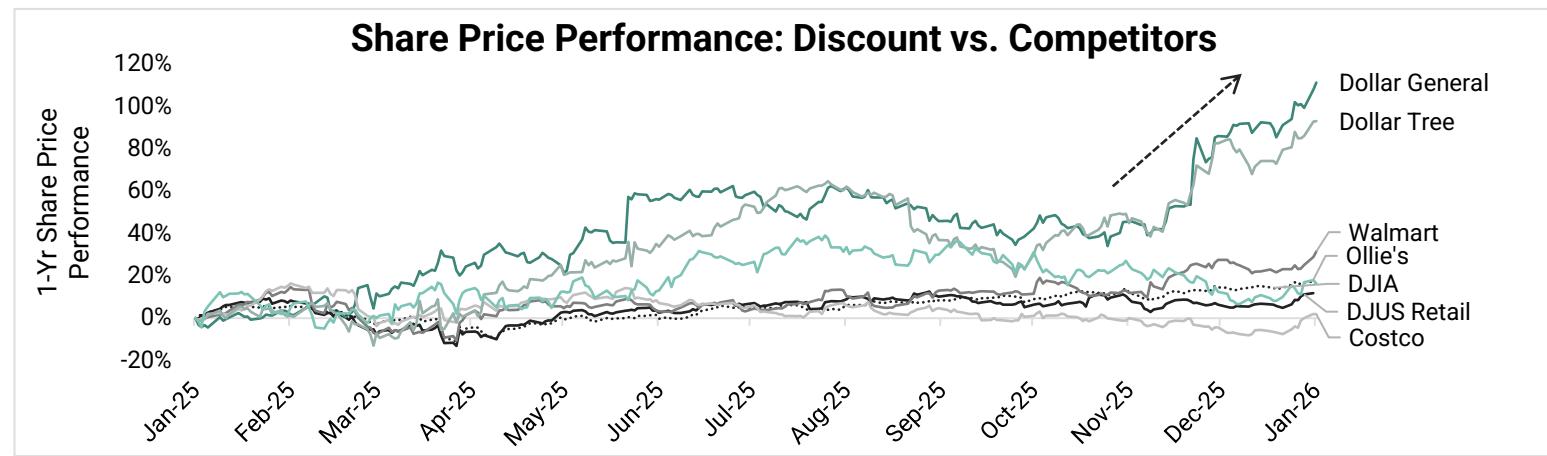


Discount Sector Spotlight

FEBRUARY 2026

REWIRING THE RETAIL WALLET: ARE TRADE-DOWNS A PERMANENT SHIFT?

2025's discount store momentum culminated in the sector's marked Q4 outperformance and further divergence from broader retail and market indices.

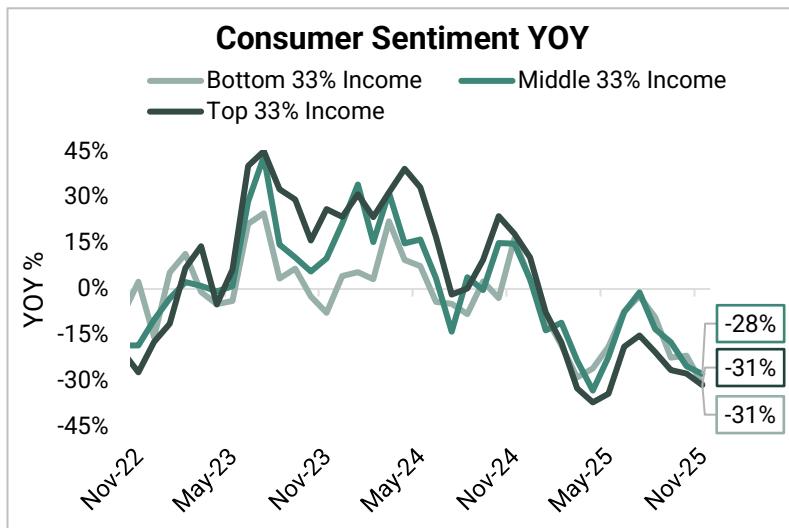


Source: S&P CapIQ

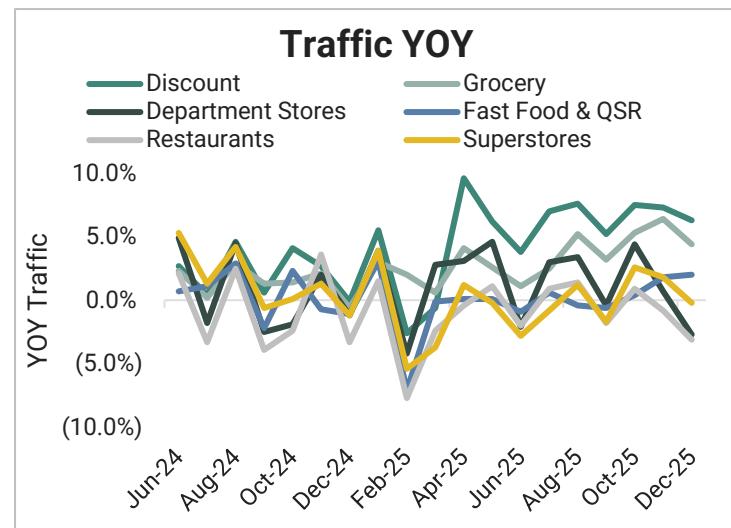
The convergence of pessimistic sentiment across all income tiers has triggered a shift toward discount-led, necessity-based consumer spending.

Broad-based confidence erosion spiked in 2H 2025 as sentiment among top earners fell below other income levels.

Surging discount store traffic across much of 2025 captured wallet share from dining and retail competitors.



Source: University of Michigan Surveys of Consumers



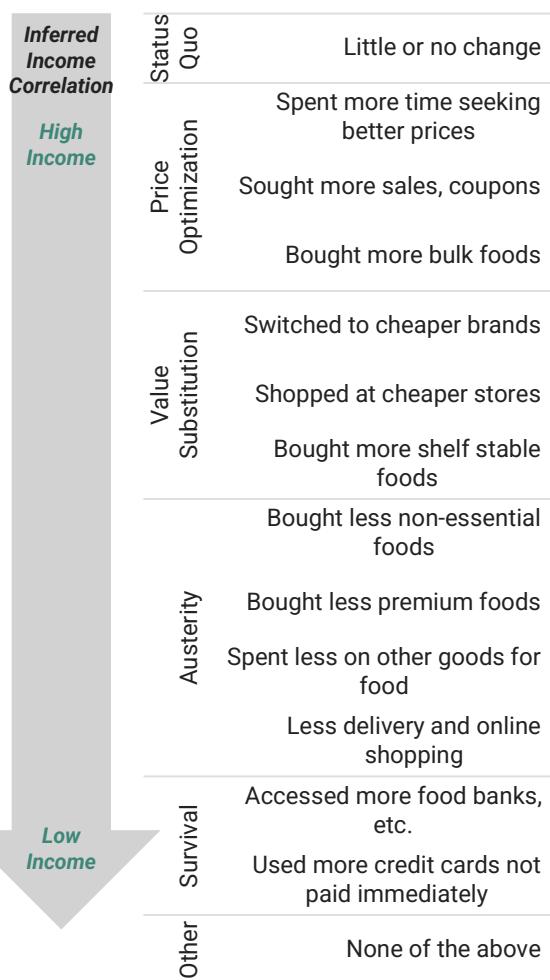
Source: Placer.ai

2026 OPERATIONAL MANDATE: CONVERTING MARKET MOMENTUM INTO STRUCTURAL EFFICIENCY

In 2026, discount retailers face a delicate balancing act: managing an influx of high-income customers while protecting a core customer base restricted by Supplemental Nutrition Assistance Program (SNAP) mandates.

Consumers across income bands are adapting: high earners optimize, middle-tiers substituted, and lower-income families are focused on essentials.

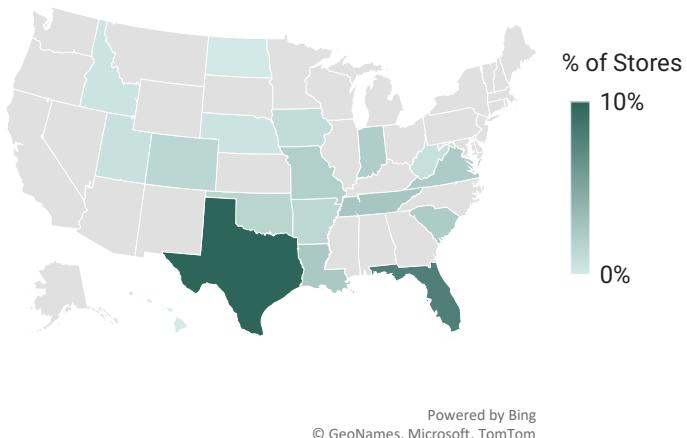
How have you changed your grocery shopping in 2025?



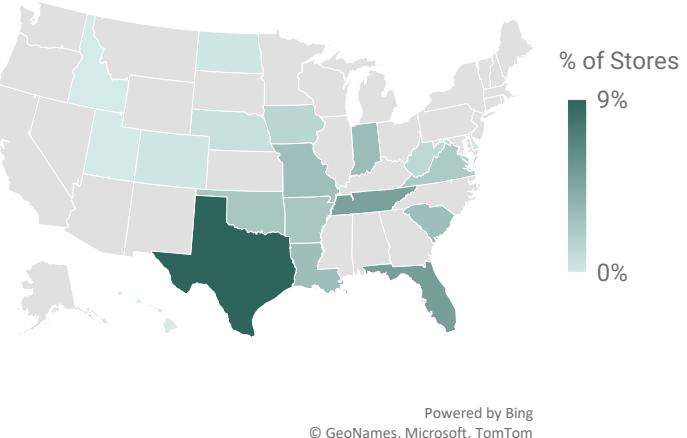
Source: Center for Food Demand Analysis and Sustainability, Ankura analysis

The One, Big, Beautiful Bill Act mandates SNAP funding cuts and a ban on high-margin junk food, requiring broad-reaching and significant operational changes.

SNAP Food Waivers Impact 41% of Dollar Tree Stores



SNAP Food Waivers Impact 43% of Dollar General Stores

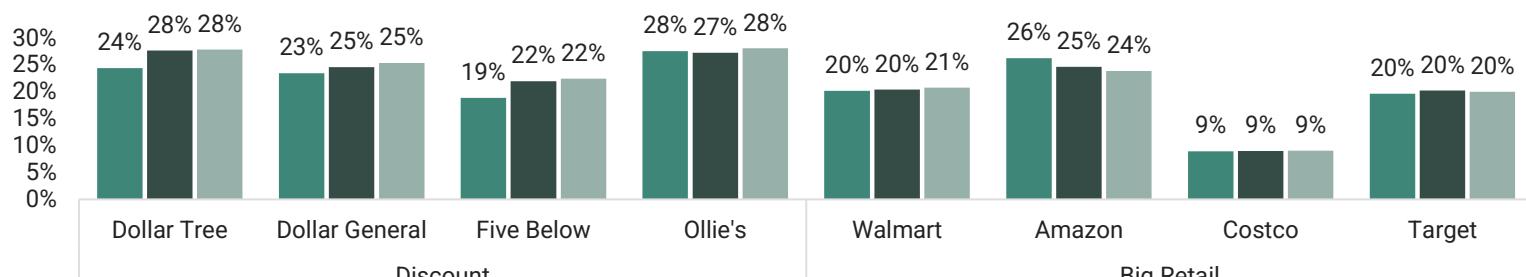


Source: USDA, S&P CapIQ, Company 10-Ks, ScrapeHero, LocationsCloud

Persistent SG&A signals an opportunity to unlock operating leverage on top-line momentum and drive margin expansion while navigating regulations and economic uncertainty.

SG&A % Sales

■ LTM-2 ■ LTM-1 ■ LTM



Source: S&P CapIQ, Jan 2026

RETAILER ACTIONS

Capitalizing on consumer shifts while insulating the bottom line requires the discount sector to deepen its operational reset and drive new levels of structural discipline. Key imperatives include:

- **Assortment and Price Management:** Curate a product-price mix that maximizes margin while retaining a diverging shopper base. Levers include assortment review for changing SNAP requirements, expanding private labels as high-margin alternatives, and enhancing multi-tier pricing models as behaviors shift.
- **Labor Optimization:** Decouple rising store traffic from escalating payroll to protect operating margins. Levers include deploying AI-driven scheduling to match staffing with peak traffic periods and automating point of sale systems to handle state-specific SNAP filtering without increasing manual checkouts.
- **SG&A Discipline:** Transform legacy cost structures into flexible models that scale efficiently with sales growth. Levers include optimizing corporate overhead, improving ROAS on performance-based marketing, and consolidating underperforming locations to ensure execution focus in key markets.
- **Asset Protection and Store Execution:** Mitigate margin erosion caused by inventory shrink and store-level inefficiencies. Levers include removing self-checkout in high-theft areas, investing in tech-enabled loss prevention to reduce shrink, and evaluating store tasks for opportunities to reduce non-value-added labor.

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