

# DLTR Earnings Call Transcript

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**Quarter: 3**

Operator: Greetings. Welcome to the Dollar Tree, Inc. Q3 2025 Earnings Conference Call. At this time, participants are in a listen-only mode. A question and answer session will follow the formal presentation. Please note that this conference is being recorded. I will now turn the conference over to Robert LaFleur, Senior VP of Investor Relations. Thank you. You may begin.

Robert LaFleur: Good morning, and thank you for joining us to discuss Dollar Tree, Inc.'s third quarter fiscal 2025 results. With me today are Dollar Tree, Inc.'s CEO, Michael Creedon, and CFO, Stewart Glendinning. Before we begin, I would like to remind everyone that some of the remarks that we will make today about the company's expectations, plans, and future prospects are considered forward-looking statements under the safe harbor provision of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties, which could cause actual results to differ materially from those contemplated by our forward-looking statements. For information on the risks and uncertainties that could affect our actual results, please see the Risk Factors, Business, and Management's Discussion and Analysis of Financial Condition and Results of Operations sections in our Annual Report on Form 10-Ks filed on March 26, 2025, our most recent press release, and Form 8-Ks and other filings with the SEC. We caution against any reliance on any forward-looking statements made today, and we disclaim any obligation to update any forward-looking statements except as required by law. Also, during this call, we will discuss certain non-GAAP financial measures. Reconciliations of these non-GAAP items to the most directly comparable GAAP financial measures are provided in today's earnings release available on the IR section of our website. These non-GAAP measures are not intended to be a substitute for GAAP results. Unless otherwise stated, we will refer to our financial results on a GAAP basis. Additionally, unless otherwise stated, all discussions today refer to our results from continuing operations, and all comparisons discussed today are for 2025 against the same period a year ago. Please note that a supplemental slide deck outlining selected operating metrics is available on the IR section of our website. Following our prepared remarks, Michael and Stewart will take your questions. Given the number of callers who would like to participate in today's session, we ask that you limit yourself to one question. I'd now like to turn the call over to Michael.

Michael Creedon: Thanks, Bob. Good morning, everyone, and thank you for joining us to discuss our third quarter results. It's great to be with you again. When we recently gathered in New York for Investor Day, I said this was the start of a new era for Dollar Tree, Inc. One company, one brand, one focus. Our energy is now directed towards strengthening and growing the Dollar Tree, Inc. business. We delivered a high-quality quarter accompanied by mid-single-digit comps, above outlook earnings, and strong end-of-quarter momentum heading into the holidays. These results speak to our disciplined execution and focused strategy. Let me start by framing the quarter at a high level, then Stewart will take you through the financial details. First, I'd like to highlight the strength of our discretionary business, which showed its first positive year-over-year mix shift since 2022. We believe this strength illustrates how our exceptional value proposition, including our growing multi-price assortment, is resonating with our shoppers by helping them meet their needs and desires in the budget-constrained environment that many consumers find themselves in today. The three pillars that define Dollar Tree, Inc. are value, convenience, and discovery. Those are not slogans. They're how we win. They describe a brand that offers customers compelling values across a variety of price points that help them do more with less, in

stores that are easy to shop and full of surprises worth discovering. While the consumer landscape remains uneven, the underlying story remains consistent. All consumers are seeking value. Marrying that value-seeking behavior with convenience and discovery is the intersection where Dollar Tree, Inc. thrives. And the evidence is clear. Dollar Tree, Inc. continues to gain share and attract new shoppers while continuing to serve its large and loyal base of core customers. Today, we serve an increasingly broad spectrum of shoppers, from core value-focused households to middle and higher-income shoppers who are making deliberate choices about how and where they spend. We had 3 million more households shop with us in Q3 this year compared to Q3 last year. Approximately 60% of these incremental shoppers came from higher-income households, those earning over \$100,000, and 30% from middle-income households, those earning between \$60,000 to \$100,000, with the rest from lower-income households, those earning under \$60,000. Importantly, Q3 spending growth was broad-based across all income sub-cohorts, including households earning below \$20,000. To us, this demonstrates that Dollar Tree, Inc. isn't just for tough times or for those with limited resources. Dollar Tree, Inc. is for smart shoppers across all income brackets where value, convenience, and discovery matter. At the same time, higher-income households are trading into Dollar Tree, Inc., and lower-income households are depending on us more than ever. For example, the average spend for lower-income households grew more than twice as fast in the third quarter as the average spend for higher-income households. While part of this reflects the fact that higher-income households are typically earlier in their customer lifecycle with us, the data clearly shows that our core customer remains loyal and deeply engaged. She's balancing her household budget carefully and continues to count on Dollar Tree, Inc. for essentials and increasingly for the seasonal and discretionary items that bring joy to her and her family. Over time, our goal is to inspire the same level of loyalty in our newer higher-income customers that we see in our core customers. While the average per household spend for our higher-income customers is currently lower, even given their higher income, larger average basket size, and ability to spend more, this is a simple function of trip frequency. Because many of our higher-income customers are still early in their relationship with Dollar Tree, Inc., their purchase frequency has significant room to grow. Over time, we believe that growing trip frequency among these higher-income customers, given their propensity to build bigger baskets, will be a powerful growth driver for Dollar Tree, Inc. This is why our brand promise matters so much right now. We make it easier for customers to do more with less, without trading down on quality or experience. And that is what keeps our traffic and baskets healthy in a cautious consumer environment. And with that, let's take a look at some of our Q3 highlights. Comparable sales increased 4.2%, a nice acceleration from the quarter-to-date trend of 3.8% we shared in mid-October. As the results suggest, October finished strong, driven by momentum in our multi-price assortment and a great Halloween. Our Q3 comp was all ticket-driven, as traffic was slightly negative. Discretionary mix improved 40 basis points to 50.5%. Comp increased 4.8% in discretionary and 3.5% in consumables. Gross margin performance exceeded expectations, reflecting strong operational execution and cost discipline. Adjusted EPS of \$1.21 was nicely above our outlook, and Stewart will go through the drivers behind this upside in his remarks. We believe these results reflect our sharper focus and more disciplined execution. Multi-price was a key driver of our Q3 momentum. As a reminder, multi-price is a deliberate long-term data-driven strategy that began back in 2019 to make Dollar Tree, Inc. more relevant, flexible, and profitable. Multi-price is about evolving our assortment over time to include new, more relevant, and attractively valued items that we could not offer at a fixed price point of \$1 or \$1.25. Multi-price is one of the most important strategic shifts in Dollar Tree, Inc.'s modern history. And it's working. As we highlighted at our Investor Day, the roughly 5.5% annual comp we've averaged since breaking the dollar in 2022 is among the very best in all of retail. Those of you who attended our Investor Day may recall a slide from Stewart's presentation where he demonstrated how expanded multi-price penetration in categories like electronics, hardware, and Easter had a meaningfully positive impact on sales and per unit profitability. We've reproduced a similar analysis on our multi-price Halloween assortment this year, which we've included in our supplemental presentation available on our Investor Relations website. Our Halloween performance this year is another clear example of the power of multi-price. This year, our Halloween assortment generated over \$200 million in sales, an all-time record. But to see the full impact of multi-price, let's go back to Halloween 2022 when multi-price was still in its infancy. That year,

multi-price represented about 3% of units sold, 10% of sales, and 7% of merchandise gross margin across our full Halloween assortment. Fast forward to 2025. On a 25% larger base of sales, where multi-price accounted for roughly a quarter of our total Halloween sales and merchandise gross margin, but only 8% of Halloween units sold. We are continually engineering incremental value and profitability drivers into our multi-price assortment. Across Halloween this year, each multi-price item that we sold generated 3.5 times more profit than each non-multi-price item we sold. This is a full turn higher than Halloween 2022. By combining this increase per unit profitability with a higher multi-price mix, we were able to generate approximately 25% more margin dollars from our Halloween assortment this year compared to 2022, while selling approximately 10% fewer units. And this is just the positive impact on merchandise margin. It doesn't take into consideration any labor or distribution cost savings that come from handling fewer units. Looking at it this way, multi-price is a powerful growth and profitability driver. It broadens our value proposition and relevance to our customers, allows us to compete more effectively, helps drive cost leverage, and sets the business up for long-term success. More importantly, we are just getting started. Multi-price is not a one-and-done proposition. We expect these dynamics to play out across every holiday and special occasion and strengthen as our multi-price penetration expands. Over time, our customers will let us know what the right multi-price mix ultimately is. But we're confident that it's meaningfully higher than where we are today. So let's take a look at some broader merchandising highlights from the quarter. Discretionary categories accelerated through the quarter, with standout performances in party and home decor. Consumables were steady, led by household cleaning, personal care, snacks, and cookies. Seasonal performance was strong, particularly towards the end of the quarter. We planned the inventory carefully, had strong in-store execution, and are pleased with our sell-through. Those wins are proof points for our merchandising strategy and ever-changing, more relevant assortment that drives trip completion and, more importantly, enhances profitability and margin performance. Today, with a wider assortment of multi-price merchandise and re-stickering largely complete, 85% of the items in our store are still priced at \$2 or below. Offering a broad range of price points while staying firmly grounded in value preserves the integrity of the Dollar Tree, Inc. brand. We believe time, convenience, pack size, and quality are all part of our customers' value calculation. And so is an expanded range of products that address a wide range of shopping occasions. When a customer can fill a basket with snacks, cleaning supplies, home decor items, and seasonal products all at a great value, that's when the Dollar Tree, Inc. magic is on full display. Q3 results were also powered by strong execution in our stores, supply chain, and support functions. At Investor Day, Jossi Conrad spoke about our commitment to simplify work, elevate standards, and empower our people. In Q3, we saw measurable improvement in these key areas. On store standards, we've rolled out new tools and training that simplify store routines and improve accountability. The results are visible with cleaner aisles, stocked shelves, and faster checkouts, with more to come. On associate engagement, our Race to Gold initiative continues to gain traction. As we've increased our investment in training and career progression, we've seen continued improvement in turnover. In Supply Chain, the network is performing at a very high level. Service levels and in-stocks coming out of this year's peak season are among the highest we've seen, and our planned increases in distribution capacity over the next several years should allow us to unlock even greater operating efficiencies and distribution cost savings. In technology, we continue to modernize our back-office systems and upgrade store infrastructure. These investments are simplifying work and enabling smarter decision-making in merchandising and replenishment. All of this comes down to one thing: making it easier for our teams to deliver a consistently great experience for our customers. With the Family Dollar sale behind us, we are already seeing measurable improvements in our culture and performance. We are fully aligned behind one brand, one set of priorities, and one mission. With leadership and investment focus concentrated on growing Dollar Tree, Inc. Every decision across product, stores, technology, supply chain, and people is aligned to strengthening one business. That alignment brings speed and accountability. Teams test, learn, and scale faster. And we now measure progress across a single set of metrics directly tied to creating shareholder value. We are moving forward with purpose, clarity, and conviction guided by the five strategic priorities we laid out at our Investor Day. Surprise and delight our customer with an expanded, more relevant assortment, manage expenses with agility by controlling the cost of the goods we sell and managing our SG&A; with

discipline to drive operating leverage and profitability. Create a strong connection with our customers, with cost-effective, quick-return, data-driven marketing, open more stores and improve the condition of our fleet, and finally, improve the in-store experience for our customers by raising the bar on our store standards. At the foundation of these priorities are a fast, flexible, and efficient supply chain and disciplined financial management that focuses on high-return investments and smart capital allocation. And at the forefront of our success is our people. The more than 150,000 associates who show up every day to serve our customers, support their colleagues, and strengthen the communities where we operate. They are the reason we do what we do and the driving force behind every decision we make. As you heard me emphasize at Investor Day, we manage this business with a focus on what I call the say-do ratio. Making clear commitments and delivering on those commitments. This mindset builds trust and accountability across the organization, and we believe that maintaining alignment between what we say and what we do is how we deliver consistent performance over time. In summary, we are pleased with our Q3 results. We're building a stronger foundation for the future, and we're confident about the direction we're heading. With that, I'll turn it over to Stewart.

Stewart Glendinning: Thanks, Mike, and good morning, everyone. Q3 comp sales increased 4.2% and adjusted EPS was \$1.21. Both our comp performance and our adjusted EPS were ahead of the expectations we shared in mid-October. The 40 basis points of Q3 comp acceleration between October was driven by a late but strong performance in Halloween sales on the back of a deeper multi-price assortment and excellent execution across our stores. Dollar Tree, Inc.'s seasonal assortment and value resonated strongly with shoppers. Our EPS improvement versus expectations was largely driven by freight, higher discretionary sales mix, and SG&A.; With that, let's go over the details of our third quarter results. Q3 net sales increased 9.4% to \$4.7 billion. Consistent with our expectations, Q3 comp growth was primarily ticket-driven as traffic was slightly negative. Average ticket growth was supported by increased multi-price penetration, particularly across our Halloween assortment and the pricing actions we began rolling out last quarter. Importantly, strong execution around merchandise costs, tariff mitigation, freight, and operating expenses helped drive profitability. Q3 gross margin expanded 40 basis points to 35.8%. These results reflect the strength of our assortment and the agility of our merchandising, supply chain, and store operations teams. The key drivers of this improvement were merchandise margin, successful execution of our five merchant levers, renegotiation, reengineering, shifting country of origin, discontinuing, and targeted price changes. All contributed to our ability to manage increased costs from tariffs. Freight, import, and inbound freight rates were favorable versus prior year, with lower spot market utilization and better container flow through at our DCs. Domestic transportation costs were also favorable. Mix, discretionary, and seasonal categories, particularly Halloween, were stronger than expected, increasing the realized mark on. Markdowns, as part of the ongoing strategic initiative to increase shelf productivity that we outlined at Investor Day, we identified and wrote off various slow-turning SKUs. This will create room for more productive items and help optimize storage space utilization in our stores and DCs. The total impact to Q3 earnings was approximately \$56 million or approximately \$0.21 of EPS. We believe we will see increased sales and profits per store going forward as we bring in new items or reallocate shelf space to existing but faster-turning products. Shrink, overall, shrink was higher than last year but in line with our expectations. These drivers taken together drove the Q3 gross margin performance. At the Dollar Tree, Inc. segment level, our Q3 adjusted SG&A; rate increased 160 basis points to 26.2%, driven by higher store payroll related to wage increases and re-stickering, general liability claims costs, and D&A; from elevated store investments. These were partially offset by sales leverage. As a reminder, we do not expect costs related to re-stickering and other price-related activities to be repeated next year. Also, the wage-related payroll increases this year were expected and planned. Looking forward to next year, we expect wage growth to moderate. As we discussed at Investor Day, on a go-forward basis, our goal is to grow Dollar Tree, Inc. segment SG&A; per store below the rate of inflation while reinvesting selectively in high-return initiatives that enhance the customer experience and the long-term profitability of our store base. We believe this will result in future SG&A; cost leverage. Adjusted corporate SG&A; should be considered net of TSA income because of the costs we carry in order to service the Family Dollar transition. Using this lens, our adjusted corporate SG&A; rate net of the \$24 million of TSA income leveraged 80 basis points to 2.4%. A positive step toward our goal of reducing corporate SG&A;

to 2% of sales by fiscal 2028. Adjusted operating income increased 4.1% to \$345 million. Our operating margin contracted by 30 basis points to 7.3%, reflecting the offset between the gross margin expansion and SG&A; deleverage, partially driven by cost headwinds such as re-stickering that will not repeat in 2026. Keep in mind our comments with respect to anticipated SG&A; leverage next year, at both the Dollar Tree, Inc. segment and the corporate level. Net interest expense and our adjusted tax rate were broadly in line with expectations. Adjusted EPS from continuing operations increased 12% to \$1.21. Moving on to the balance sheet and free cash flow. Inventory was down \$143 million or 5% versus prior year while sales increased by 9.4%, our store count increased by 4.5%, and we ramped up our DCs in Ocala and Odessa. This reduction reflects our focused efforts to increase inventory turns and improve shelf productivity. We ended the quarter with \$620 million of commercial paper notes outstanding, and \$595 million in cash and cash equivalents. On the Q3 cash flow statement, we generated \$319 million in cash from operating activities and had capital expenditures of \$376 million. This resulted in negative free cash flow in the quarter of \$57 million. Year to date, we generated \$88 million of free cash flow. As a reminder, the fourth quarter is our highest cash-generating quarter because of normally high levels of sales and because our capital expenditures skew towards the first three quarters of the year. In Q3, we purchased 4.1 million shares for \$399 million, including excise tax. Subsequent to quarter end, we repurchased an additional 1.7 million shares for \$176 million. Year to date, we've completed \$1.5 billion of share repurchases or approximately 16.7 million shares at an average price of \$90 per share. This represents approximately 8% of the shares we had outstanding at the beginning of the year. Our liquidity remains healthy, our balance sheet remains flexible, and we have ample capacity to fund our growth and return significant capital to shareholders. Our capital allocation priorities remain unchanged. Number one, invest in growth. Number two, maintain a strong and flexible balance sheet. And number three, return capital to shareholders. Looking ahead, we expect Q4 comps will come in between 4-6%, which should support net sales of \$5.4 billion to \$5.5 billion and adjusted EPS in the range of \$2.40 to \$2.60. On a full-year basis, this would raise our comp outlook to between 5-5.5%, and our adjusted EPS outlook to \$5.60 to \$5.80. The underlying assumptions incorporated into our full-year outlook are as follows: net sales of approximately \$19.35 to \$19.45 billion, gross margin expansion of approximately 50 to 60 basis points, reflecting sustained favorability in merchandise margin, freight, and occupancy leverage with some offset from markdown and shrink. Dollar Tree, Inc. segment SG&A; deleverage of approximately 120 basis points, primarily driven by higher store payroll related to wage increases in stickering and, to a lesser extent, facilities costs and D&A.; Corporate SG&A; costs, we expect corporate SG&A; net of \$55 million of 3% year over year. Net interest expense of approximately \$85 million to \$90 million, which is about \$10 million to \$15 million below our prior outlook. An effective tax rate of approximately 25%. Shares outstanding of approximately 206.4 million, reflecting our share repurchase activity through December 2. We remain on track to meet our full-year CapEx target of \$1.2 billion to \$1.3 billion. We understand that at this point, many of you are shifting your attention to next year. As is customary, we intend to give a detailed outlook for 2026 on our next earnings call in March. With that said, I will remind you of the directional outlook we provided at our Investor Day, where we outlined an algorithm for adjusted EPS to grow at a 12% to 15% CAGR through 2028, supported by underlying EPS growth of 8% to 10%, with the balance being driven by the unwind of certain discrete items mostly affecting 2026 with some residual carryover into 2027. To review the underlying details of the algorithm, I direct you to our Investor Day presentation, which is archived on our IR site. And we will give you more specifics and any updates next quarter. To wrap up, we're executing well against the roadmap we shared with you in mid-October. Each day, we continue to see tangible proof that the fundamental appeal of this business—value, convenience, and discovery—is resonating with customers and translating into strong financial results. With that, I'll turn things back over to Mike. Mike? Michael Creedon: Thanks, Stuart. Let me wrap up by putting Q3 in the broader context of where we are and where we're going. When we shared our roadmap at Investor Day, we said this transformation was about focus, consistency, and accountability. We believe Q3 was a strong proof point that our strategy is working. We delivered above-market comps, expanded gross margin, and continued to make meaningful cultural progress across the organization. Today, Dollar Tree, Inc. is a pure-play value retailer with the scale and focus to compete at the highest level. Post-Family Dollar, we have clarity of purpose, and our teams are responding with renewed intensity. As we look to Q4, the setup is solid.

Halloween was great, and our Thanksgiving and Christmas assortments are resonating with our customers as we remain focused on consistently delivering unbeatable Wow value and the thrill of the hunt experience. As 2025 winds down, let me wrap up by saying first to our associates, thank you. Your dedication, creativity, and pride in the work you do are what makes Dollar Tree, Inc. special. To our customers, thank you for your trust and loyalty. For choosing us for the moments big and small that matter the most in your daily lives. And to our shareholders, thank you for your continued confidence and partnership. With that, Stuart and I are happy to take your questions.

Operator: Thank you. We will now be conducting the question and answer session. One moment please for our first question. First question comes from the line of Matthew Boss with JPMorgan. Please proceed with your question.

Matthew Boss: Great, thanks and congrats on another nice quarter. Maybe I'll maybe two parts. Mike, could you elaborate on drivers of the same-store sales acceleration that you saw in October? Speak to comp trends that you've seen in November that support the 4% to 6% comp guide? And then Stewart, could you just help break down gross margin expansion opportunities in the fourth quarter? And how best to think about gross margin puts and takes maybe at a high level for next year?

Michael Creedon: Yes. Sure, Matt. As we looked at how the quarter runs unfolded, the Halloween was just a great finish to the quarter. It did come as we see in times like this, people buying for need and a little closer to need. So it came a little later, but it came incredibly powerfully. And, it came with a record number. If you go back, Easter performed that way. A great Easter, a great Halloween. Our setup for Thanksgiving and Christmas is just fantastic. So we really look at what we've done with multi-price and how the assortment's gotten better and our customer across all incomes is really resonating with that. And providing just fantastic seasons for us. So we feel really good about our guide on the four to six.

Stewart Glendinning: Matt, let me pick up on the gross margin for the fourth quarter and then just talk a little bit about next year. So first of all, as we think about the fourth quarter, the same kind of levers that you saw in the third quarter, we detailed some of that in our supplementary materials as well as in my prepared remarks, are going to be drivers in the fourth quarter. You will see a very powerful fourth quarter on the back of those drivers. If you look at next year and just think about next year, freight is a benefit certainly in that fourth quarter. It came through in the third quarter. As you look to next year, both freight and markdowns are the areas that we'll be watching. If you think about how we operate our business, we buy to a margin. And so when we set up our goal for next year, we shared with you that we said we would be equivalent to this year's margin plus or minus 50 basis points, and that's the place that we're targeting. There may be continued benefit in freight as we move into next year. There is some belief that perhaps on the freight side, we will see a tightening of capacity later in the year, and we are watching the potential shortage of drivers. Understand that the reason I bring up the targeted gross margin is because we use those five merchant need levers to achieve that margin. So I think the margin you can take to the bank for next year. The second piece is to refer back to the Investor Day materials that we had. And in our recent investor day, we shared with you an algorithm said we would achieve high teens improvement next year. That's on the basis of that same gross margin achievement and based on some of the discrete items that we're expecting to see in coming years. So we're set up well for next year. And I think that probably gives you the main drivers.

Operator: Thank you. Our next question comes from the line of Michael Lasser with UBS. Please proceed with your question.

Michael Lasser: Good morning. Thank you so much for taking my question. It's on traffic. And obviously, this was the first decline in traffic that Dollar Tree, Inc. has experienced in a while. To what degree is that as a result of some of the legacy households pushing back on the price increases that have been taken in the last couple of quarters? And if that's the case, does that give you any pause on your ability to achieve this high teens EPS growth next year in light of the prospect that you might have to make some investments in order to recapture those households that are just dissatisfied with the pricing changes? Thank you so much.

Michael Creedon: Yes. Michael, we really see traffic as a mix between some internal activity, namely the re-stickering, and some broader retail trends. We don't see it as a pushback from our customer. And if you look at our performance in the quarter, we had great growth across all income cohorts. And our core customer really had our highest comp. So we look at it and say, we saw the traffic decelerate

in that August, September time frame. That was the peak of our re-stickering. Those red stickers were the peak distraction for us. And then it was good to see traffic strengthen towards the end of the quarter really on the backs of that Halloween and that great strength in Halloween. So we believe there was some, you know, broad-based retail traffic deceleration around back to school, some of the sticker shock around back to school. But as we got into the real core of what Dollar Tree, Inc. does and does, we think, better than anyone, we saw the strength in our Halloween and we're very excited about what Thanksgiving and Christmas and all the seasons can do for us.

Operator: Thank you. Our next question comes from the line of John Heinbockel with Guggenheim Partners. Please proceed with your question.

John Heinbockel: Mike, two quick ones. When you think about traffic or divergence between traffic and units, so you sort of is the idea traffic will be strong units, maybe to a lesser degree because you're basically trading people into higher price point items. Talk about that divergence in your mind. And then secondly, you know, if the units are gonna grow at a slower pace, how do you think about space allocation and replanagramming the stores, you know, over maybe the intermediate to longer term?

Michael Creedon: First of all, thanks, Rob. We'll always follow our customer on that. We believe that the customer is resonating incredibly well with multi-price. We're hearing that in the surveys we're doing. We're seeing it in how our customers are performing in the store. And that real strength in the comp of that core customer. So, yes, when we look at the store, when we take multi-price, we'll take away sections of a dollar 25. And so your units will naturally decline there as you take that space and make that space more productive. So we do see some of that. But we believe, you know, the proof point we have from break the dollar was that you took up the price of the whole store. There were elements of the store that just didn't work, and our merchant team took the next buying cycles to really recover that. What we've seen here in this multi-price evolution and some of the re-stickering we did based on the inflationary cost environment is that the units have performed better. The traffic has performed better. And we're confident we can continue to drive that value in our product across these price points and continue to give the customer exactly what they need. So we see that coming together very well for us, and we'll respond to the customer and their trends with how we set up the store.

Operator: Thank you. Our next question comes from the line of Edward Kelly with Wells Fargo. Please proceed with your question.

Edward Kelly: Yes, hi, good morning. Thank you for taking my question. I wanted to ask you about the mix of multi-price as you think about next year. Just looking out, it does seem you'll have more conversions. I would imagine you're still doing more merchandising around that, improving the multi-price mix. So how do you think the stores look from the standpoint of the multi-price offering as we think about next year? And then how does that play into the way that you are thinking about driving comp next year in terms of traffic versus ticket? Thank you.

Michael Creedon: Yes. Thanks, Ed. I mean, really want to start with saying 85% of the store is still \$2 or less. So we're still early in this multi-price game. And when you look at what the seasons have done, we're gonna continue to benefit in those seasons from the multi-price assortment. And we're really looking at everyday essentials and where we can benefit in the assortment there and the shift towards multi-price. Where it ultimately goes, our customers will respond to us, and we'll respond to them in terms of building it out. But I know it's higher than where we are today, and it's something that we believe sets up a multi-year run where we're able to respond to our customers, wow them with new discovery, and not just at the season. But new discovery every day because multi-price contains something on a wow table for us or on an end cap. That shows them something they couldn't believe they could get at that price. Even though it's a price, you know, higher than \$2. So we're delivering the everyday value with the majority of the stores still at that \$2 or less. And we're wowing the customer in what we bring into the multi-price assortment.

Operator: Thank you. Our next question comes from the line of Paul Lejuez with Citi. Proceed with your question.

Paul Lejuez: Hey, thanks guys. Curious if you could talk about Thanksgiving weekend and what you saw from a traffic versus ticket perspective. It sounded like you saw a pickup in traffic around the Halloween period. Curious what you saw Thanksgiving week and weekend. And then that 85% number I think you're talking in terms of units, in terms of the percent of the store that's still \$2 and below. What

percent of sales would we should we think about being above that \$2 level? And how does it split between discretionary and consumables? Thanks.

Michael Creedon: Yeah, Paul. Let me clear up the first one. So first of all, it's sales dollars that are at the 85% of the stores, \$2 or less. That is on sales dollars. As we look at how the quarter has started, I said in my prepared remarks, we're really pleased. We look at the strength of the seasons, the Thanksgiving setup for Christmas, what we've seen so far in Christmas. So we feel really good about the guide for the fourth quarter. You know, we've got one period in. And we're feeling really good about where we sit.

Operator: Thank you. Our next question comes from the line of Rupesh Parikh with Oppenheimer. Please proceed with your question.

Rupesh Parikh: Good morning and thanks for taking a question. I also have a two-part one. So just on the elasticity front, just curious on the categories you took pricing related tariff and price increases. Just curious how that played out. And then if we do get tariff relief, you know, how do you guys approach that, whether on those savings or letting it flow to the bottom line? Thank you.

Michael Creedon: Yeah. Thanks, Rupesh. I mean, the elasticity has really, you know, it's coming as we've modeled it. It's very manageable. It's really offset by the mix we see in the multi-price. But most importantly, the value perception is intact. Our customers are responding across all income cohorts, core customers, new customers, the 60% of the new 3 million that have come in, making more than \$100,000. So we believe that the elasticity is very manageable. Then I do think it's important to go back to that break the dollar moment. What we saw there, it's a proof point. You can go back and look. See what happened with traffic. And now our performance, we believe, and what we're seeing in our numbers is better than that. And gives us the confidence in the path we're on on this. You know, as for the tariffs, I know it's been a lot in the news. We have, I think, one of the very best global sourcing teams in the business. They are all over this. They've got great partners watching this. We'll see how it unfolds with the Supreme Court. And we'll take action from there.

Operator: Thank you. Our next question comes from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question.

Zhihan Ma: Hi, this is Zach on for Simeon. Thanks for taking our questions. Just a couple from our end. Back to the traffic question, is there a way you could compare your frequent and most loyal customers to those who are more episodic and, you know, would you say there's a similar deceleration in traffic trends between both of those groups, or is there a gap in the trend?

Michael Creedon: Yeah. When we break it down, we really look at more our sales across all those income cohorts. It's really important to us to make sure that as we know multi-price skews and attracts more towards higher income, that we are committed to the base of our business, which is that core customer, that customer that makes, you know, around \$60,000 a year. And we were particularly pleased with how our comps performed at that core customer. They had our highest comps in that customer. And so we think that our customer, whether you're new to Dollar Tree, Inc. or you shop us, you know, several times a month, that you're finding what you need as you seek if you seek out affordability, you're finding exactly what you need at Dollar Tree, Inc.

Operator: Thank you. Our next question comes from the line of Scot Ciccarelli with Truist. Proceed with your question.

Scot Ciccarelli: Good morning, guys. Scott Ciccarelli. I think we all understand that there was some internal disruption as you re-stick our product. But with the negative traffic this quarter and the expectation to keep expanding MPP, should we just expect 4Q and next year to have a similar mix of traffic and ticket that we saw in 3Q? In other words, it's prime all the comp is primarily driven by ticket. Thanks.

Michael Creedon: Yes. Scott, it's hard to say. We can go back and we know what we saw in Break the Dollar. You saw the multiple quarters in the traffic performed there. We believe this time around, we were much more strategic. I mean, back then, the only choice was raising everything to a dollar 25. And as I've mentioned, you had a healthy percentage of the store that just didn't work at that new level, and the merchant team had to go over several buying cycles and reengineer products and renegotiate and get product that did work. And you saw what happened with traffic recovery. This time, we were much more strategic in how we took that. We really feel that we have found the right value places to take

price, and our customers responded. If you look at value we took in Halloween or in Christmas, I mean, our customers responded incredibly well to that move. So I look at it and say, I think we were more strategic this time, or we at least had a more strategic opportunity available to us this time, and we'll see how the traffic plays out.

Stewart Glendinning: Yeah. And maybe one other thing just to supplement. I think if you want if you go back to the investor materials we laid out, I mean, that entire strategy is set up to drive higher sales in stores. Via productivity on the shelves, via the way we intend to market to customers. And based on the way we intend to run better stores. I think that entire setup really is organized to enhance the traffic and the ticket flow.

Operator: Thank you. Our next question comes from the line of Michael with Evercore. Please proceed with your question. Michael, could you please check if you're self-muted?

Michael Montani: Yes. Hi, good morning. Thanks for taking the question. Was going to ask if you could share what the average selling price was in 3Q versus the time a year ago, and then curious if you think that you'd be able to get that level of price increase again in 2026 to drive comp?

Michael Creedon: Yes. Our AUR right now is right about 50. When you look at that, value over time, it's pretty remarkable. Considering, you know, what this company's done, what other prices have done. So we look at it and say, our customer is gonna tell us with their comps, with their wallets, that we're hitting the right points in terms of value, convenience, and discovery. One of the things that we really turn to is that expanded more relevant assortment. So, yes, it comes at a higher ticket, but it's still an incredible wow for the customer. It fits their occasion, the purpose for their trip. And whether it's a great pack size for them that helps them. Or just an item that helps them celebrate, and they love it. So we feel that while the AUR moves up, it does so lock squarely into that value play for the customer.

Stewart Glendinning: Keep in mind, one other item is that obviously, as our multi-price penetration increases, so that will also move AUR. That is not price dependent. And I think if you looked at the supplementary materials and you look at how well the multi-price worked in Halloween this year, it will give you a sense for the kinds of benefit we might see going forward as we drive that multi-price harder.

Operator: Thank you. Our next question comes from the line of Zhihan Ma with Bernstein. Please proceed with your question.

Zhihan Ma: Great. Thank you. Just one quick clarification on corporate expenses. Did it come in a bit better than your prior expectations? If you can provide a bit more color there, that'll be really helpful. And then a quick one on next year. Given the trade-in you have seen from middle to higher-income consumers, what does the tax refunds, the incremental refund next year do to middle to high-income consumers' shopping behaviors in your mind? Thank you.

Stewart Glendinning: Yes. I'll pick up on the first part, Stuart here. The SG&A; did come in better than we expected. As we get ready to set ourselves up for next year and achieve some of the aggressive savings targets we've set up. We've been squeezing down on SG&A.; Some of those savings came in a little bit faster than we had expected.

Michael Creedon: Yeah. And then I'll take the second one. I look at the tax refunds of the OB3, big beautiful bill. You know, would you offer the best value in retail? You benefit when people have more money in their wallet. And Dollar Tree, Inc. has the best value retail has. And we think we'll benefit as they get more money in their pocket.

Operator: Thank you. Next question comes from the line of Kelly Bania with BMO Capital Markets. Please proceed with your question.

Kelly Bania: Good morning. Thanks for taking our questions. Wanted to ask about the consumables, the market share trends there from a unit perspective. They seemed quite strong in the first half but really shifted in the third quarter here. I was just curious if you had any explanation of what you think is happening there. Is that attributable to the sticker, the re-stickering, impact or any other color on the market share trends there?

Michael Creedon: Yeah. Kelly, you know, the red dots is kinda how I'll answer that. It really peaked for us. In this Q3. It was the mass distraction. I will tell you, though, as we've seen trends from our customer post that, you know, we track via customer surveys, scrapes of websites and, you know, star ratings and all that. The sentiment of our customer that really peaked negative in that August, September has improved every week. So the fewer mentions of pricing, more positivity, less negativity,

we've been watching that. And every week, that's gotten better. So, you know, we don't love that we had to create that environment for our customer. It was a necessary evil to continue to deliver for them and give them product at a value. But, you know, it is what it is, and it's behind us now. The red stickering is basically done. You get a little bit as you take some pack away. It's basically done. The distractions behind us, and our stores and customers are responding very favorably.

Operator: Thank you. Our next question comes from the line of Joseph Feldman with Telsey Advisory Group. Please proceed with your question.

Joseph Feldman: Thanks for taking the question, guys. When you talked about that higher-income consumer, to get them to visit more often with more frequency, I'm just wondering how you guys plan to go about that. Maybe is it more stimulus from a marketing standpoint? Or I don't know what other methods that you might be thinking of, but how do you get them to come more frequently? Thanks.

Michael Creedon: Yeah. We love that this customer's finding us. We wanna create a very sticky relationship with them. We believe it is the more relevant assortment, so continuing to wow them each season that they come up and for their everyday essentials with items they just can't believe they found. Remember, you don't come into Dollar Tree, Inc. with a list and your head down, and I have to get this. You come in with your head moving around, looking at all the things that are wowing you. So that relevant assortment creates a sticky relationship, and then there is nothing more important than running better stores. Our store standards are on the move up. And we believe that as we continue to improve the in-store experience, those customers are gonna wanna come more and more often.

Operator: Thank you. Our next question comes from the line of Robert Ohmes with Bank of America. Please proceed with your question.

Robert Ohmes: Hey, thanks for taking my question. Wanted to follow-up on the last question. Just it's impressive how you guys are gaining all the new customers and the info you gave us on that. Just help me understand gaining all these new customers at all these income cohorts versus negative traffic? Like, how does that happen? Is somebody are there cohorts dropping out or coming a lot less frequently and that's offsetting all these new customers that you guys have gotten to come to the stores? Maybe a little more color on, like, what's happening there?

Michael Creedon: Yeah. Robbie, it's really a question of frequency. So you're driving new customers to the store, which is I mean, 3 million new households. Yes. They're skewing a bit higher income. But the strength of our business is still in that core customer, their purchase frequency, their, you know, comp dollars. We believe that these new customers come in. We can increase their trip frequency too. When they find better-run stores and they find an assortment that keeps them coming back. So right now, they're coming in, you know, because of a Halloween or they're coming in for a great season. And then what they find in the store when they're there in health and beauty and in everyday essentials. That's what keeps them coming back. If you look at Dollar Tree, Inc., compared to some of the folks we aspire to be, the difference is not in our ticket. The difference is in trip frequency. We believe we've got an opportunity to unlock increased trip frequency with these great newer trade-in customers.

Operator: Thank you. Our next question comes from the line of Bobby Griffin with Raymond James. Please proceed with your question.

Bobby Griffin: Hey, good morning guys. Thanks for taking the question. Just curious if you could expand a little bit more on shrink and where you are in that journey of bending that line item. And then I don't think it was discussed at the Investor Day, but what is embedded in the multi-year outlook for shrink? Is that elevated rate first pre-COVID or is it a return to 2019 rates?

Michael Creedon: Yes. I'll start with that, with the focus we have. You know, we learned a lot about shrink from Family Dollar. Family Dollar has, you know, a higher shrink threshold, if you will. And we were able to bend the curve over there. And so we've really reorganized how we're addressing shrink at Dollar Tree, Inc. It's not as simple for us as it is other we can't just go rip out a bunch of self-checkouts and improve our shrink. We don't have self-checkout, in any large capacity. So for us, it has to be leveraging training of our people, leveraging technology to address shrink over time. And then in terms of how it builds, Stuart?

Stewart Glendinning: So, Bobby, Stuart, we have built in some improvement in shrink as we move forward. I mean, we've made these changes to people and process. We're investing money in our secure in our asset protection. And we expect that to bend the trend. So that is built into the forward

expectations.

Operator: Thank you. Our next question comes from the line of Chuck Grom with Gordon Haskett. Please proceed with your question.

Chuck Grom: Hey, thanks a lot. I have just a question on the SG&A; line. In Slide nine, you talk about the unit trend going from 100 to 89. So there's a clear benefit, you know, from running fewer units through the store on freight and handling expenses. But when we look at the core SG&A; line, can we unpack the 160 basis point increase in SG&A;? And then also looking ahead to the fourth quarter, how are you thinking about the complexion of both gross margins and SG&A; in the last quarter of the year?

Stewart Glendinning: Yes. So Chuck, Stuart, when you really look at SG&A; in total, the big driver for SG&A; increases is really in-store payroll. That whole space. We do have some increases, as we said before, both in D&A; based on store investments and also in general liability claims. Those are probably the big areas to think about. If I unpack the store payroll for you a little bit earlier in the year, we commented on the fact that first, we were faced with some rate increases. A number of those were driven by state minimum wage increases. With the increased investment in hours, and a third was stickering. Let me come back now to your unit point, and I because I want to look forward to next year. If you're thinking about next year, the stickering is sort of largely gone. So that piece is not gonna be pushing on our P&L.; In fact, that's a benefit. The rate increases, we believe that that rate is going to start to moderate, and that's going to help us next year. And then the last piece on the hours side, actually, the hours side, exactly the point you've just made. The success of multi-price, in fact, allows us to move fewer units through the store. Do we invest some hours in running stores better, that'll give us the flexibility to decide do we take the unit do we take the hours down. Hopefully, that gives you a good flavor for your question. I think it puts us in a better position overall.

Operator: Thank you. We have reached the end of our question and answer session. I would now like to turn the floor back over to Michael Creedon for any closing comments.

Michael Creedon: Hey, thanks for joining us today, and we wish everyone a safe and healthy holiday season. Enjoy the rest of your day.