stock and equity compensation	\$—	\$—	\$2,290.1

See accompanying Notes to Consolidated Financial Statements

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DOLLAR TREE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Dollar Tree, Inc. (the Company) is a leading operator of discount retail stores in the United States and Canada. Below are those accounting policies considered by the Company to be significant.

Acquisition

On July 6, 2015, the Company acquired Family Dollar Stores, Inc. ("Family Dollar") for cash consideration of \$6.8 billion and the issuance of 28.5 million shares of the Company's common stock valued at \$2.3 billion based on the closing price of the Company's common stock on July 2, 2015 (the "Acquisition"). The results of operations of Family Dollar are included in the Company's results of operations beginning on July 6, 2015 (the "Acquisition Date").

Principles of Consolidation

The consolidated financial statements include the financial statements of Dollar Tree, Inc., and its wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Segment Information

At February 3, 2018, the Company operates more than 14,800 retail discount stores in 48 states and five Canadian provinces. The Company's operations are conducted in two reporting business segments: Dollar Tree and Family Dollar. The Company defines its segments as those operations whose results its chief operating decision maker ("CODM") regularly reviews to analyze performance and allocate resources. The results of operations of Family Dollar are included in the Company's results of operations beginning on July 6, 2015.

The Dollar Tree segment is the leading operator of discount variety stores offering merchandise at the fixed price of \$1.00. The Dollar Tree segment includes the Company's operations under the "Dollar Tree" and "Dollar Tree Canada" brands, 11 distribution centers in the United States, two distribution centers in Canada and a Store Support Center in Chesapeake, Virginia.

The Family Dollar segment operates a chain of general merchandise retail discount stores providing consumers with a selection of competitively-priced merchandise in convenient neighborhood stores. The Family Dollar segment consists of the Company's operations under the "Family Dollar" brand, 11 distribution centers and a Store Support Center in Matthews, North Carolina.

Foreign Currency

The functional currencies of certain of the Company's international subsidiaries are the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the consolidated balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive loss. Gains and losses from foreign currency transactions, which are included in "Other (income) expense, net" have not been significant.

Fiscal Year

The Company's fiscal year ends on the Saturday closest to January 31. Any reference herein to "2017" or "Fiscal 2017," "2016" or "Fiscal 2016," and "2015" or "Fiscal 2015," relates to as of or for the year ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively. Fiscal 2017 included 53 weeks, commensurate with the retail calendar. Fiscal 2016 and 2015 each included 52 weeks. "2018" or "Fiscal 2018" ends on February 2, 2019 and will include 52 weeks.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.



#### Purchase Price Allocation

Determining the fair value of certain assets and liabilities acquired is subjective in nature and often involves the use of significant estimates and assumptions, which are inherently uncertain. Many of the estimates and assumptions used to determine fair values, such as those used for intangible assets, are made based on forecasted information and discount rates. In addition, the judgments made in determining the estimated fair value assigned to each class of assets acquired and liabilities assumed, as well as asset lives, can materially impact the Company's results of operations. To assist in the purchase price allocation for the Acquisition, the Company engaged a third-party appraisal firm. See Note 2 for more information regarding the Acquisition.

#### Cash and Cash Equivalents

Cash and cash equivalents at February 3, 2018 and January 28, 2017 includes \$674.1 million and \$554.4 million, respectively, of investments primarily in money market securities which are valued at cost, which approximates fair value. For purposes of the consolidated statements of cash flows, the Company considers all highly-liquid debt instruments with original maturities of three months or less to be cash equivalents. The majority of payments due from financial institutions for the settlement of debit card and credit card transactions process within three business days, and therefore are classified as cash and cash equivalents.

#### Merchandise Inventories

Merchandise inventories at the Company's distribution centers are stated at the lower of cost or market, determined on a weighted-average cost basis. Cost is assigned to store inventories using the retail inventory method on a weighted-average basis. Under the retail inventory method, the valuation of inventories at cost and the resulting gross margins are computed by applying a calculated cost-to-retail ratio to the retail value of inventories.

Costs directly associated with warehousing and distribution are capitalized as merchandise inventories. Total warehousing and distribution costs capitalized into inventory amounted to \$137.4 million and \$116.9 million at February 3, 2018 and January 28, 2017, respectively.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the respective assets as follows:

Buildings 39 to 40 years

Furniture, fixtures and equipment 3 to 15 years

Leasehold improvements are amortized over the estimated useful lives of the respective assets or the committed terms of the related leases, whichever is shorter. Amortization is included in "Selling, general and administrative expenses" in the accompanying consolidated income statements.

Costs incurred related to software developed for internal use are capitalized and amortized, generally over three years.

#### Capitalized Interest

The Company capitalizes interest on borrowed funds during the construction of certain property and equipment. The Company capitalized \$2.3 million, \$2.4 million and \$1.3 million of interest costs in the years ended February 3, 2018, January 28, 2017 and January 30, 2016, respectively.

#### Goodwill and Nonamortizing Intangible Assets

Goodwill and nonamortizing intangible assets are not amortized, but rather tested for impairment at least annually. In addition, goodwill and nonamortizing intangible assets will be tested on an interim basis if an event or circumstance indicates that it is more likely than not that an impairment loss has been incurred. The Company performed its annual impairment testing in November 2017 and determined that no impairment existed.

#### Other Assets

Other assets consist primarily of deferred compensation plan assets and receivables which are expected to be recovered over periods longer than one year.

### Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of

The Company reviews its long-lived assets and certain identifiable intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets based on discounted cash flows or other readily available evidence of fair value, if any. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In fiscal 2017, 2016 and 2015, the Company recorded charges of \$5.6 million, \$3.7 million and \$1.6 million, respectively, to write down certain assets. These charges are recorded as a component of "Selling, general and administrative expenses" in the accompanying consolidated income statements.

### Financial Instruments

The Company may utilize derivative financial instruments to reduce its exposure to market risks from changes in interest rates and diesel fuel costs. By entering into receive-variable, pay-fixed interest rate and diesel fuel swaps, the Company limits its exposure to changes in variable interest rates and diesel fuel prices. The Company is exposed to credit-related losses in the event of non-performance by the counterparty to these instruments but minimizes this risk by entering into transactions with high quality counterparties. Interest rate or diesel fuel cost differentials paid or received on the swaps are recognized as adjustments to interest in the period earned or incurred. The Company formally documents all hedging relationships, if applicable, and assesses hedge effectiveness both at inception and on an ongoing basis. The Company does not enter into derivative instruments for any purpose other than cash flow hedging and it does not hold derivative instruments for trading purposes. There were no derivative instruments outstanding in fiscal 2017 or 2016.

### Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, a fair value hierarchy has been established that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities;

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and

Level 3 - Unobservable inputs in which there is little or no market data which require the reporting entity to develop its own assumptions.

As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

The following table sets forth the Company's financial assets and liabilities that are recorded and disclosed at fair value on a recurring basis:

(in millions)	February 3, 2018	January 28, 2017
Level 1		
Short-term investments	\$	—\$ 4.0
Deferred compensation plan assets	20.7	19.8
Long-term debt - Secured Senior Notes and Acquisition Notes	3,684.6	3,740.3
Level 2		
Long-term debt - term loans	2,187.6	2,828.2



The Company's cash and cash equivalents are valued at cost, which approximates fair value, due to the short-term maturities of these instruments.

Deferred compensation plan assets are held pursuant to deferred compensation plans for certain officers and executives. The deferred compensation plan assets are recorded in "Other assets" on the accompanying consolidated balance sheets and a corresponding liability is recorded in "Other liabilities" on the accompanying consolidated balance sheets.

The fair values of the Company's Secured Senior Notes and Acquisition Notes were determined using Level 1 inputs as quoted prices in active markets for identical assets or liabilities are available. The fair values of the Company's term loans were determined using Level 2 inputs as quoted prices are readily available from pricing services, but the prices are not published. The carrying values of the Company's Tranche A Revolving Credit Facility approximated their fair values because the interest rates vary with market interest rates.

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). The Company recorded impairment charges of \$3.1 million, \$0.7 million, and \$1.6 million in fiscal 2017, 2016 and 2015, respectively, to reduce certain store assets to their estimated fair values. The fair values were determined based on the income approach, in which the Company utilized internal cash flow projections over the life of the underlying lease agreements discounted based on the Company's risk-adjusted rate. These measures of fair value, and related inputs, are considered a Level 3 approach under the fair value hierarchy. There were no other changes related to Level 3 assets. The Company also recorded impairment charges of \$2.5 million and \$3.0 million in fiscal 2017 and 2016, respectively, to reduce certain assets held for sale to their estimated fair values. The fair values were determined based on the market prices of similar assets. The measures of fair value are considered a Level 2 approach under the fair value hierarchy.

#### Insurance Reserves

The Company utilizes a combination of insurance and self-insurance programs, including a wholly-owned captive insurance entity, to provide for the potential liabilities for certain risks, including workers' compensation, general liability and automobile liability. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated, in part, by considering claims experience, exposure and severity factors and other actuarial assumptions.

Dollar Tree Insurance, Inc., a South Carolina-based wholly-owned captive insurance subsidiary of the Company, charges the operating subsidiary companies premiums to insure the retained workers' compensation, general liability and automobile liability exposures. Pursuant to South Carolina insurance regulations, Dollar Tree Insurance, Inc. maintains certain levels of cash and cash equivalents related to its self-insured exposures.

#### Lease Accounting

The Company generally leases its retail locations under operating leases. The Company recognizes minimum rent expense beginning when possession of the property is taken from the landlord, which normally includes a construction period prior to store opening. When a lease contains a predetermined fixed escalation of the minimum rent, the Company recognizes the related rent expense on a straight-line basis and records the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. The Company also receives tenant allowances, which are recorded in deferred rent and are amortized as reductions of rent expense over the terms of the leases.

#### Revenue Recognition

The Company recognizes sales revenue, net of estimated returns and sales tax, at the time the customer tenders payment for and takes possession of the merchandise.

#### Taxes Collected

The Company reports taxes assessed by a governmental authority that are directly imposed on revenue-producing transactions (i.e., sales tax) on a net (excluded from revenue) basis.

#### Cost of Sales

The Company includes the cost of merchandise, warehousing and distribution costs, and certain occupancy costs in cost of sales.





#### Vendor Allowances

The Company receives vendor support in the form of cash payments or allowances through a variety of reimbursements such as purchase discounts, cooperative advertising, markdowns, scandowns and volume rebates. The Company has agreements with vendors setting forth the specific conditions for each allowance or payment. The Company either recognizes the allowance as a reduction of current costs or defers the payment over the period the related merchandise is sold. If the payment is a reimbursement for costs incurred, it is offset against those related costs; otherwise, it is treated as a reduction to the cost of merchandise.

#### Pre-Opening Costs

The Company expenses pre-opening costs for new, expanded, relocated and rebannered stores, as incurred.

#### Advertising Costs

The Company expenses advertising costs as they are incurred and they are included in "Selling, general and administrative expenses" on the accompanying consolidated income statements. Advertising costs, net of co-op recoveries from vendors, approximated \$106.3 million, \$60.1 million and \$32.5 million for the years ended February 3, 2018, January 28, 2017, and January 30, 2016, respectively.

#### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date of such change.

The Company recognizes a financial statement benefit for a tax position if it determines that it is more likely than not that the position will be sustained upon examination.

The Company includes interest and penalties in the provision for income tax expense and income taxes payable. The Company does not provide for any penalties associated with tax contingencies unless they are considered probable of assessment.

#### Stock-Based Compensation

The Company recognizes expense for all share-based payments to employees and non-employee directors based on their fair values. Total stock-based compensation expense for 2017, 2016 and 2015 was \$65.8 million, \$60.3 million and \$52.3 million, respectively.

The Company recognizes expense related to the fair value of restricted stock units (RSUs) and stock options over the requisite service period on a straight-line basis or a shorter period based on the retirement eligibility of the grantee. The fair value of RSUs is determined using the closing price of the Company's common stock on the date of grant. The fair value of stock option grants is estimated on the date of grant using the Black-Scholes option pricing model. The Company accounts for forfeitures when they occur.

#### Net Income Per Share

Basic net income per share has been computed by dividing net income by the weighted average number of shares outstanding. Diluted net income per share reflects the potential dilution that could occur assuming the inclusion of dilutive potential shares and has been computed by dividing net income by the weighted average number of shares and dilutive potential shares outstanding. Dilutive potential shares include all outstanding stock options and unvested RSUs after applying the treasury stock method.

#### Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, "Leases." This update will replace existing lease guidance in GAAP and will require lessees to recognize lease assets and lease liabilities on the balance sheet for all leases and disclose key information about leasing arrangements, such as information about variable lease payments and options to renew and terminate leases. When implemented, lessees and lessors will be required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The update is effective for interim and annual reporting periods beginning after December 15, 2018. Early adoption is permitted. The Company has engaged a third party to assist in its preparation

for implementation and its evaluation of the impact of the new pronouncement on its consolidated financial statements. The Company expects the adoption of this pronouncement to result in a material increase in the assets and liabilities on its consolidated balance sheets and to not have a material impact on its consolidated income statements or consolidated

statements of cash flows. The Company is in the process of implementing software to assist in the quantification of the expected impact on the consolidated balance sheets and to facilitate the calculations of the related accounting entries and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This update will replace existing revenue recognition guidance in GAAP and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. In July 2015, the FASB deferred the effective date of the new standard to interim and annual reporting periods beginning after December 15, 2017. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. The Company will adopt the standard in the first quarter of fiscal 2018 with a cumulative adjustment to retained earnings and the adoption of the standard will not have a material impact on its consolidated financial statements.

#### NOTE 2 - ACQUISITION

On July 27, 2014, the Company executed an Agreement and Plan of Merger to acquire Family Dollar in a cash and stock transaction. On July 6, 2015, the Company completed the Acquisition and Family Dollar became a direct, wholly-owned subsidiary of the Company. Under the Acquisition, the Family Dollar shareholders received \$59.60 in cash and 0.2484 shares of the Company's common stock for each share of Family Dollar common stock they owned, plus cash in lieu of fractional shares (the "Merger Consideration").

As of the Acquisition Date, each outstanding performance share right of Family Dollar common stock was canceled in exchange for the right of the holder to receive the Merger Consideration (the "PSR Payment"). The aggregate amount paid by the Company for the Merger Consideration and PSR Payment was \$6.8 billion in cash and the Company issued 28.5 million shares of the Company's common stock, valued at \$2.3 billion based on the closing price of the Company's common stock on July 2, 2015. Additionally, outstanding Family Dollar stock options and restricted stock units were converted into mirror awards exercisable or to be earned in the Company's common stock. The value of these awards was apportioned between total Merger Consideration and unearned compensation to be recognized over the remaining original vesting periods of the awards.

The Company's common stock continues to trade on the Nasdaq Exchange under the symbol "DLTR." Following the Acquisition Date, Family Dollar's common stock ceased trading on, and was delisted from, the New York Stock Exchange. Family Dollar's results from the Acquisition Date are included in the consolidated income statements.

The following table summarizes the final allocation of the fair values of the identifiable assets acquired and liabilities assumed as of the Acquisition Date. Within the measurement period, which closed during the second quarter of 2016, the Company made certain purchase accounting adjustments due to continued refinement of management's original appraisals and estimates. None of these measurement period adjustments had a material impact on the purchase price allocation.

	(in millions)
Cash	\$ 305.3
Short-term investments	4.0
Accounts receivable	71.1
Inventory	1,765.5
Taxes receivable	32.9
Other current assets	100.1
Property, plant and equipment	1,893.3
Assets available for sale	10.1
Goodwill	4,859.9
Intangible assets, net	3,570.4
Other assets	78.1
Long-term debt, including current portion	(497.0 )
Accounts payable	(635.2 )
Other current liabilities	(563.4 )
Deferred tax liabilities, net	(1,618.4 )
Other liabilities	(253.6 )
Total purchase price	\$9,123.1
Less: Cash acquired	(305.3 )
Total purchase price, net of cash acquired	8,817.8
Acquisition cost paid in common stock	(2,272.4 )
Acquisition cost paid in equity compensation	(17.7 )
Acquisition cost paid in cash, net of cash acquired	\$6,527.7

On November 1, 2015, the Company completed the transaction pursuant to which it divested 330 Family Dollar stores, 325 of which were already open, to Dollar Express LLC, a portfolio company of Sycamore Partners. The divestiture satisfied a condition as required by the Federal Trade Commission in connection with the Acquisition. The divested stores represented approximately \$45.5 million of annual operating income. The table above reflects the effect of the divestiture as required by purchase accounting, as the divestiture was a condition of the Acquisition. As part of the divestiture, the Company was required to guarantee payments under 316 store leases and the fair value of the guarantee is immaterial. In addition, the Company was required to partially support the divested stores through a transition services agreement, under which the Company provided merchandise and services and the buyer was required to reimburse the Company. In the first quarter of fiscal 2017, the Company evaluated the collectability of its divestiture-related receivable. Based on information available, the Company determined that the outstanding balance of \$50.9 million was not recoverable and recorded an impairment charge to write down the receivable to zero. An additional \$2.6 million was recorded as a receivable and impaired in the second quarter of 2017. In the fourth quarter of 2017, the Company settled a lawsuit with Dollar Express related to the divestiture, which resulted in Dollar Express paying the Company \$35.0 million. The settlement of the litigation resulted in a partial reversal of the receivable impairment in the fourth quarter of 2017. The remaining impairment charges of \$18.5 million are included in "Receivable impairment" in the accompanying consolidated income statement.

Goodwill is calculated as the excess of the purchase price over the net assets acquired. The goodwill recognized is attributable to growth opportunities and expected synergies of at least \$300 million annually (unaudited), which is expected to be achieved by July 2018. Expected sources of synergies include the following:

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Savings from sourcing and procurement of merchandise and non-merchandise goods and services driven by leveraging the combined volume of the Dollar Tree and Family Dollar banners, among other things;  
Rebanning to optimize store formats;

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A reduction in overhead and corporate selling, general and administrative expenses by eliminating redundant positions and optimizing processes; and

Savings resulting from the optimization of distribution and logistics networks.

Intangible assets, net consist of three separately identified assets and one liability. First, the Company identified the Family Dollar trade name as an indefinite-lived intangible asset with a fair value of \$3.1 billion. The trade name is not subject to amortization but is evaluated annually for impairment. No related impairment losses were recognized in 2017, 2016 or 2015. Second, the Company recognized an intangible asset of \$629.2 million for favorable Family Dollar leases and a liability of \$164.3 million for unfavorable Family Dollar leases (as compared to prevailing market rates) which are being amortized over the remaining lease terms, including, in some cases, an assumed renewal. Amortization expense of \$69.2 million, \$75.7 million and \$45.3 million was recognized in 2017, 2016 and 2015, respectively, related to these lease rights. Lastly, the Company recognized an intangible asset of \$5.5 million for a customer list.

The Company assumed Family Dollar's \$185.2 million of private placement unsecured senior notes which were due September 27, 2015 and Family Dollar's unsecured revolving credit facilities. Following the Acquisition, the Company repaid the amount outstanding under the unsecured senior notes and terminated the unsecured revolving credit facilities. The Company also assumed Family Dollar's \$300.0 million of 5% unsecured senior notes due February 1, 2021, which became secured upon closing of the Acquisition and which had an estimated fair value of \$311.8 million on the Acquisition Date.

The results of operations of Family Dollar are included in the Company's results of operations beginning on July 6, 2015. From July 6, 2015 through January 30, 2016, Family Dollar generated net sales of \$6,162.0 million and an operating loss of \$30.8 million. These results included: \$73.0 million of inventory markdowns due to sku rationalization and planned liquidations; \$156.8 million of expenses related to purchase accounting, primarily amortization of the step-up of the inventory value, amortization of intangible assets and higher depreciation expense; and \$13.4 million of severance and integration costs.

The following unaudited consolidated pro forma summary has been prepared by adjusting the Company's historical data to give effect to the Acquisition as if it had occurred on February 2, 2014:

	Pro Forma
	-
	Unaudited
	Year
	Ended
	January
(in millions, except per share data)	30, 2016
Net sales	\$ 19,782.3
Net income	\$ 565.7