

Report on Audit of Dollar General Safety Policies and Practices

JacksonLewis

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Overview

In response to a shareholder proposal (the “Proposal”) presented at its 2023 Annual Meeting, Dollar General commissioned an independent, third-party audit (the “Audit”) on the impact of its policies and practices on the safety and well-being its workforce.¹ The Audit was conducted by an external law firm at the direction, and under the supervision, of the Company’s general counsel and other internal legal counsel. The Proposal also sought the publication of a report on the Audit (omitting privileged and proprietary information), to which this Report is responsive.

About Dollar General

Dollar General is the largest discount retailer in the United States by store count, with approximately 20,000 stores across 48 states.² Dollar General has more than 180,000 employees. The Company is headquartered in Goodlettsville, Tennessee and offers a broad selection of products that are frequently used and replenished such as food, snacks, health and beauty aids, cleaning supplies, basic apparel, housewares and seasonal items at everyday low prices in convenient neighborhood locations.

The Company operates 32 distribution centers, some of which are responsible for distribution of frozen and refrigerated products and others for products that do not require refrigeration or coolers for storage and distribution.

¹ The preamble to the resolution on which shareholders voted discussed various matters pertaining to Dollar General’s retail stores and consequently, the Audit focused primarily on those operations rather than the Company’s distribution centers or pOpshelf bannered stores.

² As of the date of this Report, the Company also operates 3 stores in Mexico.

Auditor Expertise

Dollar General retained the independent law firm of Jackson Lewis P.C. to conduct the Audit. The firm has an extensive workplace safety practice with experienced attorneys located throughout the United States. Co-leaders of the firm's workplace safety and health practice group were selected to lead the project, one of whom previously served as the Commonwealth of Virginia's Labor Commissioner responsible for enforcing federal and state workplace safety laws and as the President of the National Association of Government Labor Officials and another of whom previously served as a trial attorney for the United States Department of Labor for more than a decade. The independence of the law firm was reviewed by the Company's Board of Directors.

Jackson Lewis retained the services of an independent safety consultant FDRsafety, LLC ("FDR") to assist in developing and conducting the Audit. FDR provides various safety and health consulting services and training in the U.S., Canada and Mexico and is focused on improving the health and safety performance of companies of all sizes and industries, including retail organizations. FDR's leadership team includes the first safety and health director of FedEx; a former Assistant Secretary of Labor for the federal Occupational Safety and Health Administration ("OSHA"); and the former Administrator of the State of Tennessee's OSHA program. The FDR team is comprised of safety and health professionals from the public and private sectors.

Methodology

In addition to supervision and direction by the Company's general counsel and legal staff, the Audit was conducted under the oversight of the Company's Board of Directors, who, as noted above, reviewed the independence of the auditor, as well as the Audit's scope and methodology and the findings.

The audit team reviewed a wide range of written and visual materials, including without limitation, the Company's workplace safety and health policies and programs (including employee communications and safety training), standard operating procedures (including, but not limited to, those related to inventory management, store maintenance and criminal activity deterrence and response), employee handbooks, staffing guidance, store and district manager training, inventory management documentation, customer insight data, employee engagement data, federal/state notices of alleged safety violations, and data and information relating to workplace injuries and workers' compensation claims (for multiple years). Members of the audit team also reviewed documentation related to the Company's efforts to resolve pending proceedings in which the Company has contested certain outstanding alleged OSHA violations, including information relating to the relief sought by OSHA and the Company's response thereto (including remedial actions taken by the Company or that the Company has indicated its willingness to take).

The audit team interviewed employees from across the Company and representing several functions, including store operations, supply and demand chain, human resources, asset protection, risk management, legal and investor relations and included individuals ranging from store associates to store managers, district managers and region directors, as well as director-level and officer-level employees.

Additionally, 12 stores were randomly selected for in-person site visits by the audit team. The pool from which these 12 stores were selected represented a variety of relevant characteristics, such as backroom size, sales volume, management tenure, overall store performance, and location. Stores in the following locations were selected for site visits:

- Brenham, TX
- Greensboro, GA
- McClure, OH
- Thomasville, NC
- Chester, WV
- Groveland, FL
- Northwood, IA
- Wilkes-Barre, PA
- Eloy, AZ
- Jackson, MI
- Raymond, NH
- Woodbury, TN

In addition to employee interviews and general observation regarding each store's work environment, the site visits included a review of the store's compliance with safety matters referred to in the Proposal and other third party sources (e.g., OSHA notices of citation, media, etc.), such as aisle passage and egress routes, backrooms, electrical and fire safety, accident reporting and record-keeping, potential fall hazards, communication, store exterior (including parking lots), store security, and maintenance. While in the store, employees had the opportunity to discuss any issues/concerns they had with the audit team and the audit team had the opportunity to review and discuss anything about which they were interested, including things such as store staffing, schedules, labor utilization, the store's communication center, and training compliance.

Summary of Findings

Summary of Findings

Dollar General has implemented and communicated appropriate workplace safety policies, programs, training, and standard operating procedures (“SOPs”) and has cultivated a culture of safety, which is supported by the number of accident-free stores and employees, as well as incident rates at or below industry averages for both its retail and distribution locations.³ When followed, the Company’s policies, programs and SOPs should typically result in a workplace free from the sort of conditions often cited in federal or state safety inspections. However, the Audit revealed certain potential obstacles to compliance with these expectations, which generally fell into four categories: awareness and understanding of safety policies and programs; inventory management (including store-level adherence to related processes); store staffing and labor (including the labor budget as well as adherence to staffing and scheduling expectations); and store maintenance and repairs process. These potential obstacles may result from action or inaction (or both) at the store level, at the retail field leadership level, within the demand or supply chain (distribution and/or transportation) or at the corporate level.

Safety Policies and Programs (Including Employee Awareness and Understanding)

Dollar General uses the ISO 45001 international standard as a benchmark for its safety and health management system which aims to improve safety by building on existing process, demonstrating corporate due diligence, and reinforcing the overall safety culture at the Company. Based on that standard, the Company has in place a corporate safety and health program that meets the standards set forth by the American National Standards Institute/ American Society of Safety Professionals. The Company’s program is designed and operates to identify potential hazards/risks so that appropriate measures are taken to prevent or, when necessary, remediate them. The program successfully incorporates the core components of a safety and health management system: management leadership; employee participation and engagement; potential hazard identification, assessment, prevention and control; education and training; and program evaluation and improvement.

³ For fiscal year 2023, approximately 82% of the Company’s stores were accident-free. The Company’s 2023 store incident rate was 4.10, which is right at the previous year’s industry average (2023 industry average incident rates had not been computed at the time of this report) and its overall distribution center incident rate was 3.92 which was below the 2022 industry average. The overall incident rates for stores and distribution centers were below the industry average for both 2021 and 2022 as well. The distribution center incident rate has been below the industry average for several years, while prior to 2021, the store incident rate was slightly above the industry average (and, notably, has improved in recent past). Incident rate is defined as the recordable injuries per hours worked as defined by the Bureau of Labor and Statistics and is used to compare safety performance across operations and industries.

Summary of Findings

Through various avenues, the Company routinely reviews and audits store safety and security measures. In addition to widely communicated policies, programs and SOPs, the Company has in place a process by which field leaders (typically district managers) visit stores at least once every 30 to 45 days to ensure compliance with Company safety expectations and, if needed, take appropriate action, including remediation, retraining or corrective action. Additionally, since 2022, the Company has used an independent third-party auditor to conduct random store-level audits on various safety measures including aisle and exit clearance, fire and electrical safety, and struck by hazards. To further complement the internal and third-party audits, the Company is testing and plans to leverage data and additional corporate-level review of store safety measures to further encourage safe behaviors and solve for “upstream” issues (*i.e.*, those caused by other areas of the Company) that may create challenges for store-level compliance with safety expectations and requirements.

With respect to the physical security and safety of stores and employees, each store is assessed based on a number of factors, including without limitation, the applicable total crime index⁴ and other data for the applicable area such as shrink rates in surrounding stores as well as certain store-specific factors such as its shrink results and safety incidents. The suite of security measures implemented for a particular store is based on this assessment, which is revisited if circumstances change. Dollar General has made significant investments to enhance store security measures, including extensive installation of additional internal and external LED lighting, interactive security monitoring, additional CCTV monitors within the stores, “silent alert” buttons which allow store employees to contact law enforcement, and additional labor. Additionally, the Company instructs employees on how to respond to situations involving criminal activity⁵ and has implemented SOPs that require, for example, that deposits are made at certain intervals and at least two employees are on duty for store closing. Since 2016, Dollar General has seen a significant decline in reported robbery incidents on both an absolute and relative (per operating week) basis, or 32.6% and 55%, respectively. In 2023, a reported robbery incident occurred in only .1% of the Company’s operating weeks.

⁴ Total crime index is a count of all crimes reported to a local, state, or national law enforcement entity and indexed on a scale to the national average.

⁵ For example, employees are trained not to attempt to follow shoplifters outside the store or attempt to subdue them.

Summary of Findings

At the time of hire, each store employee is expected to be trained on store safety, including topics ranging from efficient stocking techniques, shrink awareness, and alcohol sales, to how to respond to shoplifters and other criminal activity. This training, which is to be scheduled and overseen by the store manager, is provided in a computer-based learning format with interactive questions and a knowledge-based assessment and is written in a manner to be understood by individuals from a wide variety of educational backgrounds and levels.

The stores are expected to conduct daily safety walks that includes a review of key safety areas, including aisles, exits, and electrical panels. Weekly store schedules are generated with a dedicated shift to review key safety related compliance areas. The store manager is expected to hold a monthly safety meeting dedicated to various safety topics ranging from safe stocking techniques to lifting techniques.

The Company's safety policies and programs are at or above industry standards, and as noted above, the incident rates for its retail stores have been at or below the industry average for the past 2 years. However, based on feedback from employees and auditor observations, opportunity exists to improve and reinforce employee comprehension of the safety programs and, consequently, their consistent implementation at the store level.

Inventory Management

Although the products carried by each traditional⁶ Dollar General store generally do not vary widely from one store to another, their quantities and presentation levels may vary based on each store's unique set of characteristics, including store size (including backroom size and configuration), format, layout, customer base, geography and sales data. For certain items, the Company's replenishment system determines a target inventory level, which determines when, and how much of, that product will be delivered to the store. For other items, such as seasonal or holiday items, the Company's allocation process determines the stores to which such merchandise will flow and the amount thereof.

To aid the replenishment system's accuracy, each store is expected to follow a seven-day workflow process that is tied to the store's "truck day," *i.e.*, the day of the week on which that store receives its non-frozen/refrigerated product delivery from one of the Company's distribution centers. The store manager plays a critical role in this process by ensuring that his or her store performs the activities associated with the seven-day workflow, including those relating to inventory management and accuracy⁷, in a timely fashion. When these activities are not performed in a timely, accurate fashion or stores are

⁶ By traditional store, we refer to those stores which do not carry the fuller array of fresh meat and produce and grocery items. These stores typically are referred to as DG Markets, although not all DG Market stores carry this broader assortment.

⁷ For example, store managers are expected to perform certain inventory counts each week. The information from these counts is fed into the Company's replenishment system. The failure to perform this activity (or to do so inaccurately) may result in excess inventory being delivered to the store, which can contribute to overly full back rooms and the inability to efficiently perform stocking functions. (Conversely, this failure also can lead to out-of-stocks).

Summary of Findings

unable to adhere to the workflow due to issues such as late truck deliveries or staffing challenges, the impact may be felt across more than one week. Additionally, if the allocation of seasonal or holiday merchandise is not optimal for a particular store, the store may find itself with excess inventory. If a store encounters multiple incidents of late deliveries, failure/inability to adhere to the seven-day workflow (including its inventory management activities) and/or inaccurate seasonal/holiday product allocation, the store may find itself in a situation where intervention and support are needed.

The distribution centers also play a role in inventory management for the stores, as timely and accurate (on time and in full, or “OTIF”) deliveries are critical to the seven-day workflow process. For example, suggested store schedules are tied to truck deliveries to ensure the store is staffed appropriately to accommodate the work needed to unload the truck and stock merchandise in a timely manner. As noted above, when trucks are delayed, the store may not be able to adhere to the seven-day workflow, which can have longer term impacts. In the recent past, most acutely in 2022 and 2023, supply chain challenges have resulted in less-than-desired OTIF rates which in turn pressure employee scheduling, labor allocation and engagement, as the appropriate number and mix of employees are not scheduled when needed. Store employees reported to the audit team that stores do not always receive notice of truck delivery delays in sufficient time to make scheduling adjustments, which can result in too many employees at some times and too few at others, in either case, an inefficient use of the store’s labor budget, a stressor for store managers and their

teams and an obstacle to seven-day workflow adherence. Conversely, when the store is provided sufficient advance notice of the changed timing of the delivery, it may be able to adjust scheduling and staffing to mitigate the impact. The Company is focused on improving OTIF rates and has made progress on this front and continues to evaluate ways in which to improve two-way communication regarding store deliveries, including communication regarding the timing of deliveries when circumstances change.

Store Staffing, Scheduling and Labor

As a small box retailer, Dollar General’s stores are generally staffed with eight to ten employees, including a store manager, one or more assistant store managers, one or more lead sales associates, and multiple sales associates. Store managers are responsible for the overall management and profitability of the store, including duties such as recruitment, hiring/staffing, training and discipline; scheduling (which involves taking labor budgets and staffing into account); assignment of work; inventory management (which includes the seven-day workflow discussed above); and overall adherence to Company policy and SOPs, including matters such as employee safety. Store managers report to a district manager. According to feedback received from store managers, at times the district manager’s relatively broad span of control can impact the level of day-to-day support store managers receive, particularly on matters that may involve supply chain or corporate level decisions and actions. The Company recently has taken steps to significantly

Summary of Findings

reduce the district manager position's span of control, which should help to mitigate this concern. With fewer stores in their district, the district managers should be able to provide more day-to-day support and help store managers prioritize and troubleshoot potential obstacles and situations impacting their ability to maintain operational processes.

Each store receives a store-specific labor budget, which is created using a variety of factors, including the store's customer traffic, sales (both historical and forecasted), the store's truck day, stocking activity, recovery, cleaning activities, and any special tasks such as plan-o-gram resets.⁸ The Company's labor standards were developed by industrial engineers and are based on the time it would take an average person working at an average pace adjusted for personal time, fatigue, and delays. Some of the store managers interviewed reported to the audit team that, at times, managing store labor budgets to accomplish the required workload can be a challenge; however, as explained below, these challenges sometimes can be traced to, or exacerbated by, failure to adhere to staffing or scheduling guidelines.

Store managers have several tools at their disposal to assist in the efficient and effective use of their labor budgets, including staffing guidelines, which provide instruction on the number and mix of positions and full-time vs. part-time employees, and scheduling software, which takes into account the inputs noted above in the discussion of store labor budgets, as well as the store's specific staffing, to create a suggested schedule that can be modified by the store manager. Failure or inability to appropriately use these tools – such as hiring the incorrect mix of full-time and part-time employees or positions, or making significant changes to the suggested schedule – can result in the inefficient use of a store's labor budget and make it more difficult to accomplish a store's workload. The audit team received information that from time to time, stores are not staffed according to the staffing guidelines and that store schedules are modified to accommodate employee scheduling preferences instead of store workload. When this happens, the store's ability to accomplish its tasks can be challenged. However, the auditors were informed that if store managers believe that they will be unable to manage the workload for a particular week, they can and should reach out to their district manager or region director to determine a plan to ensure the store stays on process. Such a plan could include assistance from employees from other stores in the area, additional labor hours, or both. It is our understanding that many store managers avail themselves of this process.

⁸ A plan-o-gram, or POG, is a diagram or schematic that indicates product placement. POGs may change at various times throughout the year, e.g., with a new season or holiday.

Summary of Findings

The audit team was informed that, similar to other retailers, Dollar General has experienced post-pandemic staffing challenges in certain areas and at certain times. However, Dollar General has an applicant tracking system that allows store managers to quickly identify and source candidates, and its human resources team helps to identify and address those situations where applicant flow appears challenged. Because of the proximity of its stores to one another, Dollar General is well positioned to source employees from other locations to solve in-the-moment staffing issues.

Store Maintenance

Dollar General's store count, its varied lease structures, and the age of certain of its stores, can create challenges around store maintenance issues and the timeliness (or perceived timeliness) of store repairs. A large portion of Dollar General's stores are landlord-owned and depending on the terms of the operative lease, Dollar General may be required to provide the landlord with notice and a prescribed period to repair certain maintenance issues. In situations where the issue could result in employee safety concerns (e.g., HVAC systems), the Company has a process by which temporary measures will be put in place until the repairs have been made.

Dollar General has implemented several means by which store repairs and maintenance concerns are addressed, including a dedicated maintenance team at the corporate office, which includes and liaises with field-based senior maintenance managers, to address maintenance issues as they arise. The Company's lease compliance team is responsible for notifying landlords of any repairs that they must manage under the applicable lease and for monitoring the landlord's progress towards completion of the repairs. Finally, stores have a direct communication tool to alert the corporate office of maintenance issues impacting the store and are expected to report issues in a timely fashion. When maintenance issues are reported, Dollar General evaluates the nature of the issue and escalates appropriately. However, as reported by some employees, opportunities exist to improve the speed at which some repairs are made as well as to refine the priority in which repairs are made.

Based on feedback received during the audit, unresolved maintenance issues, at times, may leave the impression that the premises are potentially unsafe, even when that may not be the case. Often, this incorrect impression could be cured with better two-way communication.

Distribution Center Review

While the Company's retail stores were the focus of the Proposal and consequently the Audit, Jackson Lewis and FDR reviewed information relating to the safety measures in the Company's distribution centers. Dollar General's distribution centers have dedicated on-site safety personnel and safety committees that train new hires and oversee ongoing safety training, near-miss and incident investigations and safety audits, and who are responsible for driving employee engagement regarding safety matters. A network-wide safety steering committee, comprised of representation across the operations of the supply chain network, oversees safety initiatives, network-wide communications, and on-going monitoring of data analytics, and serves as a resource for employees to brainstorm new ideas and processes to minimize risk within the facilities. As noted above, Dollar General's overall incident rates for its distribution centers are favorable to industry average.

Recommendations

Recommendations

Dollar General has moved and continues to move aggressively to take corrective action on items identified in the governmental notices of violation as well as the challenges identified by the Audit, and those actions are making a difference. The audit team noted certain areas of opportunity for focus and continued improvement, which are noted above, and involve issues that have been, or are in the process of being, addressed. For example, as part of the Company's efforts to enhance both its customer and employee experience, the Company launched an effort it refers to as "Back to Basics" in the third quarter of 2023. The Back to Basics effort includes a range of short-term and longer-term commitments and focuses on many of the operational areas identified as challenges by employees and the audit team, including inventory management and reduction, improved OTIF rates, increased store level support, and improved two-way communication.

Safety Policies and Programs and Maintenance

Prior to the Audit, the Company already was focused on store maintenance service levels, including issue prioritization and escalation. The Company's 2023 service levels exceeded those of 2022, and the Company has committed additional resources to help field leaders prioritize necessary repairs and more timely resolve those issues that, although not directly tied

to safety, may otherwise create an impression that the premises may not be safe (e.g., exterior maintenance, landscaping, plumbing, waste removal, and cosmetic issues). The audit team recommends that the Company continue its prioritization of these issues, as well as escalation of potential issues that may impact store safety, and that the Company focus on improving two-way communication with the store teams and retail field leadership when maintenance issues arise.

In addition to increasing maintenance resources, Dollar General is adding resources to its safety function to provide additional field support for proactive measures to strengthen training and leadership related to safety issues, increase auditing measures, and encourage collaboration across functions to identify and implement, when appropriate, enhanced safety measures. Also, as discussed above, the Company is testing and plans to implement measures to leverage technology and data to increase visibility into store-level safety compliance and solve for "upstream" issues. These efforts, along with inventory reduction efforts discussed above, should positively impact and address day-to-day challenges that can contribute to congestion in the store and the issues related thereto.

Recommendations

Inventory Management

The Company already has undertaken several actions and process improvements designed to improve inventory management at the store, distribution center and corporate levels.

For example, at the store level, the company has created a new role for assistant store managers that involves training and certification on inventory management and has tasked the assistant store manager with the responsibility to perform certain inventory related tasks (overseen by the store manager) that, if completed consistently, will improve the accuracy of a store's inventory orders and reduce overstock or excess merchandise that will not fit on shelves and must be stored in the backroom or elsewhere in the store. These assistant store manager responsibilities are relatively new and not yet fully incorporated into store processes, as the training and certification process takes some time. The audit team recommends that the Company complete the rollout as soon as possible and put in place mechanisms to ensure that newly placed assistant store managers are trained and certified in a timely manner for and that the inventory tasks are completed in a timely, accurate fashion.

From a distribution perspective, the Company has made significant improvements since 2022 as it relates to the timeliness of store deliveries. However, certain distribution centers are performing significantly better than others, and for the stores serviced by the lower-performing distribution centers, this metric may not have improved in such a way as to significantly and consistently relieve some of the pressures noted above. Service levels (*i.e.*, the degree to which a store receives what it should receive on any given delivery), while also improved, remain below the Company's historical and targeted levels, particularly for some distribution centers. The audit team recommends that the Company continue to focus on these two metrics with the goal of sustained consistency across its distribution network.

From a corporate perspective, the Company successfully has reduced its overall inventory levels significantly, which should help both the stores and the distribution centers. The Company has undertaken actions designed to reduce the overall number of core merchandise items by approximately 1,000 SKUs and to reduce the number of floor stands and other potential sources of aisle clutter. Although it may take some time for certain of these actions to be felt in the stores, they should help to address some of the challenges noted in the audit (particularly when combined with other actions the Company is taking).

Recommendations

Store Staffing, Scheduling and Labor

Even prior to the Audit, the Company had begun to invest in store labor. This investment has continued and should help to address certain of the challenges identified in the audit and provide additional support for other activities that contribute to a less cluttered backroom and sales floor, such as the assistant manager role noted above and the maintenance of one or more dedicated inventory management and compliance shifts.

Additionally, the Company intends to add over 100 new district managers in 2024, most of whom already have been recruited. These additional district manager roles will significantly reduce the average number of stores for which district managers have oversight and in turn allow district managers to better support their store managers, including helping store managers prioritize what may be seen as competing priorities and better understand how to efficiently and effectively manage the operational needs of their stores. The Company also is working to reduce district managers' administrative tasks (e.g., conference calls, reports) to allow them the opportunity to spend more time in stores and with their store managers.

The Company also has invested in leadership development training that is designed to reinforce, among other things, a coaching culture throughout its retail operations. Senior vice presidents and vice presidents of store operations have completed this training, and both region directors and district managers will take the training throughout 2024.

To enhance communication and encourage feedback from employees, the Company, on at least a quarterly basis, asks employees to submit questions directly to the CEO. Answers to those questions are communicated to employees in a variety of ways to ensure the message is communicated as broadly as possible.

The audit team recommends that the Company continue these efforts and evaluate their benefit to ensure better and more effective communication tools and training opportunities.

Conclusion

Although areas of opportunity exist for the Company to address safety-related matters, those opportunities largely are ones about which the Company was aware and actively taking efforts to address and solve prior to the Audit. The Company is focused on operational improvement across the business, which in turn should help to address the issues noted in the Audit and this Report.