DOLLAR GENERAL CORP
Form 10-K
March 22, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 1, 2019

Commission file number: 001-11421

DOLLAR GENERAL CORPORATION

(Exact name of registrant as specified in its charter)

TENNESSEE	61-0502302
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 MISSION RIDGE

GOODLETTSVILLE, TN 37072

(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (615) 855-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of the exchange on which registered
Common Stock, par value $0.875 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	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 Exchange Act). Yes No

The aggregate fair market value of the registrant's common stock outstanding and held by non-affiliates as of August 3, 2018 was $23.2 billion calculated using the closing market price of our common stock as reported on the NYSE on such date ($98.23). For this purpose, directors, executive officers and greater than 10% record shareholders are considered the affiliates of the registrant.

The registrant had 259,518,801 shares of common stock outstanding as of March 18, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Certain of the information required in Part III of this Form 10-K is incorporated by reference to the Registrant's definitive proxy statement to be filed for the Annual Meeting of Shareholders to be held on May 29, 2019.

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INTRODUCTION

General

This report contains references to years 2019, 2018, 2017, 2016, 2015, and 2014, which represent fiscal years ending or ended January 31, 2020, February 1, 2019, February 2, 2018, February 3, 2017, January 29, 2016, and January 30, 2015, respectively. Our fiscal year ends on the Friday closest to January 31. Our 2016 fiscal year consisted of 53 weeks, while each of the remaining years listed consists of 52 weeks. All of the discussion and analysis in this report should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and related notes.

Solely for convenience, our trademarks and tradenames may appear in this report without the ® or TM symbol which is not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights or the right to these trademarks and tradenames.

Cautionary Disclosure Regarding Forward Looking Statements

We include “forward-looking statements” within the meaning of the federal securities laws throughout this report, particularly under the headings “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and “Note 6 – Commitments and Contingencies,” among others. You can identify these statements because they are not limited to historical fact or they use words such as “may,” “will,” “should,” “could,” “can,” “would,” “believe,” “anticipate,” “project,” “plan,” “expect,” “estimate,” “goal,” “seek,” “ensure,” “potential,” “opportunity,” “objective,” “intend,” “committed,” “likely,” “continue,” “strive,” “aim,” “scheduled,” “focused on,” or “subject to” and similar expressions that con strategies, plans, initiatives, intentions or beliefs about future occurrences or results. For example, all statements relating to, among others, our estimated and projected expenditures, cash flows, results of operations, financial condition and liquidity; our plans and objectives for, and expectations regarding future operations, economic and competitive market conditions, growth or initiatives, including but not limited to the number of planned store openings, remodels and relocations, store formats, progress of merchandising and other initiatives, trends in sales of consumable and non-consumable products, and level of future costs and expenses; potential future stock repurchases and cash dividends; anticipated borrowing under our unsecured revolving credit agreement and commercial paper program; potential impact of legal or regulatory changes and our responses thereto, including the potential impact of tariffs by the U.S. government; anticipated impact of new accounting standards; efforts to improve distribution and transportation efficiencies, including self-distribution, and anticipated timing of distribution center openings; or expected outcome or effect of pending or threatened litigation or audits are forward-looking statements.

All forward-looking statements are subject to risks, uncertainties and other factors that may cause our actual results to differ materially from those which we expected. Many of these statements are derived from our operating budgets and forecasts, which are based on many detailed assumptions that we believe are reasonable. However, it is very difficult to predict the effect of known factors, and we cannot anticipate all factors that could affect future results.

Important factors that could cause actual results to differ materially from the expectations expressed or implied in our forward-looking statements are disclosed under “Risk Factors” in Part I, Item 1A and elsewhere in this document (including, without limitation, in conjunction with the forward-looking statements themselves and under the heading “Critical Accounting Policies and Estimates”). All forward-looking statements are qualified in their entirety by these and other cautionary statements that we make from time to time in our other SEC filings and public communications. You should evaluate forward-looking statements in the context of these risks and uncertainties and are cautioned not to place undue reliance on such statements. These factors may not contain all of the factors that are important to you. We cannot assure you that we will realize the results or developments we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our operations in the way we expect. Forward-looking statements in this report are made only as of the date hereof. We undertake no obligation, and specifically disclaim any duty, to update or revise any forward-looking statement as a result of new information, future events or otherwise, except as may be required by law.

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PART I

ITEM 1. BUSINESS

General

We are among the largest discount retailers in the United States by number of stores, with 15,472 stores located in 44 states as of March 1, 2019, with the greatest concentration of stores in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable items, seasonal items, home products and apparel. Our merchandise includes national brands from leading manufacturers, as well as our own private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically $10 or less) in our convenient small-box locations.

Our History

J.L. Turner founded our Company in 1939 as J.L. Turner and Son, Wholesale. We were incorporated as a Kentucky corporation under the name J.L. Turner & Son, Inc. in 1955, when we opened our first Dollar General store. We changed our name to Dollar General Corporation in 1968 and reincorporated in 1998 as a Tennessee corporation. Our common stock was publicly traded from 1968 until July 2007, when we merged with an entity controlled by investment funds affiliated with Kohlberg Kravis Roberts & Co. L.P., or KKR. In November 2009 our common stock again became publicly traded, and in December 2013 the entity controlled by investment funds affiliated with KKR sold its remaining shares of our common stock.

Our Business Model

Our long history of profitable growth is founded on a commitment to a relatively simple business model: providing a broad base of customers with their basic everyday and household needs, supplemented with a variety of general merchandise items, at everyday low prices in conveniently located, small-box stores. We continually evaluate the needs and demands of our customers and modify our merchandise selections and pricing accordingly, while remaining focused on increasing profitability, cash generation and returns for our shareholders.

Our long-term operating priorities remain: 1) driving profitable sales growth, 2) capturing growth opportunities, 3) enhancing our position as a low-cost operator, and 4) investing in our people as a competitive advantage. For more information on these operating priorities, see the “Executive Overview” section of Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in Part II, Item 7 of this report.

In 2018, we achieved our 29th consecutive year of positive same-store sales growth. We believe that this growth, which has taken place in a variety of economic conditions, is a result of our compelling value and convenience proposition, although no assurances can be given that we will achieve positive same-store sales growth in any given year.

Compelling Value and Convenience Proposition. Our ability to deliver highly competitive prices in convenient locations and our easy “in and out” shopping format create a compelling shopping experience that we believe distinguishes us from other discount retailers as well as convenience, drug, grocery, online and mass merchant retailers. Our slogan “Save time. Save money. Every day!” summarizes our appeal to customers. We believe our ability to effectively deliver both value and convenience allows us to succeed in small markets with limited shopping alternatives, as well as in larger and more competitive markets. Our value and convenience proposition is evidenced by the following attributes of our business model:

- Everyday Low Prices on Quality Merchandise. Our research indicates that we offer a price advantage over most food and drug retailers and that our prices are competitive with even the

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largest discount retailers. Our ability to offer everyday low prices on quality merchandise is supported by our low-cost operating structure and our strategy to maintain a limited number of items per merchandise category, which we believe helps us maintain strong purchasing power. We offer nationally advertised brands at these everyday low prices in addition to offering our own private brands at substantially lower prices.

· Convenient Locations. Our stores are conveniently located in a variety of rural, suburban and urban communities. We seek to locate our stores in close proximity to our customers, which helps drive customer loyalty and trip frequency and makes us an attractive alternative to large discount and other large-box retail and grocery stores.

· Time-Saving Shopping Experience. We strive to provide customers with a highly convenient, easy to navigate shopping experience. Our small-box stores make it easier to get in and out quickly. Our product offering includes most necessities, such as basic packaged and refrigerated food and dairy products, cleaning supplies, paper products, health and beauty care items, tobacco products, greeting cards and other stationery items, basic apparel, housewares, hardware and automotive supplies, among others. Our convenient hours and broad merchandise offering allow our customers to fulfill their requirements for basic goods and minimize their need to shop elsewhere.

Substantial Growth Opportunities. We believe we have substantial long-term growth potential in the U.S. We have identified significant opportunities to add new stores in both existing and new markets. In addition, we have opportunities to relocate or remodel locations within our existing store base to better serve our customers. Our attractive store economics, including a relatively low initial investment and simple, low-cost operating model have allowed us to grow our store base to current levels and provide us significant opportunities to continue our profitable store growth strategy.

Our Merchandise

We offer a focused assortment of everyday necessities, which we believe helps to drive frequent customer visits, and key items in a broad range of general merchandise categories. Our product assortment provides the opportunity for our customers to address most of their basic shopping needs with one trip. We offer a wide selection of nationally advertised brands from leading manufacturers. Additionally, our private brand products offer even greater value with options to purchase products that we believe to be of comparable quality to national brands as well as value items, each at substantial discounts to the national brands.

Consumables is our largest merchandise category and has become a larger percentage of our total sales in recent years as indicated in the table below. Consumables include paper and cleaning products (such as paper towels, bath tissue, paper dinnerware, trash and storage bags, laundry and other home cleaning supplies); packaged food (such as cereals, canned soups and vegetables, condiments, spices, sugar and flour); perishables (such as milk, eggs, bread, refrigerated and frozen food, beer and wine); snacks (such as candy, cookies, crackers, salty snacks and carbonated beverages); health and beauty (such as over-the-counter medicines and personal care products including soap, body wash, shampoo, cosmetics, dental hygiene and foot care products); pet (such as pet supplies and pet food); and tobacco products.

Seasonal products include decorations, toys, batteries, small electronics, greeting cards, stationery, prepaid phones and accessories, gardening supplies, hardware, automotive and home office supplies.

Home products include kitchen supplies, cookware, small appliances, light bulbs, storage containers, frames, candles, craft supplies and kitchen, bed and bath soft goods.

Apparel includes casual everyday apparel for infants, toddlers, girls, boys, women and men, as well as socks, underwear, disposable diapers, shoes and accessories.

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The percentage of net sales of each of our four categories of merchandise for the fiscal years indicated below was as follows:

	2018	2017	2016
Consumables	77.5 %	76.9 %	76.4 %
Seasonal	11.9 %	12.1 %	12.2 %
Home products	5.9 %	6.0 %	6.2 %
Apparel	4.7 %	5.0 %	5.2 %

Our seasonal and home products categories typically account for the highest gross profit margins, and the consumables category typically accounts for the lowest gross profit margin.

The Dollar General Store

The typical Dollar General store is operated by a store manager, one or more assistant store managers, and three or more sales associates. Our stores generally feature a low-cost, no frills building with limited maintenance capital, low operating costs, and a focused merchandise offering within a broad range of categories, allowing us to deliver low retail prices while generating strong cash flows and capital investment returns. Our stores average approximately 7,400 square feet of selling space and approximately 75% of our stores are located in towns of 20,000 or fewer people. We generally have had good success in locating suitable store sites in the past, and we believe that there is ample opportunity for new store growth in existing and new markets. In addition, we believe we have significant opportunities available for our relocation and remodel programs.

Our store growth over the past three years is summarized in the following table:

Year	Stores at Beginning of Year	Stores Opened	Stores Closed	Net Store Increase	Stores at End of Year
2016	12,483	900	63	837	13,320
2017	13,320	1,315	101	1,214	14,534
2018	14,534	900	64	836	15,370

Our Customers

Our customers seek value and convenience. Depending on their financial situation and geographic proximity, customers’ reliance on Dollar General varies from fill-in shopping, to making periodic trips to stock up on household items, to making weekly or more frequent trips to meet most essential needs. We generally locate our stores and plan our merchandise selections to best serve the needs of our core customers, the low and fixed income households often underserved by other retailers, and we are focused on helping them make the most of their spending dollars. At the same time, however, Dollar General shoppers from a wide range of income brackets and life stages appreciate our quality merchandise as well as our attractive value and convenience proposition.

Our Suppliers

We purchase merchandise from a wide variety of suppliers and maintain direct buying relationships with many producers of national brand merchandise. Despite our broad offering, we maintain only a limited number of items per category, allowing us to keep our average costs low. Our three largest suppliers each accounted for approximately 8% of our purchases in 2018. Our private brands come from a diversified supplier base. We directly imported approximately 6% of our purchases at cost in 2018.

We have consistently managed to obtain sufficient quantities of core merchandise and believe that, if one or more of our current sources of supply became unavailable, we generally would be able to obtain alternative

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sources; however, such alternative sources could increase our merchandise costs and supply chain lead time, result in a temporary reduction in store inventory levels, reduce our selection, or reduce the quality of our merchandise, and an inability to obtain alternative sources could adversely affect our sales.

Distribution and Transportation

Our stores are currently supported by distribution centers for non-refrigerated merchandise located strategically throughout our geographic footprint. We also have a distribution center in Amsterdam, New York under construction which is expected to be completed in 2019. We lease additional temporary warehouse space as necessary to support our distribution needs. We also have purchased a cold storage facility, and we are testing the self-distribution of fresh and frozen products, an initiative which we call “DG Fresh.” We continually analyze and rebalance the network to ensure that it remains efficient and provides the service levels our stores require. See “—Properties” below for additional information pertaining to our distribution centers.

Most of our merchandise flows through our distribution centers and is delivered to our stores by third-party trucking firms, utilizing our trailers. We also own approximately 200 semi-trailer trucks with which we transport our merchandise. In addition, vendors or third-party distributors deliver or ship certain food items and other merchandise directly to our stores.

Seasonality

Our business is somewhat seasonal. Generally, our most profitable sales mix occurs in the fourth quarter, which includes the Christmas selling season. In addition, our quarterly results can be affected by the timing of certain holidays, and the timing of new store openings and store closings, and the amount of sales contributed by new and existing stores. We typically purchase substantial amounts of inventory and incur higher shipping and payroll costs in the third quarter in anticipation of increased sales activity during the fourth quarter. See Note 11 to the consolidated financial statements for additional information.

Our Competition

We operate in the basic discount consumer goods market, which is highly competitive with respect to price, customers, store location, merchandise quality, assortment and presentation, service offerings, in-stock consistency, customer service, promotional activity, employees, and market share. We compete with discount stores and many other retailers, including mass merchandise, warehouse club, grocery, drug, convenience, variety, online, and certain specialty stores. These other retail companies operate stores in many of the areas where we operate, and many of them engage in extensive advertising and marketing efforts. Our direct competitors include Family Dollar, Dollar Tree, Big Lots, Fred's, 99 Cents Only and various local, independent operators, as well as Walmart, Target, Kroger, Aldi, Lidl, Walgreens, CVS, and RiteAid, among others. Certain of our competitors have greater financial, distribution, marketing and other resources than we do and may be able to secure better arrangements from suppliers than we can. Competition has intensified and we believe it will continue to do so as competitors move into or increase their presence in our geographic and product markets and increase the availability of mobile, web-based and other digital technology to facilitate a more convenient and competitive customer online and in-store shopping experience.

We believe that we differentiate ourselves from other forms of retailing by offering consistently low prices in a convenient, small-store format. We believe that we are able to maintain competitive prices due in part to our low-cost operating structure and the relatively limited assortment of products offered. Purchasing large volumes of merchandise within our focused assortment in each merchandise category allows us to keep our average costs low, contributing to our ability to offer competitive everyday low prices to our customers. See "—Our Business Model" above for further discussion of our competitive situation.

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Our Employees

As of March 1, 2019, we employed approximately 135,000 full-time and part-time employees, including divisional and regional managers, district managers, store managers, other store personnel and distribution center and administrative personnel. We have increasingly focused on recruiting, training, motivating and retaining employees, and we believe that the quality, performance and morale of our employees continue to be an important part of our success in recent years. We believe our overall relationship with our employees is good.

Our Trademarks

We own marks that are registered with the United States Patent and Trademark Office and are protected under applicable intellectual property laws. We attempt to obtain registration of our trademarks whenever practicable and to pursue vigorously any infringement of those marks. Our trademark registrations have various expiration dates; however, assuming that the trademark registrations are properly renewed, they have a perpetual duration. We also hold an exclusive license to the Rexall brand through at least March 5, 2026.

Available Information

Our Internet website address is www.dollargeneral.com. The information on our website is not incorporated by reference into, and is not a part of, this Form 10-K. We file with or furnish to the Securities and Exchange Commission (the “SEC”) annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, proxy statements and annual reports to shareholders, and, from time to time, registration statements and other documents. These documents are available free of charge to investors on or through the Investor Information section of our website as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers, such as Dollar General, that file electronically with the SEC. The address of that website is http://www.sec.gov.

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ITEM 1A. RISK FACTORS

Investment in our Company involves risks. You should carefully consider the risks described below and the other information 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 could materially and adversely affect our business, financial condition, results of operations or liquidity. These risks are not the only risks we face. Our business, financial condition, results of operations or liquidity could also be adversely affected by additional factors that apply to all companies generally or by risks not currently known to us or that we currently view to be immaterial. We can provide no assurance and make no representation that our risk mitigation efforts, although we believe they are reasonable, will be successful.

Economic factors may reduce our customers’ spending, impair our ability to execute our strategies and initiatives, and increase our costs and expenses, which could result in materially decreased sales or profitability.

Many of our customers have fixed or low incomes and limited discretionary spending dollars. Any factor that could adversely affect their disposable income could decrease our customers’ spending or cause them to shift their spending to our lower margin product choices, which could result in materially decreased sales and profitability. Factors that could reduce our customers’ disposable income include but are not limited to high unemployment or underemployment levels; inflation; higher fuel, energy, healthcare and housing costs, interest rates, consumer debt levels, and tax rates; tax law changes that negatively affect credits and refunds; lack of available credit; and decreases in, or elimination of, government subsidies such as unemployment and food assistance programs.

Many of the economic factors listed above, as well as commodity rates; transportation, lease and insurance costs; wage rates; foreign exchange rate fluctuations; measures that create barriers to or increase the costs of international trade (including increased import duties or tariffs); changes in applicable laws and regulations; and other economic factors, also could impair our ability to successfully execute our strategies and initiatives, as well as increase our cost of goods sold and selling, general and administrative expenses (including real estate costs), and may have other adverse consequences that we are unable to fully anticipate or control, all of which may materially decrease our sales or profitability.

Our plans depend significantly on strategies and initiatives designed to increase sales and profitability and improve the efficiencies, costs and effectiveness of our operations, and failure to achieve or sustain these plans could materially affect our results of operations.

We have short-term and long-term strategies and initiatives (such as those relating to merchandising, real estate and new store development, store formats, digital, shrink, sourcing, private brand, inventory management, supply chain, store operations, expense reduction, and technology) in various stages of testing, evaluation, and implementation, which are designed to continue to improve our results of operations and financial condition. The effectiveness of these initiatives is inherently uncertain, even when tested successfully, and is dependent on consistency of training and execution, workforce stability, ease of execution, and the absence of offsetting factors that can influence results adversely. Many of these factors are made even more challenging by the diverse geographic locations of our stores and distribution centers and our decentralized field management. Other risk factors described herein also could negatively affect general implementation. Failure to achieve successful or cost-effective implementation of our initiatives could materially adversely affect our business, results of operations and financial condition.

The success of our merchandising initiatives, particularly our non-consumable initiatives and efforts to increase sales of higher margin products within the consumables category, further depends in part upon our ability to predict the products that our customers will demand and to identify and timely respond to evolving trends in demographic mixes in our markets and consumer preferences. If we are unable to select and timely obtain

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products that are attractive to customers and at costs that allow us to sell them at an acceptable profit, or to effectively market such products, it could result in materially decreased sales and profitability.

We are currently testing a cold chain self-distribution initiative, which we refer to as our DG Fresh initiative, and also testing an initiative we refer to as Fast Track, which is designed to enhance our in-store labor productivity, on-shelf availability, and customer convenience. The success of our DG Fresh initiative further depends in part on our ability to effectively transition these distribution operations from our current service providers without business disruption, as well as on the availability of certain supply chain resources, including temperature-controlled distribution centers, refrigerated transportation equipment, and drivers. The success of our Fast Track initiative further depends in part on vendor cooperation, successful implementation and maintenance of the necessary technology, customer interest and adoption, and our ability to gain cost efficiencies and control shrink levels from the initiative.

If we cannot timely and cost-effectively execute our real estate projects and meet our financial expectations, or if we do not anticipate or successfully address all of the challenges imposed by our expansion, including into new states or metro areas, it could materially impede our planned future growth and our profitability.

Delays in or failure to complete any of our real estate projects, or failure to meet our financial expectations for these projects, could materially adversely affect our growth and our profitability. Our ability to timely open, relocate and remodel profitable stores and expand into additional market areas is a key component of our planned future growth and may depend in part on: the availability of suitable store locations and capital funding; the absence of entitlement process or occupancy delays; the ability to negotiate acceptable lease and development terms, to cost-effectively hire and train new personnel, especially store managers, and to identify and accurately assess sufficient customer demand; and general economic conditions.

We also may not anticipate or successfully address all of the challenges imposed by the expansion of our operations, including into new states or metro areas where we have limited or no meaningful experience or brand recognition. Those areas may have different competitive and market conditions, consumer tastes and discretionary spending patterns than our existing markets, as well as higher cost of entry and operating costs. These factors may cause our new stores to be less profitable than stores in our existing markets, which could slow future growth in these areas. In addition, many new stores will be located in areas where we have existing stores, which may result in inadvertent oversaturation and temporarily or permanently divert customers and sales from our existing stores, thereby adversely affecting our overall financial performance.

We face intense competition that could limit our growth opportunities and materially adversely affect our results of operations, financial condition and liquidity.

The retail business is highly competitive with respect to price, customers, store location, merchandise quality, product assortment and presentation, service offerings, in-stock consistency, customer service, promotional activity, employees, and market share. We compete with discount stores and many other retailers, including mass merchandise, warehouse club, grocery, drug, convenience, variety, online retailers, and certain specialty stores. To maintain our competitive position, we may be required to lower prices, either temporarily or permanently, and may have limited ability to increase prices in response to increased costs, resulting in lower margins and reduced profitability. Certain of our competitors have greater financial, distribution, marketing and other resources, and may be able to secure better arrangements with suppliers, than we.

Competition has intensified, and is expected to continue to do so, as competitors enter or increase their presence in our geographic and product markets and expand availability of mobile, web-based and other digital technologies. We remain vulnerable to the risk that our competitors or others could enter our industry in a significant way, including through the introduction of new store formats. Further, consolidation or other business combinations or alliances within the retail industry could significantly alter the competitive dynamics of the retail

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marketplace and result in competitors with greatly improved competitive positions, as well as competitors providing a wider variety of products and services at competitive prices, which could materially affect our financial performance. Our ability to effectively compete will depend substantially upon our continued ability to develop and execute compelling and cost-effective strategies and initiatives. If we fail to respond effectively to competitive pressures and industry changes, it could materially affect our results of operations, financial condition and liquidity.

Inventory shrinkage may negatively affect our results of operations and financial condition.

We experience significant inventory shrinkage. Although some level of inventory shrinkage is an unavoidable cost of doing business, if we were to experience higher rates of inventory shrinkage or incur increased security or other costs to combat inventory theft, our results of operations and financial condition could be affected adversely. There can be no assurance that we will be successful in our efforts to reduce inventory shrinkage.

Our cash flows from operations, profitability and financial condition may be negatively affected if we are not successful in managing our inventory balances.

Our inventory balance represented approximately 53% of our total assets exclusive of goodwill and other intangible assets as of February 1, 2019. Efficient inventory management is a key component of our business success and profitability. We must maintain sufficient inventory levels and an appropriate product mix to meet our customers' demands without allowing those levels to increase to such an extent that the costs to store and hold the goods unduly impacts our financial results or that increases the risk of inventory shrinkage. If we do not accurately predict customer trends or spending levels, or if we inappropriately price products, we may have to take unanticipated markdowns to dispose of the excess inventory, which also can adversely affect our financial results. We continue to focus on ways to reduce these risks, but we cannot make assurances that we will be successful in our inventory management. If we are not successful in managing our inventory balances, our cash flows from operations and financial condition may be negatively affected.

Failure to maintain the security of our business, customer, employee or vendor information could expose us to litigation, government enforcement actions and costly response measures, and could materially harm our reputation and affect our business and financial performance.

In connection with sales, we transmit confidential credit and debit card information which is encrypted using point-to-point encryption. We also have access to, collect or maintain certain private or confidential information regarding our customers, employees and their dependents, and vendors, as well as our business. Some of this information is stored electronically in connection with our e-commerce and mobile applications, some of which may leverage third-party service providers. Additionally, we may share information with select vendors that assist us in conducting our business. While we have implemented procedures and technology intended to protect such information and require appropriate controls of our service providers, cyberattackers could compromise such controls and obtain such information, as cyberattacks are becoming increasingly sophisticated and do not always immediately produce signs of intrusion. Moreover, employee error or malfeasance or other irregularities could result in a defeat of security measures and compromise our or our third-party vendors' information systems. If cyberattackers obtain customer, employee or partner passwords through unrelated third-party breaches, these passwords could be used to gain access to their information or accounts with us.

Because we accept debit and credit cards for payment, we are subject to industry data protection standards and protocols, such as the Payment Card Industry Data Security Standards, issued by the Payment Card Industry Security Standards Council. Nonetheless, we may be vulnerable to, and unable to detect and appropriately respond to, data security breaches and data loss, including cybersecurity attacks or other breaches of cardholder data.

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A significant security breach of any kind experienced by us or one of our vendors, which could be undetected for a period of time, or a significant failure by us to comply with applicable privacy and information security laws, regulations and standards could expose us to risks of data loss, litigation, government enforcement actions, fines or penalties, credit card brand assessments, negative publicity and reputational harm, business disruption and costly response measures (for example, providing notification to, and credit monitoring services for, affected individuals, as well as further upgrades to our security measures) which may not be covered by or may exceed the coverage limits of our insurance policies, and could materially disrupt our operations. Any resulting negative publicity could significantly harm our reputation which could cause us to lose market share as a result of customers discontinuing the use of our e-commerce and mobile applications or debit or credit cards in our stores or not shopping in our stores altogether and could materially adversely affect our business and financial performance.

A significant disruption to our distribution network, the capacity of our distribution centers or the timely receipt of inventory could adversely affect sales or increase our transportation costs, which would decrease our profitability.

We rely on our distribution and transportation network to provide goods to our stores timely and cost effectively. Using various transportation modes, including ocean, rail, and truck, we and our vendors move goods from vendor locations to our distribution centers and our stores. Any disruption, unanticipated or unusual expense or operational failure related to this process (for example, delivery delays or increases in transportation costs, including increased fuel costs, carrier or driver wages as a result of driver shortages; a decrease in transportation capacity for overseas shipments; labor shortages; or work stoppages for slowdowns) could negatively impact sales and profits. Labor shortages or work stoppages in the transportation industry or disruptions to the national and international transportation infrastructure that lead to delivery delays or that necessitate our securing alternative labor or shipping suppliers could also increase our costs or otherwise negatively affect our business.

We maintain a network of distribution facilities and are moving forward with plans to build or lease new facilities to support our growth objectives and strategic initiatives. Delays in opening such facilities could adversely affect our financial performance by slowing store growth, which may in turn reduce revenue growth, or by increasing transportation costs. In addition, distribution-related construction or expansion projects entail risks that could cause delays and cost overruns, such as: shortages of materials or skilled labor; work stoppages; unforeseen construction, scheduling, engineering, environmental or geological problems; weather interference; fires or other casualty losses; and unanticipated cost increases. For these reasons, the completion date and ultimate cost of these projects could differ significantly from initial expectations, and we cannot guarantee that any project will be completed on time or within established budgets.

Risks associated with or faced by our suppliers could adversely affect our financial performance.

We source our merchandise from a wide variety of domestic and international suppliers, and we depend on them to supply merchandise in a timely and efficient manner. In 2018, our three largest suppliers each accounted for approximately 8% of our purchases. If one or more of our current sources of supply became unavailable, we believe we would generally be able to obtain alternative sources, but it could increase our merchandise costs and supply chain lead time, result in a temporary reduction in store inventory levels, and reduce the quality of our merchandise. An inability to obtain alternative sources could materially decrease our sales. Additionally, if a supplier fails to deliver on its commitments, we could experience merchandise out of stocks that could lead to lost sales and reputational harm. Further, failure of suppliers to meet our compliance protocols could prolong our procurement lead time, resulting in lost sales and adverse margin impact.

We directly imported approximately 6% of our purchases (measured at cost) in 2018, but many of our domestic vendors directly import their products or components of their products. Changes to the prices and flow of these goods for any reason, such as political unrest, acts of war, currency fluctuations, disruptions in maritime lanes, port labor disputes, and economic conditions and instability in countries in which foreign suppliers are

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located, the financial instability of suppliers, failure to meet our standards, issues with our suppliers' labor practices or labor problems they may experience (such as strikes, stoppages or slowdowns, which could also increase labor costs during and following the disruption), the availability and cost of raw materials to suppliers, increased import duties, merchandise quality or safety issues, transport availability and cost, increases in wage rates and taxes, transport security, inflation, and other factors relating to suppliers and the countries in which they are located or from which they import, often are beyond our control and could adversely affect our operations and profitability. While we are working to diversify our sources of imported goods, a substantial amount of our imported merchandise comes from China, and thus, a change in the Chinese leadership, economic and market conditions, internal economic stimulus actions, or currency or other policies, as well as trade relations between China and the United States and increases in costs of labor and wage taxes, could negatively impact our merchandise costs. In addition, the United States' foreign trade policies, duties, tariffs and other impositions on imported goods, trade sanctions imposed on certain countries (particularly China), import limitations on certain types of goods or of goods containing certain materials from other countries and other factors relating to foreign trade and port labor agreements are beyond our control. These and other factors affecting our suppliers and our access to products could adversely affect our business and financial performance. If we increase our product imports from foreign vendors, the risks associated with these imports also will increase, and we may be exposed to additional or different risks as we increase imports of goods produced in countries other than China.

Product liability, product recall or other product safety or labeling claims could adversely affect our business, reputation and financial performance.

We are dependent on our vendors to ensure that the products we buy from them comply with applicable product safety and labeling laws and regulations and to inform us of all applicable restrictions on the sale of such products. Nonetheless, product liability, personal injury or other claims may be asserted against us relating to product contamination, tampering, expiration, mislabeling, recall and other safety or labeling issues, including those relating to products that we may self-distribute through our DG Fresh initiative.

We seek but may not be successful in obtaining contractual indemnification and insurance coverage from our vendors. If we do not have adequate contractual indemnification or insurance available, such claims could materially adversely affect our business, financial condition and results of operations. Our ability to obtain indemnification from foreign vendors may be hindered by our ability to obtain jurisdiction over them to enforce contractual obligations. Even with adequate insurance and indemnification, such claims could significantly harm our reputation and consumer confidence in our products and we could incur significant litigation expenses, which also could materially affect our results of operations even if a product liability claim is unsuccessful or not fully pursued.

A significant change in governmental regulations and requirements could materially increase our cost of doing business, and noncompliance with governmental regulations could materially adversely affect our financial performance.

We routinely incur significant costs in complying with numerous and frequently changing laws and regulations. The complexity of this regulatory environment and related compliance costs are increasing due to additional legal and regulatory requirements, our expanding operations, and increased enforcement efforts. New or revised laws, regulations, policies and related interpretations and enforcement practices, particularly those dealing with environmental compliance, product and food safety or labeling, information security and privacy, labor and employment, employee wages, and those governing the sale of products, may significantly increase our expenses or require extensive system and operating changes that could materially increase our cost of doing business. Violations of applicable laws and regulations or untimely or incomplete execution of a required product recall can result in significant penalties (including loss of licenses, eligibility to accept certain government benefits such as SNAP or significant fines), class action or other litigation, and reputational damage. Additionally, changes in tax laws, the interpretation of existing laws, or our failure to sustain our reporting positions on examination could adversely affect our overall effective tax rate.

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

Our business is subject to the risk of litigation by employees, consumers, suppliers, competitors, shareholders, government agencies and others through private actions, class actions, multi-district litigation, administrative proceedings, regulatory actions or other litigation. The outcome of litigation, particularly class action or multi-district litigation and regulatory actions, is difficult to assess or quantify. Plaintiffs in these types of lawsuits may seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss may remain unknown for lengthy periods of time. In addition, certain of these lawsuits, if decided adversely to us or settled by us, may result in liability material to our financial statements as a whole or may negatively affect our operating results if changes to our business operations are required. The cost to defend litigation may be significant, and adverse publicity could harm our reputation, regardless of the validity of the allegations. As a result, litigation may adversely affect our business, results of operations and financial condition. See also Note 6 to the consolidated financial statements.

Our current insurance program may expose us to unexpected costs and negatively affect our financial performance.

Our insurance coverage reflects deductibles, self-insured retentions, limits of liability and similar provisions that we believe are prudent based on our operations. However, there are types of losses we may incur but against which we cannot be insured or which we believe are not economically reasonable to insure, such as losses due to acts of war, certain crimes, including employee crime, certain wage and hour and other employment-related claims and litigation, actions based on certain consumer protection laws, and some natural and other disasters or similar events. If we incur material uninsured losses, our financial performance could suffer. Certain material events may result in sizable losses for the insurance industry and adversely affect the availability of adequate insurance coverage or result in excessive premium increases. To offset negative insurance market trends, we may elect to self-insure, accept higher deductibles or reduce the amount of coverage. In addition, we self-insure a significant portion of expected losses under our workers’ compensation, automobile liability, general liability (including claims made against certain of our landlords) and group health insurance programs. Significant changes in actuarial assumptions and management estimates underlying our recorded liabilities for these losses, including expected increases in medical and indemnity costs, could result in materially different expenses than expected under these programs, which could materially adversely affect our results of operations and financial condition. Although we maintain property insurance for catastrophic events at our store support center and distribution centers, we are effectively self-insured for other property losses. If we experience a greater number of these losses than we anticipate, our financial performance could be adversely affected.

Natural disasters and unusual weather conditions (whether or not caused by climate change), pandemic outbreaks, terrorist acts, and global political events could disrupt business and result in lower sales and otherwise adversely affect our financial performance.

The occurrence of one or more natural disasters, such as hurricanes, fires, floods, tornadoes and earthquakes, unusual weather conditions, pandemic outbreaks, terrorist acts or disruptive global political events, such as civil unrest in countries in which our suppliers are located, or similar disruptions could adversely affect our business and financial performance. Unseasonal or significant weather conditions can affect consumer shopping patterns or prevent customers from reaching our stores, which could lead to lost sales or higher markdowns. If these events result in the closure of one or more of our distribution centers, a significant number of stores, or our corporate headquarters or impact one or more of our key suppliers, our operations and financial performance could be materially adversely affected through an inability to make deliveries or provide other support functions to our stores and through lost sales. These events also could result in increases in fuel or other energy prices, a fuel shortage, store opening delays, the temporary lack of an adequate work force in a market, the temporary or long-term disruption of product availability in our stores, and disruption of our utility services or information systems. These events may also increase the costs of insurance if they result in significant loss of property or other insurable damage.

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Material damage or interruptions to our information systems as a result of external factors, staffing shortages or challenges in maintaining or updating our existing technology or developing or implementing new technology could materially adversely affect our business and results of operations.

We depend on a variety of information technology systems, including systems owned and managed by third-party vendors, for the efficient functioning of our business, including, without limitation, transaction processing and the management of our employees, facilities, logistics, inventories, stores and customer-facing digital applications and operations. Our technology initiatives may not deliver desired results or may do so on a delayed schedule. Additionally, such systems are subject to damage or interruption from power surges and outages, facility damage, computer and telecommunications failures, malicious code (including computer viruses, worms, ransomware, or similar), cyberattacks (including account compromise; phishing; denial of service attacks; and application, network or system vulnerability exploitation), software upgrade failures or code defects, natural disasters and human error. Design defects or damage or interruption to these systems may require a significant investment to fix or replace, disrupt our operations, result in the loss or corruption of critical data, and harm our reputation, all of which could materially adversely affect our business or results of operations.

We also rely heavily on our information technology staff. Failure to meet these staffing needs may negatively affect our ability to fulfill our technology initiatives while continuing to provide maintenance on existing systems. We rely on third parties to maintain and periodically upgrade many of these systems so that they can continue to support our business. We license the software programs supporting many of our systems from independent software developers. The inability of these vendors, developers or us to continue to maintain and upgrade these systems and software programs could disrupt or reduce the efficiency of our operations if we were unable to convert to alternate systems in an efficient and timely manner and could expose us to greater risk of a cyberattack. In addition, costs and delays associated with the implementation of new or upgraded systems and technology or with maintenance or adequate support of existing systems could also disrupt or reduce the efficiency of our operations and adversely affect our profitability.

Failure to attract, train and retain qualified employees while controlling labor costs, as well as other labor issues, could adversely affect our financial performance.

Our future growth and performance, positive customer experience and legal and regulatory compliance depends on our ability to attract, train, retain and motivate qualified employees, many of whom are in positions with historically high rates of turnover. Our ability to meet our labor needs, while controlling our labor costs, is subject to many external factors, including competition for and availability of qualified personnel, unemployment levels, wage rates, minimum wage laws, health and other insurance costs, changes in employment and labor laws or other workplace regulations (including changes in employee benefit programs such as health insurance and paid leave programs), employee activism, and our reputation and relevance within the labor market. If we are unable to attract, train and retain adequate numbers of qualified employees, our operations, customer service levels, legal and regulatory compliance, and support functions could suffer. In addition, to the extent a significant portion of our employee base unionizes, or attempts to unionize, our labor costs could increase. Our ability to pass along labor costs to our customers is constrained by our everyday low price model, and we may not be able to offset such increased costs elsewhere in our business.

Our success depends on our executive officers and other key personnel. If we lose key personnel or are unable to hire additional qualified personnel, our business may be harmed.

Our future success depends to a significant degree on the skills, experience and efforts of our executive officers and other key personnel. The unexpected loss of the services of any of such persons could adversely affect our operations. There can be no assurance that our executive succession planning, retention or hiring efforts will be successful.

Competition for skilled and experienced management personnel is intense, and our future success will also depend on our ability to attract and retain qualified personnel, and a failure to attract and retain new qualified personnel could adversely affect our operations.

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Our private brands may not be successful in improving our gross profit rate and may increase certain of the risks we face.

The sale of private brand items is an important component of our sales growth and gross profit rate enhancement plans. Broad market acceptance of our private brands depends on many factors, including pricing, quality, customer perception, and timely development and introduction of new products. We cannot give assurance that we will achieve or maintain our expected level of private brand sales. The sale and expansion of these offerings also subjects us to or increases certain risks, such as: product liability claims and product recalls; disruptions in raw material and finished product supply and distribution chains; inability to successfully protect our proprietary rights; claims related to the proprietary rights of third parties; and other risks generally encountered by entities that source, sell and market exclusive branded offerings for retail. Failure to appropriately address these risks could materially adversely affect our private brand initiatives, reputation, results of operations and financial condition.

Because our business is somewhat seasonal, adverse events during the fourth quarter could materially affect our financial statements as a whole.

Primarily because of sales of Christmas-related merchandise, our most profitable sales mix generally occurs in the fourth quarter. In anticipation of this holiday, we purchase substantial amounts of seasonal inventory, and if sales fall below seasonal norms or expectations it could result in unanticipated markdowns. Adverse events, such as deteriorating economic conditions, high unemployment rates, high gas prices, public transportation disruptions, or unusual or unanticipated adverse weather could result in lower-than-planned sales during the Christmas selling season, which in turn could reduce our profitability and otherwise adversely affect our financial performance and operating results.

Deterioration in market conditions or changes in our credit profile could adversely affect our business operations and financial condition.

We rely on the positive cash flow we generate from our operating activities and our access to the credit and capital markets to fund our operations, growth strategy, and return of cash to our shareholders through share repurchases and dividends. Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict our access to these potential sources of future liquidity. Our continued access to liquidity sources on favorable terms depends on multiple factors, including our operating performance and credit ratings. Our debt securities currently are rated investment grade, and a downgrade of this rating likely would negatively impact our access to the debt capital markets and increase our cost of borrowing. As a result, disruptions in the debt markets or any downgrade of our credit ratings could adversely affect our business operations and financial condition and our ability to return cash to our shareholders. We can make no assurances that our ability to obtain additional financing through the debt markets will not be adversely affected by economic conditions or that we will be able to maintain or improve our current credit ratings.

New accounting guidance or changes in the interpretation or application of existing accounting guidance could adversely affect our financial performance.

The implementation of new accounting standards could require certain systems, internal process and controls and other changes that could increase our operating costs, and will result in changes to our financial statements. For example, the implementation of accounting standards related to leases, as issued by the Financial Accounting Standards Board, required us to make significant changes to our lease management and other accounting systems, and will result in a material impact to our consolidated financial statements.

U.S. generally accepted accounting principles and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business involve

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many subjective assumptions, estimates and judgments by our management. Changes in these rules or their interpretation or in underlying management assumptions, estimates or judgments could significantly change our reported or expected financial performance. The outcome of such changes could include litigation or regulatory actions which could adversely affect our financial condition and results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As of March 1, 2019, we operated 15,472 retail stores located in 44 states as follows:

State	Number of Stores	State	Number of Stores
Alabama	760	Nebraska	123
Arizona	118	Nevada	22
Arkansas	433	New Hampshire	36
California	220	New Jersey	133
Colorado	47	New Mexico	100
Connecticut	56	New York	464
Delaware	45	North Carolina	817
Florida	856	North Dakota	26
Georgia	872	Ohio	798
Illinois	547	Oklahoma	442
Indiana	525	Oregon	52
Iowa	242	Pennsylvania	738
Kansas	235	Rhode Island	16
Kentucky	530	South Carolina	542
Louisiana	559	South Dakota	52
Maine	55	Tennessee	780
Maryland	137	Texas	1,485
Massachusetts	45	Utah	11
Michigan	519	Vermont	36
Minnesota	136	Virginia	419
Mississippi	512	West Virginia	242
Missouri	518	Wisconsin	171

Most of our stores are located in leased premises. Individual store leases vary as to their terms, rental provisions and expiration dates. Many stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of up to 15 years with multiple renewal options. We also have stores subject to shorter-term leases and many of these leases have renewal options. A significant portion of our new stores are subject to build-to-suit arrangements.

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As of March 1, 2019, we operated the following distribution centers for non-refrigerated merchandise:

Location	Year Opened	Approximate Square Footage	Number of Stores Served
Scottsville, KY	1959	720,000	776
Ardmore, OK	1994	1,310,000	1,070
South Boston, VA	1997	1,250,000	1,065
Indianola, MS	1998	820,000	907
Fulton, MO	1999	1,150,000	1,272
Alachua, FL	2000	980,000	991
Zanesville, OH	2001	1,170,000	1,189
Jonesville, SC	2005	1,120,000	1,019
Marion, IN	2006	1,110,000	1,194
Bessemer, AL	2012	940,000	1,138
Lebec, CA	2012	600,000	444
Bethel, PA	2014	1,000,000	1,115
San Antonio, TX	2016	920,000	995
Janesville, WI	2016	1,000,000	883
Jackson, GA	2017	1,000,000	905
Longview, TX	2018	1,020,000	509

We lease the distribution centers located in California, Oklahoma, Mississippi and Missouri and own the remaining distribution centers in the table above. Approximately 7.25 acres of the land on which our Kentucky distribution center is located is subject to a ground lease. As of February 1, 2019, we owned a cold storage and distribution facility of approximately 148,000 square feet and leased approximately 1,070,000 square feet of additional space to support our distribution needs.

Our executive offices are located in approximately 302,000 square feet of owned buildings and approximately 42,000 square feet of leased office space in Goodlettsville, Tennessee.

ITEM 3. LEGAL PROCEEDINGS

The information contained in Note 6 to the consolidated financial statements under the heading “Legal proceedings” contained in Part II, Item 8 of this report is incorporated herein by this reference.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding our current executive officers as of March 21, 2019 is set forth below. Each of our executive officers serves at the discretion of our Board of Directors and is elected annually by the Board to serve until a successor is duly elected. There are no familial relationships between any of our directors or executive officers.

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Name	Age	Position
Todd J. Vasos	57	Chief Executive Officer and Director
John W. Garratt	50	Executive Vice President and Chief Financial Officer
Michael J. Kindy	53	Executive Vice President, Global Supply Chain
Jeffery C. Owen	49	Executive Vice President, Store Operations
Robert D. Ravener	60	Executive Vice President and Chief People Officer
Jason S. Reiser	50	Executive Vice President and Chief Merchandising Officer
Rhonda M. Taylor	51	Executive Vice President and General Counsel
Carman R. Wenkoff	51	Executive Vice President and Chief Information Officer
Anita C. Elliott	54	Senior Vice President and Chief Accounting Officer

Mr. Vasos has served as Chief Executive Officer and a member of our Board since June 2015. He joined Dollar General in December 2008 as Executive Vice President, Division President and Chief Merchandising Officer. He was promoted to Chief Operating Officer in November 2013. Prior to joining Dollar General, Mr. Vasos served in executive positions with Longs Drug Stores Corporation for seven years, including Executive Vice President and Chief Operating Officer (February 2008 – November 2008) and Senior Vice President and Chief Merchandising Officer (2001 – 2008), where he was responsible for all pharmacy and front-end marketing, merchandising, procurement, supply chain, advertising, store development, store layout and space allocation, and the operation of three distribution centers. He also previously served in leadership positions at Phar-Mor Food and Drug Inc. and Eckerd Corporation.

Mr. Garratt has served as Executive Vice President and Chief Financial Officer since December 2015. He joined Dollar General in October 2014 as Senior Vice President, Finance & Strategy and subsequently served as Interim Chief Financial Officer from July 2015 to December 2015. Prior to joining Dollar General, Mr. Garratt held various positions of increasing responsibility with Yum! Brands, Inc., one of the world’s largest restaurant companies, between May 2004 and October 2014, holding leadership positions in corporate strategy and financial planning. He served as Vice President, Finance and Division Controller for the KFC division and earlier for the Pizza Hut division and for Yum Restaurants International between October 2013 and October 2014. He also served as the Senior Director, Yum Corporate Strategy, from March 2010 to October 2013, reporting directly to the corporate Chief Financial Officer and leading corporate strategy as well as driving key cross-divisional initiatives. Mr. Garratt served in various other financial positions at Yum from May 2004 to March 2010. He served as Plant Controller for Alcoa Inc. between April 2002 and May 2004, and held various financial management positions at General Electric from March 1999 to April 2002. He began his career in May 1990 at Alcoa, where he served for approximately nine years.

Mr. Kindy has served as Executive Vice President, Global Supply Chain since August 2018. He joined Dollar General as Vice President, Distribution Centers in December 2008, became Vice President, Transportation in May 2013, and was promoted to Senior Vice President, Global Supply Chain in June 2015. Prior to joining Dollar General, Mr. Kindy had 14 years of grocery distribution management and 5 years of logistics and distribution consulting experience. He served as Senior Director, Warehouse Operations, for ConAgra Foods from November 2007 to December 2008. Since beginning his career in July 1989, Mr. Kindy also held various distribution and warehouse leadership positions at Safeway, Inc., Crum & Crum Logistics, and Specialized Distribution Management, Inc., and served as a principal consultant for PricewaterhouseCoopers.

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Mr. Owen returned to Dollar General in June 2015 as Executive Vice President of Store Operations, with over 21 years of previous employment experience with the Company. Prior to his departure from Dollar General in July 2014, he was Senior Vice President, Store Operations. Prior to August 2011, Mr. Owen served as Vice President, Division Manager. From November 2006 to March 2007, he served as Retail Division Manager. Prior to November 2006, he was Senior Director, Operations Process Improvement. Mr. Owen served the Company in various operations roles of increasing importance and responsibility from December 1992 to September 2004. Mr. Owen has served as a director of Kirkland's Inc. since March 2015.

Mr. Ravener joined Dollar General as Senior Vice President and Chief People Officer in August 2008. He was promoted to Executive Vice President in March 2010. As previously announced, Mr. Ravener plans to retire from Dollar General effective May 27, 2019. Prior to joining Dollar General, he served in human resources executive roles with Starbucks Corporation from September 2005 until August 2008 as the Senior Vice President of U.S. Partner Resources and, prior to that, as the Vice President, Partner Resources—Eastern Division. As the Senior Vice President of U.S. Partner Resources at Starbucks, Mr. Ravener oversaw all aspects of human resources activity for more than 10,000 stores. Prior to serving at Starbucks, Mr. Ravener held Vice President of Human Resources roles for The Home Depot Inc. at its Store Support Center and a domestic field division from April 2003 to September 2005. Mr. Ravener also served in executive roles in both human resources and operations at Footstar, Inc. and roles of increasing leadership at PepsiCo, Inc.

Mr. Reiser has served as Executive Vice President and Chief Merchandising Officer since July 2017. Prior thereto, he served as the Executive Vice President and Chief Operating Officer of Vitamin Shoppe, Inc., a multi-channel specialty retailer and contract manufacturer of vitamins, minerals, herbs, specialty supplements, sports nutrition and other health and wellness products, from July 2016 to July 2017, where he was responsible for leading merchandising, operations, end-to-end supply chain, information technology, real estate and construction, planning, pricing and merchandising operations. He also previously served as Executive Vice President, Chief Merchandising Officer from January 2014 to June 2016 and as Senior Vice President, Hardlines Merchandising from July 2013 to January 2014, for discount retailer Dollar Tree, Inc. (successor to Family Dollar Stores, Inc.). Prior to his employment with Family Dollar, Mr. Reiser was employed by Walmart Stores, Inc. for 17 years in a variety of roles, including Vice President, Merchandising, Health & Family Care of Sam's Club from November 2010 to June 2013; Vice President, Operations & Compliance, Health & Wellness of Sam's Club from May 2010 to November 2010; Divisional Merchandise Manager, Wellness, from May 2009 to May 2010; Senior Buyer Pharmacy/OTC of Sam's Club from November 2006 to May 2009; Director, Government Relations and Regulatory Affairs from August 2002 to November 2006; Pharmacy District Manager from August 2000 to August 2002; and Pharmacy Manager from October 1995 to August 2000.

Ms. Taylor has served as Executive Vice President and General Counsel since March 2015. She joined Dollar General as an Employment Attorney in March 2000 and was subsequently promoted to Senior Employment Attorney in 2001, Deputy General Counsel in 2004, Vice President and Assistant General Counsel in March 2010, and Senior Vice President and General Counsel in June 2013. Prior to joining Dollar General, she practiced law with Ogletree, Deakins, Nash, Smoak & Stewart, P.C., where her practice was focused on labor law and employment litigation. She has also held attorney positions with Ford & Harrison LLP and Stokes Bartholomew.

Mr. Wenkoff has served as Executive Vice President and Chief Information Officer since July 2017. Prior thereto, he served as the Chief Information Officer (May 2012 – June 2017) and Chief Digital Officer (June 2016 – June 2017) of Franchise World Headquarters, LLC ("Subway"), the largest string of sandwich shops in the world, where he was responsible for global technology and digital strategy, execution and operations for the Subway brand and all of its restaurants. He also owned a Subway franchise in Southport, Connecticut from July 2015 until October 2017. Prior to joining Subway, he served as the Chairman of the Board and Co-President of Retail Gift Card Association, a member organization of diverse, closed loop gift card retailers committed to promoting and protecting the use of gift cards, from February 2008 to May 2012. He also served as the Deputy Chief Information Officer for Independent Purchase Cooperative, Inc., an independent Subway franchisee-owned and operated purchasing and services cooperative, from May 2005 to May 2012, and as President of its subsidiary,

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Value Pay Services LLC, from May 2005 to February 2011. He was the founder and President of Stored Value Management, Inc., an independently owned program and consulting company, from January 2004 to May 2005 and the Vice President, Operations and Finance, as well as General Counsel of Ontain Corporation, a technology company focused on providing turn-key retail merchant solutions, from January 2000 to December 2004. Mr. Wenkoff began his career in 1993 as an articled student, and then attorney with Douglas Symes & Brissenden and served in various legal positions, including General Counsel, with Pivotal Corporation from 1997 to 2000.

Ms. Elliott has served as Senior Vice President and Chief Accounting Officer since December 2015. She joined Dollar General as Senior Vice President and Controller in August 2005. Prior to joining Dollar General, she served as Vice President and Controller of Big Lots, Inc. from May 2001 to August 2005, where she was responsible for accounting operations, financial reporting and internal audit. Prior to serving at Big Lots, she served as Vice President and Controller for Jitney-Jungle Stores of America, Inc. from April 1998 to March 2001. At Jitney-Jungle, Ms. Elliott was responsible for the accounting operations and the internal and external financial reporting functions. Prior to serving at Jitney-Jungle, she practiced public accounting for 12 years, 6 of which were with Ernst & Young LLP.

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PART II

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

Market Information

Our common stock is traded on the New York Stock Exchange under the symbol "DG." On March 18, 2019, there were approximately 2,556 shareholders of record of our common stock.

Dividends

We resumed the payment of quarterly cash dividends in 2015. Our Board of Directors most recently increased the amount of the quarterly cash dividend to $0.32 beginning with the dividend payable on April 23, 2019. While our Board of Directors currently expects to continue regular quarterly cash dividends, the declaration and amount of future cash dividends are subject to the Board's sole discretion and will depend upon, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that the Board may deem relevant in its sole discretion.

Issuer Purchases of Equity Securities

The following table contains information regarding purchases of our common stock made during the quarter ended February 1, 2019 by or on behalf of Dollar General or any "affiliated purchaser," as defined by Rule 10b 18(a)(3) of the Securities Exchange Act of 1934:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(a)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(a)
11/03/18-11/30/18	—	$ —	—	$ 706,116,000

12/01/18-12/31/18	3,027,556	$ 104.04	3,027,556	$ 391,132,000
01/01/19-02/01/19	407,492	$ 110.45	407,492	$ 346,124,000
Total	3,435,048	$ 104.80	3,435,048	$ 346,124,000

(a) On September 5, 2012, the Company announced a program permitting the Company to repurchase a portion of its outstanding shares not to exceed a dollar maximum established by the Company's Board of Directors. The program was most recently amended on March 13, 2019 to increase the repurchase authorization by $1.0 billion, bringing the total value of authorized share repurchases under the program to $7.0 billion. Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market and other conditions. This repurchase authorization has no expiration date.

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial and operating information of Dollar General Corporation as of the dates and for the periods indicated. The selected historical statement of income data and statement of cash flows data for the fiscal years ended February 1, 2019, February 2, 2018, and February 3, 2017, and balance sheet data as of February 1, 2019 and February 2, 2018, have been derived from our historical audited consolidated financial statements included elsewhere in this report. The selected historical statement of income data and statement of cash flows data for the fiscal years ended January 29, 2016 and January 30, 2015 and balance sheet data as of February 3, 2017, January 29, 2016, and January 30, 2015 presented in this table have been derived from audited consolidated financial statements not included in this report.

The information set forth below should be read in conjunction with, and is qualified by reference to, the Consolidated Financial Statements and related notes included in Part II, Item 8 of this report and the

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Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this report. Certain financial disclosures relating to prior periods have been reclassified to conform to the current year presentation.

(Amounts in millions, excluding per share data, number of stores, selling square feet, and net sales per square foot)	Year Ended February 1, 2019	February 2, 2018	February 3, 2017(1)	January 29, 2016	January 30, 2015
Statement of Income Data:					
Net sales	$ 25,625.0	$ 23,471.0	$ 21,986.6	$ 20,368.6	$ 18,909.6
Cost of goods sold	17,821.2	16,249.6	15,204.0	14,062.5	13,107.1
Gross profit	7,803.9	7,221.4	6,782.6	6,306.1	5,802.5
Selling, general and administrative expenses	5,687.6	5,213.5	4,719.2	4,365.8	4,033.4
Operating profit	2,116.3	2,007.8	2,063.4	1,940.3	1,769.1
Interest expense	99.9	97.0	97.8	86.9	88.2
Other (income) expense	1.0	3.5	—	0.3	—
Income before income taxes	2,015.4	1,907.3	1,965.6	1,853.0	1,680.9
Income tax expense	425.9	368.3	714.5	687.9	615.5
Net income	$ 1,589.5	$ 1,539.0	$ 1,251.1	$ 1,165.1	$ 1,065.3
Earnings per share—basic	$ 5.99	$ 5.64	$ 4.45	$ 3.96	$ 3.50
Earnings per share—diluted	5.97	5.63	4.43	3.95	3.49
Dividends per share	1.16	1.04	1.00	0.88	—
Statement of Cash Flows Data:					
Net cash provided by (used in):					
Operating activities	$ 2,143.6	$ 1,802.1	$ 1,605.0	$ 1,391.7	$ 1,326.9
Investing activities	(731.6)	(645.0)	(550.9)	(503.4)	(371.7)
Financing activities	(1,443.9)	(1,077.6)	(1,024.1)	(1,310.2)	(880.9)
Total capital expenditures	(734.4)	(646.5)	(560.3)	(504.8)	(374.0)
Other Financial and Operating Data:					
Same store sales growth(2)	3.2 %	2.7 %	0.9 %	2.8 %	2.8 %
Same store sales(2)	$ 23,854.0	$ 21,871.6	$ 20,348.1	$ 19,254.3	$ 17,818.7
Number of stores included in same store sales calculation	14,283	13,150	12,383	11,706	11,052
Number of stores (at period end)	15,370	14,534	13,320	12,483	11,789
Selling square feet (in thousands at period end)	113,755	107,821	98,943	92,477	87,205
Net sales per square foot(3)	$ 231	$ 227	$ 229	$ 226	$ 223
Consumables sales	77.5 %	76.9 %	76.4 %	75.9 %	75.7 %
Seasonal sales	11.9 %	12.1 %	12.2 %	12.4 %	12.4 %
Home products sales	5.9 %	6.0 %	6.2 %	6.3 %	6.4 %
Apparel sales	4.7 %	5.0 %	5.2 %	5.4 %	5.5 %
Rent expense	$ 1,159.1	$ 1,081.5	$ 942.4	$ 856.9	$ 785.2
Balance Sheet Data (at period end):					
Cash and cash equivalents and short-term investments	$ 235.5	$ 267.4	$ 187.9	$ 157.9	$ 579.8
Total assets	13,204.0	12,516.9	11,672.3	11,257.9	11,208.6
Long-term debt(4)	2,864.7	3,006.0	3,211.5	2,970.6	2,725.1
Total shareholders' equity	6,417.4	6,125.8	5,406.3	5,377.9	5,710.0

(1) The fiscal year ended February 3, 2017 was comprised of 53 weeks.

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(2) Same-store sales are calculated based upon stores that were open at least 13 full fiscal months and remain open at the end of the reporting period. We include stores that have been remodeled, expanded or relocated in our same-store sales calculation. Changes in same-store sales are calculated based on the comparable 52 calendar weeks in the current and prior years.

(3) Net sales per square foot was calculated based on total sales for the preceding 12 months as of the ending date of the reporting period divided by the average selling square footage during the period, including the end of the fiscal year, the beginning of the fiscal year, and the end of each of our three interim fiscal quarters.

(4) Debt issuance costs are reflected as a deduction from the corresponding debt liability for all periods presented.

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

This discussion and analysis should be read with, and is qualified in its entirety by, the Consolidated Financial Statements and the notes thereto. It also should be read in conjunction with the Cautionary Disclosure Regarding Forward Looking Statements and the Risk Factors disclosures set forth in the Introduction and in Item 1A of this report, respectively.

Executive Overview

We are among the largest discount retailers in the United States by number of stores, with 15,472 stores located in 44 states as of March 1, 2019, with the greatest concentration of stores in the southern, southwestern, midwestern and eastern United States. We offer a broad selection of merchandise, including consumable products such as food, paper and cleaning products, health and beauty products and pet supplies, and non-consumable products such as seasonal merchandise, home decor and domestics, and basic apparel. Our merchandise includes national brands from leading manufacturers, as well as our own private brand selections with prices at substantial discounts to national brands. We offer our customers these national brand and private brand products at everyday low prices (typically $10 or less) in our convenient small-box locations.

We believe our convenient store formats, locations, and broad selection of high-quality products at compelling values have driven our substantial growth and financial success over the years and through a variety of economic cycles. We are mindful that the majority of our customers are value-conscious, and many have low and/or fixed incomes. As a result, we are intensely focused on helping our customers make the most of their spending dollars. Our core customers are often among the first to be affected by negative or uncertain economic conditions and among the last to feel the effects of improving economic conditions particularly when trends are inconsistent and of an uncertain duration. The primary macroeconomic factors that affect our core customers include the unemployment and underemployment rates, wage growth, fuel prices, changes in U.S. and global trade policy (including price increases from tariffs), and changes to certain government assistance programs, such as the Supplemental Nutrition Assistance Program. Additionally, our customers are impacted by increases in those expenses that generally comprise a large portion of their household budget, such as rent and healthcare. Finally, significant unseasonable or unusual weather patterns can impact customer shopping behaviors.

We remain committed to the following long-term operating priorities as we consistently strive to improve our performance while retaining our customer-centric focus: 1) driving profitable sales growth, 2) capturing growth opportunities, 3) enhancing our position as a low-cost operator, and 4) investing in our people as a competitive advantage.

We seek to drive profitable sales growth through initiatives aimed at increasing customer traffic and average transaction amount. As we work to provide everyday low prices and meet our customers' affordability needs, we remain focused on enhancing our margins through effective category management, inventory shrink reduction initiatives, private brands penetration, distribution and transportation efficiencies (including a test to self-distribute fresh and frozen products, which we call "DG Fresh"), global sourcing, and pricing and markdown optimization. Several of our sales-driving initiatives are also designed to capture growth opportunities and are discussed in more detail below.

Historically, our sales of consumables, which tend to have lower gross margins, have been the key drivers of net sales and customer traffic, while sales of non-consumables, which tend to have higher gross margins, have contributed to more profitable sales growth and an increase in average transaction amount. Throughout 2018, our sales mix continued to shift slightly toward consumables, and, within consumables, slightly toward lower margin departments such as perishables and tobacco. While we expect some sales mix challenges to persist, certain of our initiatives are intended to address these trends, although there can be no assurance we will be successful in reversing them.

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We continue to make progress on and invest in certain strategic initiatives that we believe will help drive profitable sales growth and capture long-term growth opportunities. Such opportunities include leveraging existing and developing new digital tools and technology to provide our customers with additional shopping access points and even greater convenience. Following an in-depth analysis, in 2018 we began testing a refreshed approach to our non-consumable product offerings. This non-consumables initiative is a merchandising strategy that offers a new, differentiated and limited assortment that will change throughout the year. As we look to roll out this initiative more broadly in 2019, our goal for this initiative is to continue to improve the shopping experience while delivering exceptional value within key areas of our non-consumable categories. In 2019, we also are testing two initiatives aimed at driving sales and enhancing our position as a low-cost operator, as discussed further below.

Tariffs currently in effect on products from China, as applied to both our direct imports and domestic purchases, did not have a material impact on our financial results in fiscal 2018. The recently postponed increase in tariff rates applicable to products from China, if ultimately implemented, as well as any other future increase in tariff rates or the expansion of products subject to tariffs, may have a more significant impact on our business and on our customers' budgets. We continue to work to minimize price increases to our customers and to mitigate the potential sales and margin impact of current and potential future tariffs through various merchandising efforts. There can be no assurance we will be successful in our efforts to mitigate these impacts in whole or in part.

To support our other operating priorities, we remain focused on capturing growth opportunities. In 2018, we opened 900 new stores, remodeled 1,050 stores, and relocated 115 stores. For 2019, we plan to open approximately 975 new stores, remodel approximately 1,000 stores, and relocate approximately 100 stores for an approximate total of 2,075 real estate projects.

We continue to innovate within our channel and are able to utilize the most productive of our various store formats based on the specific market opportunity. We expect that our traditional 7,300 square foot store format will continue to be the primary store layout for new stores, relocations and remodels in 2019. We expect approximately 500 of the planned 1,000 remodels in 2019 to use the higher-cooler-count store format that enables us to offer an increased selection of perishable items. In addition, our smaller format store (less than 6,000 square feet) allows us to capture growth opportunities in metropolitan areas as well as in rural areas with a low number of households. We continue to incorporate lessons learned from our various store formats and layouts into our existing store base with a goal of driving increased customer traffic, average transaction amount, same-store sales and overall store productivity.

To support our new store growth and drive productivity, we continue to make investments in our traditional distribution center network for non-refrigerated merchandise. Most recently, we began shipping from our distribution center in Longview, Texas in January 2019. In addition, our distribution center in Amsterdam, New York is currently under construction, and we expect to begin shipping from this facility later in 2019.

We have established a position as a low-cost operator, always seeking ways to reduce or control costs that do not affect our customers' shopping experiences. We plan to continue enhancing this position over time while employing ongoing cost discipline to reduce certain expenses as a percentage of sales. Nonetheless, we seek to maintain flexibility to invest in the business as necessary to enhance our long-term profitability.

In 2019, we will be testing “DG Fresh”, a self-distribution model for fresh and frozen products that is designed to enhance sales, reduce product costs, improve our in-stock position and enhance item assortment; and Fast Track, an initiative aimed at further enhancing our convenience proposition and in-stock position as well as increasing labor productivity within our stores. These and certain other strategic initiatives will require us to incur upfront expenses for which there may not be an immediate return in terms of sales or enhanced profitability.

Certain operating expenses such as wage rates and occupancy costs have continued to increase in recent years. While we expect these increases to persist, certain of our initiatives and plans are intended to help offset these challenges, although there can be no assurance we will be successful in mitigating them.

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Our employees are a competitive advantage, and we proactively seek ways to continue investing in them. Our goal is to create an environment that attracts and retains talented personnel, particularly at the store level, because employees who are promoted from within our company generally have longer tenures and are greater contributors to improvements in our financial performance. We believe our investments in compensation and training for our store managers have contributed to improved customer experience scores, higher sales and improved turnover metrics.

To further enhance shareholder return, we repurchased shares of our common stock and paid quarterly cash dividends throughout 2018. In 2019, we intend to continue our share repurchase activity, and to pay quarterly cash dividends, subject to Board discretion and approval.

A continued focus on our four operating priorities as discussed above, coupled with strong cash flow management and share repurchases resulted in solid overall operating and financial performance in 2018 as compared to 2017, as set forth below. Basis points, as referred to below, are equal to 0.01% as a percentage of net sales.

· Net sales in 2018 increased 9.2% over 2017. Sales in same-stores increased 3.2%, primarily due to an increase in average transaction amount. Average sales per square foot in 2018 were $231 compared to $227 in 2017.

· Our gross profit rate decreased by 32 basis points due primarily to higher markdowns, a greater proportion of sales of consumables compared to non-consumables, and increased transportation costs.

· SG&A decreased by 1 basis point and was impacted by reduced repairs and maintenance expenses offset by increases in occupancy costs and depreciation expenses.

· Operating profit increased 5.4% to $2.12 billion in 2018 compared to $2.01 billion in 2017.

· The increase in the effective income tax rate to 21.1% in 2018 from 19.3% in 2017 was due primarily to the remeasurement of deferred tax assets and liabilities in 2017 related to tax reform.

· We reported net income of $1.59 billion, or $5.97 per diluted share, for 2018 compared to net income of $1.54 billion, or $5.63 per diluted share, for 2017.

· We generated approximately $2.14 billion of cash flows from operating activities in 2018, an increase of 18.9% compared to 2017 as described in detail below. We primarily utilized our cash flows from operating activities to invest in the growth of our business, repurchase our common stock, and pay quarterly cash dividends.

- Inventory turnover was 4.6 times on a rolling four-quarter basis. Inventories increased 7.3% on a per store basis compared to 2017.

- We repurchased approximately 9.9 million shares of our outstanding common stock for $1.0 billion.

Readers should refer to the detailed discussion of our operating results below for additional comments on financial performance in the current year as compared with the prior years presented.

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Results of Operations

Accounting Periods. The following text contains references to years 2018, 2017, and 2016, which represent fiscal years ended February 1, 2019, February 2, 2018, and February 3, 2017, respectively. Our fiscal year ends on the Friday closest to January 31. Fiscal years 2018 and 2017 were 52-week accounting periods and fiscal year 2016 was a 53-week accounting period.

Seasonality. The nature of our business is somewhat seasonal. Primarily because of sales of Christmas-related merchandise, operating profit in our fourth quarter (November, December and January) has historically been higher than operating profit achieved in each of the first three quarters of the fiscal year. Expenses, and to a greater extent operating profit, vary by quarter. Results of a period shorter than a full year may not be indicative of results expected for the entire year. Furthermore, the seasonal nature of our business may affect comparisons between periods.

The following table contains results of operations data for fiscal years 2018, 2017 and 2016, and the dollar and percentage variances among those years.

(amounts in millions, except per share amounts)	2018	2017	2016	2018 vs. 2017 Amount Change	2018 vs. 2017 % Change	2017 vs. 2016 Amount Change	2017 vs. 2016 % Change
Net sales by category:							
Consumables	$ 19,865.1	$ 18,054.8	$ 16,798.9	$ 1,810.3	10.0 %	$ 1,255.9	7.5 %
% of net sales	77.52 %	76.92 %	76.41 %				
Seasonal	3,050.3	2,837.3	2,674.3	213.0	7.5	163.0	6.1
% of net sales	11.90 %	12.09 %	12.16 %				
Home products	1,506.1	1,400.6	1,373.4	105.4	7.5	27.2	2.0
% of net sales	5.88 %	5.97 %	6.25 %				
Apparel	1,203.6	1,178.3	1,140.0	25.4	2.2	38.3	3.4
% of net sales	4.70 %	5.02 %	5.18 %				
Net sales	$ 25,625.0	$ 23,471.0	$ 21,986.6	$ 2,154.1	9.2 %	$ 1,484.4	6.8 %
Cost of goods sold	17,821.2	16,249.6	15,204.0	1,571.6	9.7	1,045.6	6.9
% of net sales	69.55 %	69.23 %	69.15 %				
Gross profit	7,803.9	7,221.4	6,782.6	582.5	8.1	438.7	6.5
% of net sales	30.45 %	30.77 %	30.85 %				
Selling, general and administrative expenses	5,687.6	5,213.5	4,719.2	474.0	9.1	494.4	10.5
% of net sales	22.20 %	22.21 %	21.46 %				
Operating profit	2,116.3	2,007.8	2,063.4	108.5	5.4	(55.6)	(2.7)

% of net sales	8.26 %	8.55 %	9.39 %				
Interest expense	99.9	97.0	97.8	2.8	2.9	(0.8)	(0.8)
% of net sales	0.39 %	0.41 %	0.44 %				
Other (income) expense	1.0	3.5	—	(2.5)	—	3.5	—
% of net sales	0.00 %	0.01 %	0.00 %				
Income before income taxes	2,015.4	1,907.3	1,965.6	108.1	5.7	(58.3)	(3.0)
% of net sales	7.87 %	8.13 %	8.94 %				
Income tax expense	425.9	368.3	714.5	57.6	15.6	(346.2)	(48.5)
% of net sales	1.66 %	1.57 %	3.25 %				
Net income	$ 1,589.5	$ 1,539.0	$ 1,251.1	$ 50.5	3.3 %	$ 287.8	23.0 %
% of net sales	6.20 %	6.56 %	5.69 %				
Diluted earnings per share	$ 5.97	$ 5.63	$ 4.43	$ 0.34	6.0 %	$ 1.20	27.1 %

Net Sales. The net sales increase in 2018 reflects a same-store sales increase of 3.2% compared to 2017. Same-stores include stores that have been open for at least 13 months and remain open at the end of the reporting period. Changes in same-store sales are calculated based on the comparable calendar weeks in the prior year, and include stores that have been remodeled, expanded or relocated. In 2018, our 14,283 same-stores accounted for sales of $23.9 billion. The increase in same-store sales primarily reflects an increase in average transaction amount

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relative to 2017. The increase in average transaction amount was driven by higher average item retail prices and to a lesser extent, an increase in average items per transaction, while customer traffic was essentially unchanged. Same-store sales in 2018 increased in the consumables, seasonal and home products categories, and declined in the apparel category, compared to 2017. Same-store sales results in 2018 for the three non-consumables categories, when aggregated, were positive. The 2018 net sales increase was positively affected by new stores, modestly offset by sales from closed stores.

The net sales increase in 2017 reflects a same-store sales increase of 2.7% compared to 2016. In 2017, our 13,150 same-stores accounted for sales of $21.9 billion. The increase in same-store sales was due to increases in average transaction amount and customer traffic relative to 2016. Same-store sales in 2017 increased in the consumables and seasonal categories, and declined in the home products and apparel categories, compared to 2016. Same-store sales results in 2017 for the three non-consumables categories, when aggregated, were positive. Net sales for the 53rd week of 2016 totaled $398.7 million. The 2017 net sales increase was positively affected by new stores, modestly offset by sales from closed stores.

Of our four major merchandise categories, the consumables category, which generally has a lower gross profit rate than the other three categories, has grown most significantly over the past several years. Because of the impact of sales mix on gross profit, we continually review our merchandise mix and strive to adjust it when appropriate.

Gross Profit. For 2018, gross profit increased by 8.1%, and as a percentage of net sales decreased by 32 basis points to 30.5% compared to 2017. Higher markdowns, a greater proportion of sales of consumables, which generally have a lower gross profit rate than our other product categories, and sales of lower margin products comprising a higher proportion of consumables sales, as well as increases in transportation costs and an increased LIFO provision reduced the gross profit rate. These factors were partially offset by an improved rate of inventory shrinkage and higher initial markups on inventory purchases.

For 2017, gross profit increased by 6.5%, and as a percentage of net sales decreased by 8 basis points to 30.8% compared to 2016. A greater proportion of sales of consumables, which generally have a lower gross profit rate than our other product categories, and sales of lower margin products comprising a higher proportion of consumables sales, reduced the gross profit rate. Higher markdowns, which were primarily for promotional activities, and increases in transportation costs also reduced the gross profit rate, and these factors were partially offset by higher initial markups on inventory purchases and an improved rate of inventory shrinkage.

SG&A. SG&A as a percentage of sales decreased by 1 basis point, rounding to 22.2% in both 2018 and 2017. The 2018 amounts reflect a reduction in repairs and maintenance expenses which were offset by occupancy costs and depreciation expenses, each of which increased at a rate greater than the increase in net sales. The 2018 amounts reflect an increase in hurricane and other disaster-related expenses of approximately $14.3 million compared to 2017. The 2017 amounts include costs of $24.0 million related to the closure of 35 underperforming stores, primarily expenses for remaining lease liabilities.

SG&A as a percentage of sales was 22.2% in 2017 compared to 21.5% in 2016, an increase of 75 basis points. The 2017 amounts reflect increased retail labor expenses, which includes our investment in store manager compensation, increased occupancy costs, and higher incentive compensation, each of which increased at a rate greater than the increase in net sales. Partially offsetting these increased expenses were reduced advertising costs, and costs that increased at a rate less than the increase in net sales, including utilities and waste management costs primarily resulting from our recycling efforts. The 2017 amounts include costs related to the closure of 35 underperforming stores discussed above. The 2017 amounts also reflect an increase in hurricane and other disaster-related expenses of approximately $18.0 million compared to 2016. SG&A as a percentage of sales was favorably impacted in 2016 by increased sales including the 53rd week discussed above, among other factors.

Interest Expense. Interest expense increased $2.8 million to $99.9 million in 2018 compared to 2017 primarily due to higher average interest rates which was partially offset by a decrease in average debt outstanding.

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Interest expense decreased $0.8 million to $97.0 million in 2017 compared to 2016. See the detailed discussion under “Liquidity and Capital Resources” regarding the financing of various long-term obligations.

We had consolidated outstanding variable-rate debt of $373.3 million and $612.5 million as of February 1, 2019 and February 2, 2018, respectively, and the remainder of our outstanding indebtedness as of each of those dates was fixed rate debt.

Other (income) expense. Other (income) expense in 2018 reflects expenses associated with the voluntary prepayment of our senior unsecured term loan facility, and in 2017 reflects expenses associated with the issuance and refinancing of long-term debt.

Income Taxes. The effective income tax rates for 2018, 2017, and 2016 were expenses of 21.1%, 19.3%, and 36.3%, respectively.

Under accounting standards for income taxes, the impact of new tax legislation must be taken into account in the period in which the new legislation is enacted, including the remeasurement of deferred tax assets and liabilities at the tax rates at which such items are expected to reverse in future periods. Subsequent to the signing of the Tax Cuts and Jobs Act (the “Act”), the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which allows companies to record provisional amounts during a measurement period not to extend beyond one year after the enactment date while the accounting impact is still under analysis. Our 2017 provision for income taxes reflected such estimates due to the changes in income tax law, including a provisional tax benefit of $335 million. The provisional tax benefit consisted of $310.8 million related to the one-time remeasurement of the federal portion of our deferred tax assets and liabilities at the 21% rate and $24.2 million related to the reduced statutory tax rate of 33.7%, compared to 35% in prior years. We concluded our analysis of the accounting impact of the Act pursuant to SAB 118 and recorded immaterial adjustments related to our 2017 provision for income taxes in 2018.

The effective income tax rate for 2018 was 21.1% compared to a rate of 19.3% for 2017 which represents a net increase of 1.8 percentage points. The effective income tax rate was higher in 2018 primarily due to the one-time remeasurement of the deferred tax assets and liabilities at 21% in 2017, which was offset by the reduction in the current federal tax rate from 33.7% in 2017 to 21% in 2018.

The effective income tax rate for 2017 was 19.3% compared to a rate of 36.3% for 2016 which represents a net decrease of 17.0 percentage points. The effective income tax rate was lower in 2017 primarily due to the one-time remeasurement of the federal portions of our deferred tax assets and liabilities at 21%, accompanied by the changes in the federal income tax laws pursuant to the Act that lowered our statutory federal tax rate to 33.7% for the 2017 fiscal year, compared to 35% in 2016.

Off Balance Sheet Arrangements

We are not party to any material off balance sheet arrangements.

Effects of Inflation

In 2018, we experienced increases in certain product costs due in part to tariffs on certain items imported from China. We experienced minimal overall commodity cost inflation or deflation in 2017. In 2016, we experienced product cost deflation reflecting reductions in commodity costs primarily related to food products.

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Liquidity and Capital Resources

Current Financial Condition and Recent Developments

During the past three years, we have generated an aggregate of approximately $5.6 billion in cash flows from operating activities and incurred approximately $1.9 billion in capital expenditures. During that period, we expanded the number of stores we operate by 2,887, representing growth of approximately 23%, and we remodeled or relocated 2,835 stores, or approximately 23% of the stores we operated as of the beginning of the period. In 2019, we intend to continue our current strategy of pursuing store growth, remodels and relocations.

At February 1, 2019, we had a $1.25 billion unsecured revolving credit agreement (the "Revolving Facility"), $2.5 billion aggregate principal amount of senior notes, and a commercial paper program that may provide borrowing availability of up to $1.0 billion. At February 1, 2019, we had total consolidated outstanding debt (including the current portion of long-term obligations) of $2.9 billion, which includes commercial paper borrowings ("CP Notes") and senior notes, all of which are described in greater detail below. Our borrowing availability under the Revolving Facility may be effectively limited by our CP Notes as further described below. The information contained in Note 4 to the consolidated financial statements contained in Part II, Item 8 of this report is incorporated herein by reference.

We believe our cash flow from operations, and our existing cash balances, combined with availability under the Revolving Facility, CP Notes and access to the debt markets, will provide sufficient liquidity to fund our current obligations, projected working capital requirements, capital spending and anticipated dividend payments for a period that includes the next twelve months as well as the next several years. However, our ability to maintain sufficient liquidity may be affected by numerous factors, many of which are outside of our control. Depending on our liquidity levels, conditions in the capital markets and other factors, we may from time to time consider the issuance of debt, equity or other securities, the proceeds of which could provide additional liquidity for our operations.

For fiscal 2019, we anticipate potential combined borrowings under the Revolving Facility and CP Notes to be a maximum of approximately $800 million outstanding at any one time, including any anticipated borrowings to fund repurchases of common stock.

Revolving Credit Facility

On February 22, 2017, we entered into the Revolving Facility of which up to $175.0 million is available for the issuance of letters of credit and which is scheduled to mature on February 22, 2022.

Borrowings under the Revolving Facility bear interest at a rate equal to an applicable interest rate margin plus, at our option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable interest rate margin for borrowings as of February 1, 2019 was 1.10% for LIBOR borrowings and 0.10% for base-rate borrowings. We must also pay a facility fee, payable on any used and unused commitment amounts of the Revolving Facility, and customary fees on letters of credit issued under the Revolving Facility. As of February 1, 2019, the commitment fee rate was 0.15%. The applicable interest rate margins for borrowings, the facility fees and the letter of credit fees under the Revolving Facility are subject to adjustment from time to time based on our long-term senior unsecured debt ratings.

The Revolving Facility contains a number of customary affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, our (including our subsidiaries') ability to: incur additional liens; sell all or substantially all of our assets; consummate certain fundamental changes or change in our lines of business; and incur additional subsidiary indebtedness. The Revolving Facility also contains financial covenants that require the maintenance of a minimum fixed charge coverage ratio and a maximum leverage ratio. As of February 1, 2019, we were in compliance with all such covenants. The Revolving Facility also contains customary events of default.

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As of February 1, 2019, under the Revolving Facility, we had no outstanding borrowings, outstanding letters of credit of $7.6 million, and borrowing availability of $1.2 billion that, due to our intention to maintain borrowing availability related to the commercial paper program described below, could contribute incremental liquidity of $689.5 million at February 1, 2019. In addition, as of February 1, 2019 we had outstanding letters of credit of $32.9 million which were issued pursuant to separate agreements.

Commercial Paper

As of February 1, 2019, our consolidated balance sheet reflected outstanding unsecured CP Notes of $366.9 million classified as long-term obligations due to our intent and ability to refinance these obligations as long-term debt. An additional $186.0 million of outstanding CP Notes were held by a wholly-owned subsidiary and are therefore not reflected on the consolidated balance sheet. Under this program, we may issue the CP Notes from time to time in an aggregate amount not to exceed $1.0 billion outstanding at any time. The CP Notes may have maturities of up to 364 days from the date of issue and rank equal in right of payment with all of our other unsecured and unsubordinated indebtedness. We intend to maintain available commitments under the Revolving Facility in an amount at least equal to the amount of CP Notes outstanding at any time. As of February 1, 2019, the consolidated outstanding CP Notes had a weighted average borrowing rate of 2.7%.

Senior Notes

In April 2013 we issued $900.0 million aggregate principal amount of 3.25% senior notes due 2023 (the “2023 Senior Notes”) at a discount of $2.4 million, which are scheduled to mature on April 15, 2023. In October 2015 we issued $500.0 million aggregate principal amount of 4.150% senior notes due 2025 (the “2025 Senior Notes”) at a discount of $0.8 million, which are scheduled to mature on November 1, 2025. In April 2017 we issued $600.0 million aggregate principal amount of 3.875% senior notes due 2027 (the “2027 Senior Notes”) at a discount of $0.4 million, which are scheduled to mature on April 15, 2027. In April 2018 we issued $500.0 million aggregate principal amount of 4.125% senior notes due 2028 (the “2028 Senior Notes”) at a discount of $0.5 million, which are scheduled to mature on May 1, 2028. Collectively, the 2023 Senior Notes, 2025 Senior Notes, 2027 Senior Notes and 2028 Senior Notes comprise the “Senior Notes”, each of which were issued pursuant to an indenture as supplemented and amended by supplemental indentures relating to each series of Senior Notes (as so supplemented and amended, the “Senior Indenture”). Interest on the 2023 Senior Notes and the 2027 Senior Notes is payable in cash on April 15 and October 15 of each year. Interest on the 2025 and 2028 Senior Notes is payable in cash on May 1 and November 1 of each year. Interest payments on the 2028 Senior Notes commenced on November 1, 2018.

We may redeem some or all of the Senior Notes at any time at redemption prices set forth in the Senior Indenture. Upon the occurrence of a change of control triggering event, which is defined in the Senior Indenture, each holder of our Senior Notes has the right to require us to repurchase some or all of such holder’s Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

The Senior Indenture contains covenants limiting, among other things, our ability (subject to certain exceptions) to consolidate, merge, or sell or otherwise dispose of all or substantially all of our assets; and our ability and the ability of our subsidiaries to incur or guarantee indebtedness secured by liens on any shares of voting stock of significant subsidiaries.

The Senior Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on our Senior Notes to become or to be declared due and payable, as applicable.

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Rating Agencies

Our senior unsecured debt is rated “Baa2,” by Moody’s with a stable outlook and “BBB” by Standard & Poor’s with a stable outlook, and our commercial paper program is rated “P-2” by Moody’s and “A-2” by Standard and Poor’s. Our current credit ratings, as well as future rating agency actions, could (i) impact our ability to finance our operations on satisfactory terms; (ii) affect our financing costs; and (iii) affect our insurance premiums and collateral requirements necessary for our self-insured programs. There can be no assurance that we will maintain or improve our current credit ratings.

Contractual Obligations

The following table summarizes our significant contractual obligations and commercial commitments as of February 1, 2019 (in thousands):

	Payments Due by Period				
Contractual obligations	Total	< 1 year	1 - 3 years	3 - 5 years	5+ years
Long-term debt obligations	$ 2,873,260	$ 367,425	$ 1,135	$ 901,245	$ 1,603,455
Capital lease obligations	10,977	1,425	2,736	1,964	4,852
Interest(a)	658,016	104,549	188,700	165,256	199,511
Self-insurance liabilities(b)	237,762	107,530	84,780	30,090	15,362
Operating lease obligations(c)	9,846,283	1,185,608	2,209,060	1,933,113	4,518,502
Subtotal	$ 13,626,298	$ 1,766,537	$ 2,486,411	$ 3,031,668	$ 6,341,682

	Commitments Expiring by Period				
Commercial commitments(d)	Total	< 1 year	1 - 3 years	3 - 5 years	5+ years
Letters of credit	$ 11,642	$ 11,642	$ —	$ —	$ —
Purchase obligations(e)	1,006,783	1,006,783	—	—	—
Subtotal	$ 1,018,425	$ 1,018,425	$ —	$ —	$ —
Total contractual obligations and commercial commitments(f)	$ 14,644,723	$ 2,784,962	$ 2,486,411	$ 3,031,668	$ 6,341,682

(a) Represents obligations for interest payments on long-term debt and capital lease obligations, and includes projected interest on variable rate long-term debt, using 2018 year end rates and balances. Variable rate long-term debt includes the Revolving Facility (although such facility had a balance of zero as of February 1, 2019), the CP Notes (which had a balance of $366.9 million as of February 1, 2019, which amount is net of $186 million held by a wholly-owned subsidiary), and the balance of an outstanding tax increment financing of $6.4 million.

(b) We retain a significant portion of the risk for our workers' compensation, employee health, general liability, property loss, automobile, and third-party landlord claims exposures. As these obligations do not have scheduled maturities, these amounts represent undiscounted estimates based upon actuarial assumptions. Substantially all amounts are reflected on an undiscounted basis in our consolidated balance sheets.

(c) Operating lease obligations are inclusive of amounts included in deferred rent in our consolidated balance sheets.

(d) Commercial commitments include information technology license and support agreements, supplies, fixtures, letters of credit for import merchandise, and other inventory purchase obligations.

(e) Purchase obligations include legally binding agreements for software licenses and support, supplies, fixtures, and merchandise purchases (excluding such purchases subject to letters of credit).

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(f) We have potential payment obligations associated with uncertain tax positions that are not reflected in these totals. We are currently unable to make reasonably reliable estimates of the period of cash settlement with the taxing authorities for the $6.7 million of reserves for uncertain tax positions.

Share Repurchase Program

Our existing common stock repurchase program had a total remaining authorization of approximately $346 million at February 1, 2019. Our Board of Directors increased by $1.0 billion the authorization available under this common stock repurchase program on March 13, 2019. Under the authorization, purchases may be made in the open market or in privately negotiated transactions from time to time subject to market and other conditions. The authorization has no expiration date and may be modified or terminated from time to time at the discretion of our Board of Directors. For more detail about our share repurchase program, see Note 10 to the consolidated financial statements.

Other Considerations

On March 13, 2019, the Board of Directors declared a quarterly cash dividend of $0.32 per share which is payable on or before April 23, 2019 to shareholders of record of our common stock on April 9, 2019. We paid quarterly cash dividends of $0.29 per share in 2018. Although the Board currently expects to continue regular quarterly cash dividends, the declaration and amount of future cash dividends are subject to the Board’s sole discretion and will depend upon, among other factors, our results of operations, cash requirements, financial condition, contractual restrictions and other factors that our Board may deem relevant in its sole discretion.

Our inventory balance represented approximately 53% of our total assets exclusive of goodwill and other intangible assets as of February 1, 2019. Our ability to effectively manage our inventory balances can have a significant impact on our cash flows from operations during a given fiscal year. Inventory purchases are often somewhat seasonal in nature, such as the purchase of warm-weather or Christmas-related merchandise. Efficient management of our inventory has been and continues to be an area of focus for us.

As described in Note 6 to the consolidated financial statements, we are involved in a number of legal actions and claims, some of which could potentially result in material cash payments. Adverse developments in those actions could materially and adversely affect our liquidity.

Cash Flows

Cash flows from operating activities. Cash flows from operating activities were $2.1 billion in 2018, which represents a $341.4 million increase compared to 2017. Changes in accounts payable resulted in a $375.2 million increase in 2018 compared to a $427.9 million increase in 2017, due primarily to the timing of receipts and payments which was partially impacted by certain changes in payment terms. In addition, net income increased by $50.5 million in 2018 over 2017. These items were offset by changes in merchandise inventories which resulted in a $521.3 million decrease in 2018 as compared to a decrease of $348.4 million in 2017. Changes in income taxes in 2018 compared to 2017 are primarily due to the reduction in the federal income tax rate to 21% from 35% and the timing of payments for income taxes.

Cash flows from operating activities were $1.8 billion in 2017, which represents a $197.1 million increase compared to 2016. Net income increased by $287.8 million in 2017 over 2016, offset by changes in merchandise inventories which resulted in a $348.4 million decrease in 2017 as compared to a decrease of $171.9 million in 2016. Changes in accounts payable resulted in a $427.9 million increase in 2017 compared to a $56.5 million increase in 2016, due primarily to the timing of receipts and payments which was partially impacted by certain changes in payment terms.

On an ongoing basis, we closely monitor and manage our inventory balances, and they may fluctuate from period to period based on new store openings, the timing of purchases, and other factors. Merchandise inventories increased by 14% in 2018, by 11% in 2017 and by 6% in 2016. Inventory levels in the consumables category increased by $320.9 million, or 14%, in 2018, by $322.9 million, or 16%, in 2017, and by $54.5 million, or 3% in 2016. The seasonal category increased by $108.4 million, or 17%, in 2018, by $14.9 million, or 2%, in 2017, and by $79.5 million, or 15%, in 2016. The home products category increased by $24.0 million, or 7%, in 2018, by $10.6 million, or 3%, in 2017, and by $40.8 million, or 14%, in 2016. The apparel category increased by $34.7 million, or 10%, in 2018, by $1.9 million, or 1%, in 2017, and by $9.9 million, or 3%, in 2016.

Cash flows from investing activities. Significant components of property and equipment purchases in 2018 included the following approximate amounts: $289 million for improvements, upgrades, remodels and relocations of existing stores; $242 million for distribution and transportation-related projects; $138 million for new leased stores, primarily for leasehold improvements, fixtures and equipment; and $47 million for information systems upgrades and technology-related projects. The timing of new, remodeled and relocated store openings along with other factors may affect the relationship between such openings and the related property and equipment purchases in any given period. During 2018, we opened 900 new stores and remodeled or relocated 1,165 stores.

Significant components of property and equipment purchases in 2017 included the following approximate amounts: $231 million for improvements, upgrades, remodels and relocations of existing stores; $203 million for new leased stores, primarily for leasehold improvements, fixtures and equipment; $176 million for distribution and transportation-related projects; and $30 million for information systems upgrades and technology-related projects. During 2017, we opened 1,315 new stores and remodeled or relocated 764 stores.

Significant components of property and equipment purchases in 2016 included the following approximate amounts: $201 million for distribution and transportation-related projects; $168 million for improvements, upgrades, remodels and relocations of existing stores; $120 million for new leased stores, primarily for leasehold improvements, fixtures and equipment; $38 million for stores purchased or built by us; and $26 million for information systems upgrades and technology-related projects. During 2016, we opened 900 new stores and remodeled or relocated 906 stores.

Capital expenditures during 2019 are projected to be in the range of $775 million to $825 million. We anticipate funding 2019 capital requirements with a combination of some or all of the following: existing cash balances, cash flows from operations, availability under our Revolving Facility and/or the issuance of additional senior notes or CP Notes. We plan to continue to invest in store growth and development of approximately 975 new stores and approximately 1,100 stores to be remodeled or relocated. Capital expenditures in 2019 are anticipated to support our store growth as well as our remodel and relocation initiatives, including capital outlays for leasehold improvements, fixtures and equipment; the construction of new stores; costs to support and enhance our supply chain initiatives including new and existing distribution center facilities and our private fleet; technology initiatives; as well as routine and ongoing capital requirements.

Cash flows from financing activities. In 2018, we had net proceeds from the issuance of the 2028 Senior Notes of $499.5 million, redeemed the 2018 Senior Notes for $400.0 million, and made a principal payment on the Term

Facility of $175.0 million. We had a net decrease in consolidated commercial paper borrowings in 2018 of $63.3 million and had no borrowings or repayments under the Revolving Facility. We repurchased 9.9 million outstanding shares of our common stock in 2018 at a total cost of $1.0 billion, and paid cash dividends of $306.5 million.

In 2017, we had net proceeds from the issuance of the 2027 Senior Notes of $599.6 million, redeemed the 2017 Senior Notes for $500.0 million, and made a principal payment on the Term Facility of $250.0 million. We had a net decrease in consolidated commercial paper borrowings in 2017 of $60.3 million and had no borrowings or repayments under the Revolving Facility. We repurchased 7.1 million outstanding shares of our common stock in 2017 at a total cost of $579.7 million, and paid cash dividends of $282.9 million.

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In 2016, we had net commercial paper borrowings of $490.5 million and net repayments under the Revolving Facility of $251.0 million. We repurchased 12.4 million outstanding shares of our common stock at a total cost of $1.0 billion, and paid cash dividends of $281.1 million.

Accounting Standards

In February 2016, the FASB issued new guidance related to lease accounting, which requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. In July 2018, the FASB issued additional guidance which allows companies to record the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings in the year of adoption, which we will apply. We formed a project team to assess and implement the standard and an executive steering committee to provide oversight. The project team has completed its internal evaluation of existing contractual arrangements for embedded leases, has successfully tested computations in our lease administration system, and has developed a process to compute the rates to discount the lease liabilities as required by the standard. In addition, the project team has identified and implemented new processes and controls to ensure compliance with the new standard, and has evaluated and documented our accounting conclusions related to the new standard. We will utilize transition practical expedients under which we will not be required to reassess (i) whether expired or existing contracts are or contain leases as defined by the new standard, (ii) the classification of such leases, and (iii) whether previously capitalized initial direct costs would qualify for capitalization under the new standard. We have identified our store leases as the area in which we will be most affected by the new guidance, and the most significant impact that adoption will have on our consolidated financial statements is to our consolidated balance sheet. We expect to record consolidated right of use assets and consolidated lease liabilities of approximately $8.0 billion each upon transition to the new guidance.

In January 2017, the FASB issued amendments to existing guidance related to the subsequent measurement of goodwill. These amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Subsequent to adoption, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments should be applied on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. We currently do not anticipate a material effect on our consolidated results of operations, financial position or cash flows to result from the adoption of this guidance.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") requires management to make estimates and assumptions that affect reported amounts and related disclosures. In addition to the estimates presented below, there are other items within our financial statements that require estimation, but are not deemed critical as defined below. We believe these estimates are reasonable and appropriate. However, if actual experience differs from the assumptions and other considerations used, the resulting changes could have a material effect on the financial statements taken as a whole.

Management believes the following policies and estimates are critical because they involve significant judgments, assumptions, and estimates. Management has discussed the development and selection of the critical accounting estimates with the Audit Committee of our Board of Directors, and the Audit Committee has reviewed the disclosures presented below relating to those policies and estimates. See Note 1 to the consolidated financial statements for a detailed discussion of our principal accounting policies.

Merchandise Inventories. Merchandise inventories are stated at the lower of cost or market ("LCM") with cost determined using the retail last in, first out ("LIFO") method. We use the retail inventory method ("RIM") to calculate gross profit and the resulting valuation of inventories at cost, which are computed utilizing a calculated cost-to-retail inventory ratio at an inventory department level. We apply the RIM to these departments, which are groups of products that are fairly uniform in terms of cost, selling price relationship and turnover. The RIM will result in valuing inventories at LCM if permanent markdowns are currently taken as a reduction of the retail value of inventories. Inherent in the retail inventory method calculation are certain management judgments and estimates that may impact the ending inventory valuation at cost, as well as the gross profit recognized. These judgments include ensuring departments consist of similar products, recording estimated shrinkage between physical inventories, and timely recording of markdowns needed to sell inventory.

We perform an annual LIFO analysis whereby all merchandise units are considered for inclusion in the index formulation. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time. In contrast, interim LIFO calculations are based on management's annual estimates of sales, the rate of inflation or deflation, and year-end inventory levels. We also perform analyses for determining obsolete inventory, adjusting inventory on a quarterly basis to an LCM value based on various management assumptions including estimated below cost markdowns not yet recorded, but required to liquidate such inventory in future periods.

Factors considered in the determination of markdowns include current and anticipated demand based on changes in competitors' practices, consumer preferences, consumer spending, significant weather events and unseasonable weather patterns. Certain of these factors are outside of our control and may result in greater than estimated markdowns to entice consumer purchases of excess inventory. The amount and timing of markdowns may vary significantly from year to year.

We perform physical inventories in virtually all of our stores on an annual basis. We calculate our shrink provision based on actual physical inventory results during the fiscal period and an accrual for estimated shrink occurring subsequent to a physical inventory through the end of the fiscal reporting period. This accrual is calculated as a percentage of sales at each retail store, at a department level, based on the store's most recent historical shrink rate. To the extent that subsequent physical inventories yield different results than the estimated accrual, our effective shrink rate for a given reporting period will include the impact of adjusting to the actual results.

We believe our estimates and assumptions related to the application of the RIM results in a merchandise inventory valuation that reasonably approximates cost on a consistent basis.

Goodwill and Other Intangible Assets. The qualitative and quantitative assessments related to the valuation and any potential impairment of goodwill and other intangible assets are each subject to judgments and/or assumptions. The analysis of qualitative factors may include determining the appropriate factors to consider and the relative importance of those factors along with other assumptions. If required, judgments in the quantitative testing process may include projecting future cash flows, determining appropriate discount rates, correctly applying valuation techniques, correctly computing the implied fair value of goodwill if necessary, and other assumptions. Future cash flow projections are based on management's projections and represent best estimates taking into account recent financial performance, market trends, strategic plans and other available information, which in recent years have been materially accurate. Changes in these estimates and assumptions could materially affect the determination of fair value or impairment, however, such a conclusion is not indicated by recent analyses. Future indicators of impairment could result in an asset impairment charge. If these judgments or assumptions are incorrect or flawed, the analysis could be negatively impacted.

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Our most recent evaluation of our goodwill and indefinite lived trade name intangible assets was completed during the third quarter of 2018. No indicators of impairment were evident and no assessment of or adjustment to these assets was required. We are not currently projecting a decline in cash flows that could be expected to have an adverse effect such as a violation of debt covenants or future impairment charges.

Property and Equipment. Property and equipment are recorded at cost. We group our assets into relatively homogeneous classes and generally provide for depreciation on a straight-line basis over the estimated average useful life of each asset class, except for leasehold improvements, which are amortized over the lesser of the applicable lease term or the estimated useful life of the asset. Certain store and warehouse fixtures, when fully depreciated, are removed from the cost and related accumulated depreciation and amortization accounts. The valuation and classification of these assets and the assignment of depreciable lives involves judgments and the use of estimates, which we believe have been materially accurate in recent years.

Impairment of Long-lived Assets. Impairment of long-lived assets results when the carrying value of the assets exceeds the estimated undiscounted future cash flows generated by the assets. Our estimate of undiscounted future store cash flows is based upon historical operations of the stores and estimates of future profitability which encompasses many factors that are subject to variability and are difficult to predict. If our estimates of future cash flows are not materially accurate, our impairment analysis could be impacted accordingly. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's estimated fair value. The fair value is estimated based primarily upon projected future cash flows (discounted at our credit adjusted risk-free rate) or other reasonable estimates of fair market value. Although not currently anticipated, changes in these estimates, assumptions or projections could materially affect the determination of fair value or impairment.

Insurance Liabilities. We retain a significant portion of the risk for our workers' compensation, employee health, general liability, property loss, automobile and third-party landlord claim exposures. These represent significant costs primarily due to our large employee base and number of stores. Provisions are made for these liabilities on an undiscounted basis. Certain of these liabilities are based on actual claim data and estimates of incurred but not reported claims developed using actuarial methodologies based on historical claim trends, which have been and are anticipated to continue to be materially accurate. If future claim trends deviate from recent historical patterns, or other unanticipated events affect the number and significance of future claims, we may be required to record additional expenses or expense reductions, which could be material to our future financial results.

Contingent Liabilities – Income Taxes. Income tax reserves are determined using the methodology established by accounting standards relating to uncertainty in income taxes. These standards require companies to assess each income tax position taken using a two-step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and liabilities to be estimated based on provisions of the tax law which may be subject to change or varying interpretation. If our determinations and estimates prove to be inaccurate, the resulting adjustments could be material to our future financial results.

Contingent Liabilities - Legal Matters. We are subject to legal, regulatory and other proceedings and claims. We establish liabilities as appropriate for these claims and proceedings based upon the probability and estimability of losses and to fairly present, in conjunction with the disclosures of these matters in our financial statements and SEC filings, management’s view of our exposure. We review outstanding claims and proceedings with external counsel, as needed, to assess probability and estimates of loss, which includes an analysis of whether such loss estimates are probable, reasonably possible, or remote. We re-evaluate these assessments on a quarterly basis or as new and significant information becomes available to determine whether a liability should be established or if any existing liability should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded liability. In addition, because it is not

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permissible under U.S. GAAP to establish a litigation liability until the loss is both probable and estimable, in some cases there may be insufficient time to establish a liability prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

Lease Accounting and Excess Facilities. Many of our stores are subject to build-to-suit arrangements with landlords, which typically carry a primary lease term of up to 15 years with multiple renewal options. We also have stores subject to shorter-term leases and many of these leases have renewal options. Certain of our stores have provisions for contingent rentals based upon a percentage of defined sales volume. We recognize contingent rental expense when the achievement of specified sales targets is considered probable. We record minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that we take physical possession of the property from the landlord, which normally includes a period prior to store opening to make necessary leasehold improvements and install store fixtures. When a lease contains a predetermined fixed escalation of the minimum rent, we recognize the related rent expense on a straight-line basis and record the difference between the recognized rental expense and the amounts payable under the lease as deferred rent. Tenant allowances, to the extent received, are recorded as deferred incentive rent and amortized as a reduction to rent expense over the term of the lease. We reflect as a liability any difference between the calculated expense and the amounts actually paid. Improvements of leased properties are amortized over the shorter of the life of the applicable lease term or the estimated useful life of the asset.

Share-Based Payments. Our stock option awards are valued on an individual grant basis using the Black-Scholes-Merton closed form option pricing model. We believe that this model fairly estimates the value of our stock option awards. The application of this valuation model involves assumptions that are judgmental in the valuation of stock options, which affects compensation expense related to these options. These assumptions include the term that the options are expected to be outstanding, the historical volatility of our stock price, applicable interest rates and the dividend yield of our stock. Other factors involving judgments that affect the expensing of share-based payments include estimated forfeiture rates of share-based awards. Historically, these estimates have been materially accurate; however, if our estimates differ materially from actual experience, we may be required to record additional expense or reductions of expense, which could be material to our future financial results.

Fair Value Measurements. Accounting standards for the measurement of fair value of assets and liabilities establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Therefore, Level 3 inputs are typically based on an entity’s own assumptions, as there is little, if any, related market activity, and thus require the use of significant judgment and estimates. Currently, we have no assets or liabilities that are valued based solely on Level 3 inputs.

Our fair value measurements are primarily associated with our outstanding debt instruments. We use various valuation models in determining the values of these liabilities. We believe that in recent years these methodologies have produced materially accurate valuations.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

We are exposed to market risk primarily from adverse changes in interest rates, and to a lesser degree commodity prices. To minimize this risk, we may periodically use financial instruments, including derivatives. All derivative financial instrument transactions must be authorized and executed pursuant to approval by the Board of Directors. As a matter of policy, we do not buy or sell financial instruments for speculative or trading purposes, and any such derivative financial instruments are intended to be used to reduce risk by hedging an underlying economic exposure. Our objective is to correlate derivative financial instruments and the underlying exposure being hedged, so that fluctuations in the value of the financial instruments are generally offset by reciprocal changes in the value of the underlying economic exposure.

Interest Rate Risk

We manage our interest rate risk through the strategic use of fixed and variable interest rate debt and, from time to time, derivative financial instruments. Our principal interest rate exposure relates to outstanding amounts under our unsecured revolving credit facility as well as our commercial paper program. As of February 1, 2019, we had consolidated borrowings of $366.9 million under our commercial paper program and no borrowings outstanding under our Revolving Facility. In order to mitigate a portion of the variable rate interest exposure under the credit facilities, in prior years we have entered into various interest rate swaps. As of February 1, 2019, no such interest rate swaps were outstanding and, as a result, we are exposed to fluctuations in variable interest rates under the Revolving Facility and our commercial paper program. For a detailed discussion of our Revolving Facility and our commercial paper program, see Note 4 to the consolidated financial statements.

A change in interest rates on variable rate debt impacts our pre-tax earnings and cash flows; whereas a change in interest rates on fixed rate debt impacts the economic fair value of debt but not our pre-tax earnings and cash flows. Based on our variable rate borrowing levels as of February 1, 2019 and February 2, 2018, the annualized effect of a one percentage point increase in variable interest rates would have resulted in a pretax reduction of our earnings and cash flows of approximately $3.7 million in 2018 and $6.1 million in 2017.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of

Dollar General Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Dollar General Corporation and subsidiaries (the Company) as of February 1, 2019 and February 2, 2018, the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended February 1, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at February 1, 2019 and February 2, 2018, and the results of its operations and its cash flows for each of the three years in the period ended February 1, 2019, 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 1, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 22, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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 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 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 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 financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2001.

Nashville, Tennessee

March 22, 2019

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DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	February 1, 2019	February 2, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	$ 235,487	$ 267,441
Merchandise inventories	4,097,004	3,609,025
Income taxes receivable	57,804	108,265
Prepaid expenses and other current assets	272,725	263,121
Total current assets	4,663,020	4,247,852
Net property and equipment	2,970,806	2,701,282
Goodwill	4,338,589	4,338,589
Other intangible assets, net	1,200,217	1,200,428
Other assets, net	31,406	28,760
Total assets	$ 13,204,038	$ 12,516,911
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 1,950	$ 401,345
Accounts payable	2,385,469	2,009,771
Accrued expenses and other	618,405	549,658
Income taxes payable	10,033	4,104
Total current liabilities	3,015,857	2,964,878
Long-term obligations	2,862,740	2,604,613
Deferred income taxes	609,687	515,702
Other liabilities	298,361	305,944
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	—	—
Common stock; $0.875 par value, 1,000,000 shares authorized, 259,511 and 268,733 shares issued and outstanding at February 1, 2019 and February 2, 2018, respectively	227,072	235,141
Additional paid-in capital	3,252,421	3,196,462
Retained earnings	2,941,107	2,698,352
Accumulated other comprehensive loss	(3,207)	(4,181)
Total shareholders' equity	6,417,393	6,125,774
Total liabilities and shareholders' equity	$ 13,204,038	$ 12,516,911

The accompanying notes are an integral part of the consolidated financial statements.

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DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	For the Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
Net sales	$ 25,625,043	$ 23,470,967	$ 21,986,598
Cost of goods sold	17,821,173	16,249,608	15,203,960
Gross profit	7,803,870	7,221,359	6,782,638
Selling, general and administrative expenses	5,687,564	5,213,541	4,719,189
Operating profit	2,116,306	2,007,818	2,063,449
Interest expense	99,871	97,036	97,821
Other (income) expense	1,019	3,502	—
Income before income taxes	2,015,416	1,907,280	1,965,628
Income tax expense	425,944	368,320	714,495
Net income	$ 1,589,472	$ 1,538,960	$ 1,251,133
Earnings per share:			
Basic	$ 5.99	$ 5.64	$ 4.45
Diluted	$ 5.97	$ 5.63	$ 4.43
Weighted average shares outstanding:			
Basic	265,155	272,751	281,317
Diluted	266,105	273,362	282,261
Dividends per share	$ 1.16	$ 1.04	$ 1.00

The accompanying notes are an integral part of the consolidated financial statements.

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DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	For the Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
Net income	$ 1,589,472	$ 1,538,960	$ 1,251,133
Unrealized net gain (loss) on hedged transactions, net of related income tax expense (benefit) of $344, $509 and $527, respectively	974	809	817
Comprehensive income	$ 1,590,446	$ 1,539,769	$ 1,251,950

The accompanying notes are an integral part of the consolidated financial statements.

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DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands except per share amounts)

	Common Stock Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances, January 29, 2016	286,694	$ 250,855	$ 3,107,283	$ 2,025,545	$ (5,807)	$ 5,377,876
Net income	—	—	—	1,251,133	—	1,251,133
Dividends paid, $1.00 per common share	—	—	—	(281,147)	—	(281,147)
Unrealized net gain (loss) on hedged transactions	—	—	—	—	817	817
Share-based compensation expense	—	—	36,967	—	—	36,967
Repurchases of common stock	(12,354)	(10,810)	—	(979,664)	—	(990,474)
Other equity and related transactions	872	766	10,356	—	—	11,122
Balances, February 3, 2017	275,212	$ 240,811	$ 3,154,606	$ 2,015,867	$ (4,990)	$ 5,406,294
Net income	—	—	—	1,538,960	—	1,538,960
Dividends paid, $1.04 per common share	—	—	—	(282,941)	—	(282,941)
Unrealized net gain (loss) on hedged transactions	—	—	—	—	809	809
Share-based compensation expense	—	—	34,323	—	—	34,323
	(7,060)	(6,178)	—	(573,534)	—	(579,712)

Repurchases of common stock						
Other equity and related transactions	581	508	7,533	—	—	8,041
Balances, February 2, 2018	268,733	$ 235,141	$ 3,196,462	$ 2,698,352	$ (4,181)	$ 6,125,774
Net income	—	—	—	1,589,472	—	1,589,472
Dividends paid, $1.16 per common share	—	—	—	(306,562)	—	(306,562)
Unrealized net gain (loss) on hedged transactions	—	—	—	—	974	974
Share-based compensation expense	—	—	40,879	—	—	40,879
Repurchases of common stock	(9,891)	(8,655)	—	(998,839)	—	(1,007,494)
Transition adjustment upon adoption of accounting standard (see Note 1)	—	—	—	(41,316)	—	(41,316)
Other equity and related transactions	669	586	15,080	—	—	15,666
Balances, February 1, 2019	259,511	$ 227,072	$ 3,252,421	$ 2,941,107	$ (3,207)	$ 6,417,393

The accompanying notes are an integral part of the consolidated financial statements.

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DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Year Ended		
	February 1, 2019	February 2, 2018	February 3, 2017
Cash flows from operating activities:			
Net income	$ 1,589,472	$ 1,538,960	$ 1,251,133
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation and amortization	454,134	404,231	379,931
Deferred income taxes	52,325	(137,648)	12,359
Loss on debt retirement	1,019	3,502	—
Noncash share-based compensation	40,879	34,323	36,967
Other noncash (gains) and losses	41,851	11,088	(3,625)
Change in operating assets and liabilities:			
Merchandise inventories	(521,342)	(348,363)	(171,908)
Prepaid expenses and other current assets	(12,097)	(49,406)	(25,046)
Accounts payable	375,214	427,911	56,477
Accrued expenses and other liabilities	65,857	75,647	42,937
Income taxes	56,390	(156,504)	26,316
Other	(152)	(1,633)	(500)
Net cash provided by (used in) operating activities	2,143,550	1,802,108	1,605,041
Cash flows from investing activities:			
Purchases of property and equipment	(734,380)	(646,456)	(560,296)
Proceeds from sales of property and equipment	2,777	1,428	9,360
Net cash provided by (used in) investing activities	(731,603)	(645,028)	(550,936)
Cash flows from financing activities:			
Issuance of long-term obligations	499,495	599,556	—
Repayments of long-term obligations	(577,321)	(752,676)	(3,138)
Net increase (decrease) in commercial paper outstanding	(63,300)	(60,300)	490,500
Borrowings under revolving credit facilities	—	—	1,584,000
Repayments of borrowings under revolving credit facilities	—	—	(1,835,000)
Costs associated with issuance and retirement of debt	(4,384)	(9,524)	—
Repurchases of common stock	(1,007,494)	(579,712)	(990,474)
Payments of cash dividends	(306,523)	(282,931)	(281,135)
Other equity and related transactions	15,626	8,033	11,110
Net cash provided by (used in) financing activities	(1,443,901)	(1,077,554)	(1,024,137)
Net increase (decrease) in cash and cash equivalents	(31,954)	79,526	29,968

Cash and cash equivalents, beginning of period	267,441	187,915	157,947
Cash and cash equivalents, end of period	$ 235,487	$ 267,441	$ 187,915
Supplemental cash flow information:			
Cash paid for:			
Interest	$ 98,012	$ 88,749	$ 92,952
Income taxes	$ 313,457	$ 660,510	$ 679,633
Supplemental schedule of noncash investing and financing activities:			
Purchases of property and equipment awaiting processing for payment, included in Accounts payable	$ 63,662	$ 63,178	$ 38,914

The accompanying notes are an integral part of the consolidated financial statements.

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DOLLAR GENERAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

Basis of presentation

These notes contain references to the years 2018, 2017, and 2016, which represent fiscal years ended February 1, 2019, February 2, 2018, and February 3, 2017, respectively. The Company’s 2018 and 2017 accounting periods were comprised of 52-weeks, while 2016 was a 53-week accounting period. The Company’s fiscal year ends on the Friday closest to January 31. The consolidated financial statements include all subsidiaries of the Company, except for its not-for-profit subsidiary which the Company does not control. Intercompany transactions have been eliminated.

The Company sells general merchandise on a retail basis through 15,370 stores (as of February 1, 2019) in 44 states with the greatest concentration of stores in the southern, southwestern, midwestern and eastern United States. The Company owns distribution centers for non-refrigerated merchandise (“DCs”) in Scottsville, Kentucky; South Boston, Virginia; Alachua, Florida; Zanesville, Ohio; Jonesville, South Carolina; Marion, Indiana; Bessemer, Alabama; Bethel, Pennsylvania; San Antonio, Texas; Janesville, Wisconsin; Jackson, Georgia, and Longview, Texas, and leases DCs in Ardmore, Oklahoma; Fulton, Missouri; Indianola, Mississippi; and Lebec, California. The Company also owns a cold storage and distribution facility in Pottsville, Pennsylvania.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments with insignificant interest rate risk and original maturities of three months or less when purchased. Such investments primarily consist of money market funds, bank deposits, certificates of deposit, and commercial paper. The carrying amounts of these items are a reasonable estimate of their fair value due to the short maturity of these investments.

Payments due from processors for electronic tender transactions classified as cash and cash equivalents totaled approximately $99.5 million and $90.4 million at February 1, 2019 and February 2, 2018, respectively.

Investments in debt and equity securities

The Company accounts for investments in debt and marketable equity securities as held-to-maturity, available-for-sale, or trading, depending on their classification. Debt securities categorized as held-to-maturity are stated at amortized cost. Debt and equity securities categorized as available-for-sale are stated at fair value, with any unrealized gains and losses, net of deferred income taxes, reported as a component of Accumulated other comprehensive loss. Trading securities are stated at fair value, with changes in fair value recorded as a component of Selling, general and administrative ("SG&A") expense. The cost of securities sold is based upon the specific identification method.

Merchandise inventories

Inventories are stated at the lower of cost or market ("LCM") with cost determined using the retail last-in, first-out ("LIFO") method as this method results in a better matching of costs and revenues. Under the Company's retail inventory method ("RIM"), the calculation of gross profit and the resulting valuation of inventories at cost are computed by applying a calculated cost-to-retail inventory ratio to the retail value of sales at a department level. The use of the RIM will result in valuing inventories at LCM if markdowns are currently taken as a reduction of the retail value of inventories. Costs directly associated with warehousing and distribution are capitalized into inventory.

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The excess of current cost over LIFO cost was approximately $103.7 million and $78.5 million at February 1, 2019 and February 2, 2018, respectively. Current cost is determined using the RIM on a first-in, first-out basis. Under the LIFO inventory method, the impacts of rising or falling market price changes increase or decrease cost of sales (the LIFO provision or benefit). The Company recorded a LIFO provision (benefit) of $25.2 million in 2018, $(2.2) million in 2017, and $(12.2) million in 2016, which is included in cost of goods sold in the consolidated statements of income.

The Company purchases its merchandise from a wide variety of suppliers. The Company's three largest suppliers each accounted for approximately 8% of the Company's purchases in 2018.

Vendor rebates

The Company accounts for all cash consideration received from vendors in accordance with applicable accounting standards pertaining to such arrangements. Cash consideration received from a vendor is generally presumed to be a rebate or an allowance and is accounted for as a reduction of merchandise purchase costs as earned. However, certain specific, incremental and otherwise qualifying SG&A expenses related to the promotion or sale of vendor products may be offset by cash consideration received from vendors, in accordance with arrangements such as cooperative advertising, when earned for dollar amounts up to but not exceeding actual incremental costs.

Prepaid expenses and other current assets

Prepaid expenses and other current assets include prepaid amounts for rent, maintenance, business licenses, advertising, and insurance, and amounts receivable for certain vendor rebates (primarily those expected to be collected in cash) and coupons.

Property and equipment

In 2007, the Company's property and equipment was recorded at estimated fair values as the result of a merger transaction. Property and equipment acquired subsequent to the merger has been recorded at cost. The Company records depreciation and amortization on a straight-line basis over the assets' estimated useful lives. The Company's property and equipment balances and depreciable lives are summarized as follows:

(In thousands)	Depreciable Life	February 1, 2019	February 2, 2018
Land	Indefinite	$ 214,632	$ 212,033
Land improvements	20	85,093	79,597
Buildings	39 - 40	1,219,852	1,116,872
Leasehold improvements	(a)	583,531	507,894
Furniture, fixtures and equipment	3 - 10	3,298,594	3,186,406
Construction in progress		117,275	72,490
		5,518,977	5,175,292
Less accumulated depreciation and amortization		2,548,171	2,474,010
Net property and equipment		$ 2,970,806	$ 2,701,282

(a) Amortized over the lesser of the life of the applicable lease term or the estimated useful life of the asset.

Depreciation expense related to property and equipment was approximately $454.1 million, $403.3 million and $378.3 million for 2018, 2017 and 2016, respectively. Amortization of capital lease assets is included in depreciation expense. Interest on borrowed funds during the construction of property and equipment is capitalized where applicable. Interest costs of $3.7 million, $2.0 million, and $1.4 million were capitalized in 2018, 2017 and 2016, respectively.

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Impairment of long-lived assets

When indicators of impairment are present, the Company evaluates the carrying value of long-lived assets, excluding goodwill and other indefinite-lived intangible assets, in relation to the operating performance and future cash flows or the appraised values of the underlying assets. Generally, the Company's policy is to review for impairment stores open more than three years for which current cash flows from operations are negative. Impairment results when the carrying value of the assets exceeds the undiscounted future cash flows expected to be generated by the assets. The Company's estimate of undiscounted future cash flows is based upon historical operations of the stores and estimates of future store profitability which encompasses many factors that are subject to variability and difficult to predict. If a long-lived asset is found to be impaired, the amount recognized for impairment is equal to the difference between the carrying value and the asset's estimated fair value. The fair value is estimated based primarily upon estimated future cash flows over the asset's remaining useful life (discounted at the Company's credit adjusted risk-free rate) or other reasonable estimates of fair market value. Assets to be disposed of are adjusted to the fair value less the cost to sell if less than the book value.

The Company recorded impairment charges included in SG&A expense of approximately $4.1 million in 2018, $7.8 million in 2017 and $6.3 million in 2016, to reduce the carrying value of certain of its stores' assets. Such action was deemed necessary based on the Company's evaluation that such amounts would not be recoverable primarily due to insufficient sales or excessive costs resulting in the carrying value of the assets exceeding the estimated undiscounted future cash flows generated by the assets at these locations.

Goodwill and other intangible assets

If not deemed indefinite, the Company amortizes intangible assets over their estimated useful lives. Goodwill and intangible assets with indefinite lives are tested for impairment annually or more frequently if indicators of impairment are present. Definite lived intangible assets are tested for impairment if indicators of impairment are present. Impaired assets are written down to fair value as required. No impairment of intangible assets has been identified during any of the periods presented.

In accordance with accounting standards for goodwill and indefinite-lived intangible assets, an entity has the option first to assess qualitative factors to determine whether events and circumstances indicate that it is more likely than not that goodwill or an indefinite-lived intangible asset is impaired. If after such assessment an entity concludes that the asset is not impaired, then the entity is not required to take further action. However, if an entity concludes otherwise, then it is required to determine the fair value of the asset using a quantitative impairment test, and if impaired, the associated assets must be written down to fair value as described in further detail below.

The quantitative goodwill impairment test is a two-step process that would require management to make judgments in determining what assumptions to use in the calculation. The first step of the process consists of estimating the fair value of an entity’s reporting units based on valuation techniques (including a discounted cash flow model using revenue and profit forecasts) and comparing that estimated fair value with the recorded carrying value, which includes goodwill. If the estimated fair value is less than the carrying value, a second step is performed to compute the amount of the impairment by determining an “implied fair value” of goodwill. The determination of the implied fair value of goodwill would require the entity to allocate the estimated fair value of its reporting unit to its assets and liabilities. Any unallocated fair value would represent the implied fair value of goodwill, which would be compared to its corresponding carrying value.

The quantitative impairment test for intangible assets compares the fair value of the intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

The Company’s goodwill balance has an indefinite life and is not expected to be deductible for tax purposes. Substantially all of the Company’s other intangible assets are trade names and trademarks which have an indefinite life.

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Other assets

Noncurrent Other assets consist primarily of qualifying prepaid expenses for maintenance, beer and wine licenses, and utility, security and other deposits.

Accrued expenses and other liabilities

Accrued expenses and other consist of the following:

(In thousands)	February 1, 2019	February 2, 2018
Compensation and benefits	$ 121,375	$ 118,755
Self-insurance reserves	107,380	96,277
Taxes (other than taxes on income)	183,941	164,451
Other	205,709	170,175
	$ 618,405	$ 549,658

Included in other accrued expenses are liabilities for freight expense, interest, utilities, and maintenance.

Insurance liabilities

The Company retains a significant portion of risk for its workers' compensation, employee health, general liability, property, automobile, and third-party landlord liability claim exposures. Accordingly, provisions are made for the Company's estimates of such risks. The undiscounted future claim costs for the workers' compensation, general liability, landlord liability, and health claim risks are derived using actuarial methods and are recorded as self-insurance reserves pursuant to Company policy. To the extent that subsequent claim costs vary from those estimates, future results of operations will be affected as the reserves are adjusted.

Ashley River Insurance Company ("ARIC"), a Tennessee-based wholly owned captive insurance subsidiary of the Company, charges the operating subsidiary companies premiums to insure the retained workers' compensation, medical stop-loss, and non-property general liability exposures. Pursuant to Tennessee insurance regulations, ARIC maintains certain levels of cash and cash equivalents related to its self-insured exposures.

Operating leases and related liabilities

Rent expense is recognized over the term of the lease. The Company records minimum rental expense on a straight-line basis over the base, non-cancelable lease term commencing on the date that the Company takes physical possession of the property from the landlord, which normally includes a period prior to the store opening to make leasehold improvements if necessary and install store fixtures. 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. Tenant allowances, to the extent received, are recorded as deferred incentive rent and are amortized as a reduction to rent expense over the term of the lease. The difference between the calculated expense and the amounts paid result in a liability classified in other long-term liabilities in the consolidated balance sheets, and totaled approximately $70.1 million and $65.9 million at February 1, 2019 and February 2, 2018, respectively.

The Company recognizes contingent rental expense when the achievement of specified sales targets is considered probable. The amount expensed but not paid as of February 1, 2019 and February 2, 2018 was approximately $2.4 million and $2.7 million, respectively, and is included in Accrued expenses and other in the consolidated balance sheets.

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Other liabilities

Noncurrent Other liabilities consist of the following:

(In thousands)	February 1, 2019	February 2, 2018
Self-insurance reserves	$ 130,022	$ 134,256
Deferred rent	70,139	65,856
Deferred gain on sale leaseback	40,303	44,781
Other	57,897	61,051
	$ 298,361	$ 305,944

Fair value accounting

The Company utilizes accounting standards for fair value, which include the definition of fair value, the framework for measuring fair value, and disclosures about fair value measurements. Fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are directly or indirectly observable for the asset or liability. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are based on an entity's own assumptions, as there is little, if any, observable market activity. In instances where the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Other comprehensive income

The Company previously recorded a loss on the settlement of treasury locks associated with the issuance of long-term debt in 2013 which was deferred to other comprehensive income and is being amortized as an increase to interest expense over the 10-year period of the debt's maturity.

Revenue and gain recognition

The Company recognizes retail sales in its stores at the time the customer takes possession of merchandise. All sales are net of discounts and are presented net of taxes assessed by governmental authorities that are imposed concurrent with those sales. The Company records gain contingencies when realized.

The Company recognizes gift card sales revenue at the time of redemption. The liability for gift cards is established for the cash value at the time of purchase of the gift card. The liability for outstanding gift cards was approximately $5.2 million and $4.2 million at February 1, 2019 and February 2, 2018, respectively, and is recorded in Accrued expenses and other liabilities. Estimated breakage revenue, a percentage of gift cards that will never be redeemed based on historical redemption rates, is recognized over time in proportion to actual gift card redemptions. The Company recorded breakage revenue of $0.8 million, $0.6 million and $0.5 million in 2018, 2017 and 2016, respectively.

Advertising costs

Advertising costs are expensed upon performance, “first showing” or distribution, and are reflected in SG&A expenses net of earned cooperative advertising amounts provided by vendors which are specific, incremental and otherwise qualifying expenses related to the promotion or sale of vendor products for dollar amounts up to but not exceeding actual incremental costs. Advertising costs were $70.5 million, $68.8 million and $82.7 million in 2018, 2017 and 2016, respectively. These costs primarily include promotional circulars, targeted circulars supporting new stores, television and radio advertising, in-store signage, and costs associated with the sponsorships of certain automobile racing activities in 2016. Vendor funding for cooperative advertising offset reported expenses by $35.0 million, $33.8 million and $35.9 million in 2018, 2017 and 2016, respectively.

Share-based payments

The Company recognizes compensation expense for share-based compensation based on the fair value of the awards on the grant date. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate may be adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the prior estimate. The forfeiture rate is the estimated percentage of share-based awards granted that are expected to be forfeited or canceled before becoming fully vested. The Company bases this estimate on historical experience or estimates of future trends, as applicable. An increase in the forfeiture rate will decrease compensation expense.

The fair value of each option grant is separately estimated and amortized into compensation expense on a straight-line basis between the applicable grant date and each vesting date. The Company has estimated the fair value of all stock option awards as of the grant date by applying the Black-Scholes-Merton option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense.

The Company calculates compensation expense for restricted stock, share units and similar awards as the difference between the market price of the underlying stock or similar award on the grant date and the purchase price, if any. Such expense is recognized on a straight-line basis for time-based awards and generally on an accelerated basis for performance awards over the period in which the recipient earns the awards.

Store pre-opening costs

Pre-opening costs related to new store openings and the related construction periods are expensed as incurred.

Income taxes

Under the accounting standards for income taxes, the asset and liability method is used for computing the future income tax consequences of events that have been recognized in the Company’s consolidated financial statements or income tax returns. Deferred income tax expense or benefit is the net change during the year in the Company’s deferred income tax assets and liabilities.

The Company includes income tax related interest and penalties as a component of the provision for income tax expense.

Income tax reserves are determined using a methodology which requires companies to assess each income tax position taken using a two-step process. A determination is first made as to whether it is more likely than not that the position will be sustained, based upon the technical merits, upon examination by the taxing

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authorities. If the tax position is expected to meet the more likely than not criteria, the benefit recorded for the tax position equals the largest amount that is greater than 50% likely to be realized upon ultimate settlement of the respective tax position. Uncertain tax positions require determinations and estimated liabilities to be made based on provisions of the tax law which may be subject to change or varying interpretation. If the Company's determinations and estimates prove to be inaccurate, the resulting adjustments could be material to the Company's future financial results.

Management estimates

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Accounting standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued comprehensive new accounting standards related to the recognition of revenue and in August 2015, the FASB deferred the effective date to annual reporting periods beginning after December 15, 2017. The Company adopted this guidance using the modified retrospective approach effective February 3, 2018, and such adoption had no effect on the Company's consolidated results of operations, financial position or cash flows.

In February 2016, the FASB issued new guidance related to lease accounting, which requires a dual approach for lessee accounting under which a lessee will account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodology for income statement recognition. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. In July 2018, the FASB issued additional guidance which allows companies to record the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings in the year of adoption, which the Company intends to apply. The Company will adopt the new standard effective February 2, 2019. The Company formed a project team to assess and implement the standard and an executive steering committee to provide oversight. The project team has completed its internal evaluation of existing contractual arrangements for embedded leases, has successfully tested computations in the Company's lease administration system, and has developed a process to compute the rates to discount the lease liabilities as required by the standard. In addition, the project team has identified and implemented new processes and controls to ensure compliance with the new standard, and has evaluated and documented the Company's accounting conclusions related to the new standard. The Company will utilize transition practical expedients under which the Company will not be required to reassess (i) whether expired or existing contracts are or contain leases as defined by the new standard, (ii) the classification of such leases, and (iii) whether previously capitalized initial direct costs would qualify for capitalization under the new standard. The Company has identified its store leases as the area in which it will be most affected by the new guidance, and the most significant impact that adoption will have on the Company's consolidated financial statements is to its consolidated balance sheet. The Company expects to record consolidated right of use assets and consolidated lease liabilities of approximately $8.0 billion each upon transition to the new guidance.

In October 2016, the FASB issued amendments to existing guidance related to accounting for intra-entity transfers of assets other than inventory, which affects the Company's historical accounting for intra-entity transfers of certain intangible assets. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2017. The amendments are applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company adopted this guidance effective February 3, 2018 which resulted in an increase in deferred income tax liabilities and a decrease in retained earnings of $41.3 million.

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In January 2017, the FASB issued amendments to existing guidance related to the subsequent measurement of goodwill. These amendments modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. Subsequent to adoption, an entity will perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. This guidance is effective for public business entities for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The amendments should be applied on a prospective basis. An entity is required to disclose the nature of and reason for the change in accounting principle upon transition. The Company currently does not anticipate a material effect on its consolidated results of operations, financial position or cash flows to result from the adoption of this guidance.

Reclassifications

Certain financial disclosures relating to prior periods have been reclassified to conform to the current year presentation where applicable.

2. Earnings per share

Earnings per share is computed as follows (in thousands except per share data):

	2018		
	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	$ 1,589,472	265,155	$ 5.99
Effect of dilutive share-based awards		950	
Diluted earnings per share	$ 1,589,472	266,105	$ 5.97

	2017		
	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	$ 1,538,960	272,751	$ 5.64
Effect of dilutive share-based awards		611	
Diluted earnings per share	$ 1,538,960	273,362	$ 5.63

	2016		
	Net Income	Weighted Average Shares	Per Share Amount
Basic earnings per share	$ 1,251,133	281,317	$ 4.45
Effect of dilutive share-based awards		944	
Diluted earnings per share	$ 1,251,133	282,261	$ 4.43

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Diluted earnings per share is determined based on the dilutive effect of share-based awards using the treasury stock method.

Share-based awards that were outstanding at the end of the respective periods, but were not included in

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the computation of diluted earnings per share because the effect of exercising such options would be antidilutive, were 0.8 million, 2.1 million and 1.7 million in 2018, 2017 and 2016, respectively.

3. Income taxes

The provision (benefit) for income taxes consists of the following:

(In thousands)	2018	2017	2016
Current:			
Federal	$ 320,361	$ 426,933	$ 613,009
Foreign	159	105	135
State	53,091	79,011	88,990
	373,611	506,049	702,134
Deferred:			
Federal	48,262	(159,728)	11,053
Foreign	(38)	(22)	—
State	4,109	22,021	1,308
	52,333	(137,729)	12,361
	$ 425,944	$ 368,320	$ 714,495

A reconciliation between actual income taxes and amounts computed by applying the federal statutory rate to income before income taxes is summarized as follows:

(Dollars in thousands)	2018		2017		2016	
U.S. federal statutory rate on earnings before income taxes	$ 423,237	21.0 %	$ 643,326	33.7 %	$ 687,969	35.0 %
Impact of tax rate changes	(12,222)	(0.6)	(310,756)	(16.3)	—	—
State income taxes, net of federal income tax benefit	44,584	2.2	61,201	3.2	60,168	3.1
Jobs credits, net of federal income taxes	(27,506)	(1.4)	(26,759)	(1.4)	(18,952)	(1.0)
Increase (decrease) in valuation allowances, net of federal taxes	—	—	4,435	0.2	(1,474)	(0.1)
Stock-based compensation programs	(3,682)	(0.2)	(2,227)	(0.1)	(9,915)	(0.5)
Increase (decrease) in income tax reserves	3,952	0.2	(1,837)	(0.1)	(2,161)	(0.1)
Other, net	(2,419)	(0.1)	937	0.1	(1,140)	(0.1)
	$ 425,944	21.1 %	$ 368,320	19.3 %	$ 714,495	36.3 %

On December 22, 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. Among other changes, the Act reduces the federal corporate tax rate to 21% from 35% effective January 1, 2018, including a reduction in the Company's current year federal corporate tax rate for 2017 to 33.7% as a result of the Company's 2017 fiscal year ending approximately one month after the effective date of the Act.

Under accounting standards for income taxes, the impact of new tax legislation must be taken into account in the period in which the new legislation is enacted, including the remeasurement of deferred tax assets and liabilities at the tax rates that such items are expected to reverse in future periods. Subsequent to the Act, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 118 ("SAB 118"), allowing companies to record provisional amounts during a measurement period not to exceed one year after the enactment date while the accounting impact remains under analysis. The Company's 2017 provision for income taxes reflected such estimates due to the changes in income tax law, including a provisional tax benefit of $335 million. The provisional tax benefit consisted of $310.8 million related to the one-time remeasurement of the federal portion of the Company's deferred tax assets and liabilities at the 21% rate and $24.2 million related to the reduced statutory tax rate of 33.7%, compared to 35% in prior years. The Company concluded its analysis of the

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accounting impact of the Act pursuant to SAB 118 and recorded immaterial adjustments related to its 2017 provision for income taxes in 2018.

The effective income tax rate for 2018 was 21.1% compared to a rate of 19.3% for 2017 which represents a net increase of 1.8 percentage points. The effective income tax rate was higher in 2018 primarily due to the one-time remeasurement of the deferred tax assets and liabilities at 21% in 2017, which was offset by the reduction in the current federal tax rate from 33.7% in 2017 to 21% in 2018.

The effective income tax rate for 2017 was 19.3% compared to a rate of 36.3% for 2016 which represents a net decrease of 17 percentage points. The effective income tax rate was lower in 2017 primarily due to the one-time remeasurement of the federal portion of the Company's deferred tax assets and liabilities at 21%, and the changes in the federal income tax laws pursuant to the Act that lowered the Company's federal statutory tax rate to 33.7% for 2017, compared to 35% in 2016.

The 2016 effective tax rate was an expense of 36.3%. This expense was greater than the federal statutory tax rate of 35% due primarily to the inclusion of state income taxes in the total effective tax rate. The effective income tax rate was lower in 2016 as compared to 2015 due principally to the adoption of a change in accounting guidance related to employee share-based payments, requiring the recognition of excess tax benefits in the statement of income rather than in the balance sheet, as reported in prior years.

Deferred taxes reflect the effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

(In thousands)	February 1, 2019	February 2, 2018
Deferred tax assets:		
Deferred compensation expense	$ 6,490	$ 6,522
Accrued expenses	3,278	3,324
Accrued rent	22,668	23,418
Accrued insurance	6,869	8,630
Accrued incentive compensation	15,219	6,394
Share based compensation	15,713	13,442
Interest rate hedges	1,421	1,765
Tax benefit of income tax and interest reserves related to uncertain tax positions	472	365
Deferred gain on sale-leaseback	11,649	12,847
Other	3,942	3,900
State tax net operating loss carry forwards, net of federal tax	598	602

State tax credit carry forwards, net of federal tax	8,245	8,350
	96,564	89,559
Less valuation allowances, net of federal income taxes	(4,433)	(4,435)
Total deferred tax assets	92,131	85,124
Deferred tax liabilities:		
Property and equipment	(322,575)	(255,215)
Inventories	(56,221)	(46,244)
Trademarks	(308,793)	(269,820)
Prepaid insurance	(12,639)	(22,875)
Other	(1,590)	(6,672)
Total deferred tax liabilities	(701,818)	(600,826)
Net deferred tax liabilities	$ (609,687)	$ (515,702)

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The Company has state tax credit carryforwards of approximately $8.2 million that will expire beginning in 2022 through 2028 and the Company has approximately $17.2 million of state apportioned net operating loss carryforwards, which will begin to expire in 2033 and will continue through 2039.

The Company established a valuation allowance for the state tax credit carryforwards, in the amount of $4.4 million (net of federal benefit) increasing income tax expense in 2017. In 2018, management continues to believe that results from operations will not generate sufficient taxable income to realize certain state tax credits before they expire. In 2016, the Company reversed all of the previously recorded valuation allowance for state tax credit carryforwards in the amount of $1.5 million, which was recorded as a reduction in income tax expense.

Based upon expected future income, management believes that it is more likely than not that the results of operations will generate sufficient taxable income to realize the remaining deferred tax assets.

The Company's 2014 and earlier tax years are not open for further examination by the Internal Revenue Service ("IRS"). The IRS, at its discretion, may choose to examine the Company's 2015 through 2017 fiscal year income tax filings. The Company has various state income tax examinations that are currently in progress. Generally, with few exceptions, the Company's 2015 and later tax years remain open for examination by the various state taxing authorities.

As of February 1, 2019, accruals for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were $5.0 million, $0.8 million and $0.9 million, respectively, for a total of $6.7 million. This total amount is reflected in noncurrent Other liabilities in the consolidated balance sheet.

As of February 2, 2018, accruals for uncertain tax benefits, interest expense related to income taxes and potential income tax penalties were $1.0 million, $0.7 million and $0.8 million, respectively, for a total of $2.5 million. This total amount is reflected in noncurrent Other liabilities in the consolidated balance sheet.

The Company's reserve for uncertain tax positions will not be reduced in the coming twelve months as a result of expiring statutes of limitations. As of February 1, 2019, approximately $5.0 million of the uncertain tax positions would impact the Company's effective income tax rate if the Company were to recognize the tax benefit for these positions.

The amounts associated with uncertain tax positions included in income tax expense consists of the following:

(In thousands)	2018	2017	2016
Income tax expense (benefit)	$ 3,919	$ (2,076)	$ (3,795)
Income tax related interest expense (benefit)	133	(123)	(31)
Income tax related penalty expense (benefit)	33	(9)	50

A reconciliation of the uncertain income tax positions from January 29, 2016 through February 1, 2019 is as follows:

(In thousands)	2018	2017	2016
Beginning balance	$ 1,041	$ 3,117	$ 6,964
Increases—tax positions taken in the current year	95	66	41
Increases—tax positions taken in prior years	3,914	27	52
Decreases—tax positions taken in prior years	—	—	(1,435)
Statute expirations	—	(2,169)	(2,453)
Settlements	(90)	—	(52)
Ending balance	$ 4,960	$ 1,041	$ 3,117

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4. Current and long-term obligations

Consolidated current and long-term obligations consist of the following:

(In thousands)	February 1, 2019	February 2, 2018
Senior unsecured credit facilities		
Term Facility	$ —	$ 175,000
Revolving Facility	—	—
1.875% Senior Notes due April 15, 2018 (net of discount of $16)	—	399,984
3.250% Senior Notes due April 15, 2023 (net of discount of $1,084 and $1,322)	898,916	898,678
4.150% Senior Notes due November 1, 2025 (net of discount of $562 and $632)	499,438	499,368
3.875% Senior Notes due April 15, 2027 (net of discount of $375 and $413)	599,625	599,587
4.125% Senior Notes due May 1, 2028 (net of discount of $471)	499,529	—
Unsecured commercial paper notes	366,900	430,200
Capital lease obligations	10,977	12,321
Tax increment financing due February 1, 2035	6,360	7,335
Debt issuance costs, net	(17,055)	(16,515)
	2,864,690	3,005,958
Less: current portion	(1,950)	(401,345)
Long-term portion	$ 2,862,740	$ 2,604,613

At February 1, 2019, the Company’s maintained a $1.25 billion senior unsecured revolving credit facility (the “Revolving Facility”) that provides for the issuance of letters of credit up to $175.0 million and is scheduled to mature on February 22, 2022.

Borrowings under the Revolving Facility bear interest at a rate equal to an applicable interest rate margin plus, at the Company’s option, either (a) LIBOR or (b) a base rate (which is usually equal to the prime rate). The applicable interest rate margin for borrowings as of February 1, 2019 was 1.10% for LIBOR borrowings and 0.10% for base-rate borrowings. The Company is also required to pay a facility fee, payable on any used and unused commitment amounts of the Revolving Facility, and customary fees on letters of credit issued under the Revolving Facility. As of February 1, 2019, the commitment fee rate was 0.15%. The applicable interest rate margins for borrowings, the facility fees and the letter of credit fees under the Revolving Facility are subject to adjustment from time to time based on the Company’s long-term senior unsecured debt ratings.

The Revolving Facility contains a number of customary affirmative and negative covenants that, among other things, restrict, subject to certain exceptions, the Company’s ability to: incur additional liens; sell all or substantially all of the Company’s assets; consummate certain fundamental changes or change in the Company’s lines of business; and incur additional subsidiary indebtedness. The Revolving Facility also contains financial covenants which require the maintenance of a minimum fixed charge coverage ratio and a maximum leverage ratio. As of February 1, 2019, the Company was in compliance with all such covenants. The Revolving Facility also contains customary events of default.

On June 11, 2018, the Company voluntarily prepaid the entire $175.0 million outstanding balance of its senior unsecured term loan facility and recognized an associated loss of $1.0 million which is reflected in Other (income) expense in the consolidated statement of income for the year ended February 1, 2019. As of February 1, 2019, the Company had no outstanding borrowings, outstanding letters of credit of $7.6 million, and borrowing availability of $1.2 billion under the Revolving Facility that, due to its intention to maintain borrowing availability related to the commercial paper program described below, could contribute incremental liquidity of $689.5 million. In addition, the Company had outstanding letters of credit of $32.9 million which were issued pursuant to separate agreements.

As of February 1, 2019, the Company had a commercial paper program under which the Company may

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issue unsecured commercial paper notes (the “CP Notes”) from time to time in an aggregate amount not to exceed $1.0 billion outstanding at any time. The CP Notes have maturities of up to 364 days from the date of issue and rank equal in right of payment with all of the Company’s other unsecured and unsubordinated indebtedness. The Company intends to maintain available commitments under the Revolving Facility in an amount at least equal to the amount of CP Notes outstanding at any time. As of February 1, 2019, the Company’s consolidated balance sheet reflected outstanding CP notes of $366.9 million, which were classified as long-term obligations due to the Company’s intent and ability to refinance these obligations as long-term debt. An additional $186.0 million of outstanding CP Notes were held by a wholly-owned subsidiary of the Company and are therefore not reflected on the consolidated balance sheet. As of February 1, 2019, the outstanding CP Notes had a weighted average borrowing rate of 2.7%.

On April 10, 2018, the Company issued $500.0 million aggregate principal amount of 4.125% senior notes due 2028 (the “2028 Senior Notes”), net of discount of $0.5 million, which are scheduled to mature on May 1, 2028. Interest on the 2028 Senior Notes is payable in cash on May 1 and November 1 of each year, and the first interest payment commenced on November 1, 2018. The Company incurred $4.4 million of debt issuance costs associated with the issuance of the 2028 Senior Notes.

Effective April 15, 2018, the Company redeemed $400.0 million aggregate principal amount of outstanding 1.875% senior notes due 2018 (the “2018 Senior Notes”). There was no gain or loss associated with the redemption. The Company funded the redemption price for the 2018 Senior Notes with proceeds from the issuance of the 2028 Senior Notes.

On April 11, 2017, the Company issued $600.0 million aggregate principal amount of 3.875% senior notes due 2027 (the “2027 Senior Notes”), at a discount of $0.4 million, which are scheduled to mature on April 15, 2027. Interest on the 2027 Senior Notes is payable in cash on April 15 and October 15 of each year, and commenced on October 15, 2017. The Company incurred $5.2 million of debt issuance costs associated with the issuance of the 2027 Senior Notes.

On April 27, 2017, the Company redeemed $500.0 million aggregate principal amount of outstanding 4.125% senior notes due 2017 (the “2017 Senior Notes”), resulting in a pretax loss of $3.4 million which is reflected in Other (income) expense in the consolidated statement of income for the year ended February 2, 2018.

Collectively, the 2028 Senior Notes, the 2027 Senior Notes and the Company’s other Senior Notes due 2023 and 2025 as reflected in the table above comprise the “Senior Notes”, each of which were issued pursuant to an indenture as supplemented and amended by supplemental indentures relating to each series of Senior Notes (as so supplemented and amended, the “Senior Indenture”). The Company may redeem some or all of its Senior Notes at any time at redemption prices set forth in the Senior Indenture. Upon the occurrence of a change of control triggering event, which is defined in the Senior Indenture, each holder of the Senior Notes has the right to require the Company to repurchase some or all of such holder’s Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

The Senior Indenture contains covenants limiting, among other things, the ability of the Company and its subsidiaries to (subject to certain exceptions): consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's assets; and to incur or guarantee indebtedness secured by liens on any shares of voting stock of significant subsidiaries.

The Senior Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on the Senior Notes to become or to be declared due and payable, as applicable.

Scheduled debt maturities at February 1, 2019, including capital lease obligations, for the Company's fiscal years listed below are as follows (in thousands): 2019 - $368,850; 2020 - $1,958; 2021 - $1,913; 2022 - $1,791; 2023 - $901,418; thereafter - $1,608,307.

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5. Assets and liabilities measured at fair value

The following table presents the Company’s assets and liabilities required to be measured at fair value as of February 1, 2019, aggregated by the level in the fair value hierarchy within which those measurements are classified.

(In thousands)	Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value at February 1, 2019
Liabilities:				
Long-term obligations (a)	$ 2,480,044	$ 384,236	$ —	$ 2,864,280
Deferred compensation (b)	24,896	—	—	24,896

(a) Included in the consolidated balance sheet at book value as Current portion of long-term obligations of $1,950 and Long-term obligations of $2,862,740.
(b) Reflected at fair value in the consolidated balance sheet as a component of Accrued expenses and other current liabilities of $2,043 and a component of noncurrent Other liabilities of $22,853.

The carrying amounts reflected in the consolidated balance sheets for cash, cash equivalents, short-term investments, receivables and payables approximate their respective fair values. The Company does not have any recurring fair value measurements using significant unobservable inputs (Level 3) as of February 1, 2019.

6. Commitments and contingencies

Leases

As of February 1, 2019, the Company was committed under operating lease agreements for most of its retail stores. Many of the Company’s stores are subject to build-to-suit arrangements with landlords which typically carry a primary lease term of up to 15 years with multiple renewal options. The Company also has stores subject to shorter-term leases and many of these leases have renewal options. Certain of the Company’s leased stores have provisions for contingent rent based upon a specified percentage of defined sales volume.

The land and buildings of the Company’s DCs in Missouri, Mississippi and California are subject to operating lease agreements and the leased DC in Oklahoma is subject to a financing arrangement. Certain leases contain restrictive covenants, and as of February 1, 2019, the Company is not aware of any material violations of such covenants.

The Company is accounting for its DC in Oklahoma as a financing obligation as a result of, among other things, the lessor’s ability to put the property back to the Company under certain circumstances. The property and equipment, along with the related lease obligation associated with this transaction are recorded in the consolidated balance sheets. The Company is the owner of a secured promissory note (the “Ardmore Note”) which represents debt issued by the third party entity from which the Company leases the DC in Oklahoma and therefore the Company holds the debt instrument pertaining to its lease financing obligation. Because a legal right of offset exists, the Company is accounting for the Ardmore Note as a reduction of its outstanding financing obligation in its consolidated balance sheets.