

Big Lots, Inc.(BIG)

\$10.64 (As of 03/16/20)

Price Target (6-12 Months): **\$9.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 03/05/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: B

Summary

Shares of Big Lots have declined and underperformed the industry in the past three months. The stock came under pressure following the company's lower-than-expected fourth-quarter fiscal 2019 results and a cautionary statement over the sluggish start to first-quarter fiscal 2020. Management expects first-quarter to be tough on account of supply chain disruption related to the coronavirus outbreak in China as well as upfront investments in higher-return growth initiatives. The company believes that such investments will showcase result in the second quarter and beyond but for now it expects comps to decline in the range of low to mid-single digit range in the first quarter. Moreover, first-quarter and fiscal 2020 earnings view indicates year over year decline. Also, Big Lots expects deleverage in S&A expenses that may strain margins.

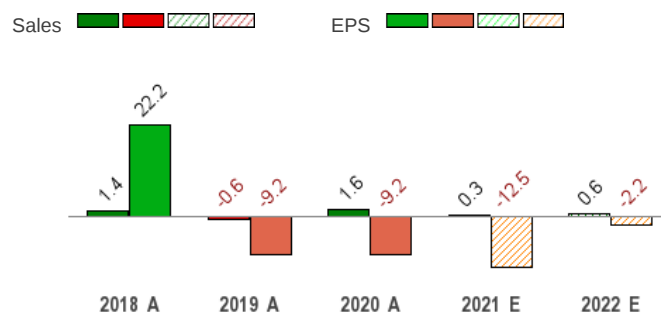
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.53 - \$10.13
20 Day Average Volume (sh)	2,564,294
Market Cap	\$415.4 M
YTD Price Change	-63.0%
Beta	1.87
Dividend / Div Yld	\$1.20 / 11.3%
Industry	Retail - Discount Stores
Zacks Industry Rank	Bottom 19% (206 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.5%
Last Sales Surprise	-1.2%
EPS F1 Est- 4 week change	-20.7%
Expected Report Date	05/29/2020
Earnings ESP	0.0%
P/E TTM	2.9
P/E F1	3.3
PEG F1	0.4
P/S TTM	0.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,313 E	1,305 E	1,223 E	1,693 E	5,374 E
2021	1,263 E	1,259 E	1,187 E	1,644 E	5,341 E
2020	1,296 A	1,252 A	1,168 A	1,607 A	5,323 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.24 E	\$0.24 E	-\$0.36 E	\$2.70 E	\$3.14 E
2021	\$0.40 E	\$0.32 E	-\$0.13 E	\$2.59 E	\$3.21 E
2020	\$0.92 A	\$0.53 A	-\$0.18 A	\$2.39 A	\$3.67 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/16/2020. The reports text is as of 03/17/2020.

Overview

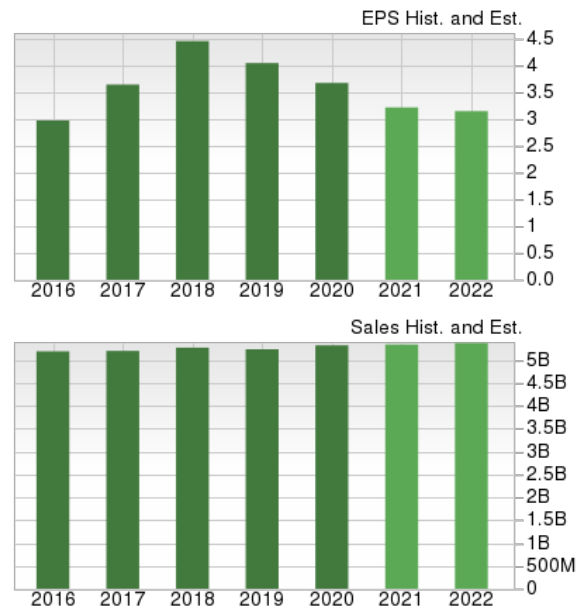
Based in Columbus, OH and founded in 1967, Big Lots, Inc. along with its fully-owned subsidiaries is a broad-line closeout retailer in the United States.

The company offers products under various merchandising categories, which include Food, Consumables, Furniture, Seasonal, Soft Home, Hard Home, Electronics and Toys & Accessories. The company's furniture category includes upholstery, mattress, case goods, and ready to-assemble departments while the seasonal category includes Christmas trim, lawn & garden, summer, and other holiday departments.

Further, its Soft Home category includes fashion bedding, utility bedding, bath, window, decorative textile, home organization, area rugs, home décor, and frames departments. Consumables category comprises health, beauty and cosmetics, plastics, paper, chemical, and pet departments.

Food category comprises beverage & grocery, candy & snacks, and specialty foods departments. Electronics, Toys, & Accessories category comprises our electronics, toys, jewelry, and hosiery departments. Small appliances, table top, food preparation, stationery, greeting cards, and home maintenance departments form a part of the Hard Home category.

These products are processed for retail sale and distributed to its stores that are located in five regional distribution centers including Pennsylvania, Ohio, Alabama, Oklahoma, and California. As of Feb 1, 2020, Big Lots operated 1,402 stores across 47 states.



Reasons To Sell:

- ▼ **Dismal Stock Performance:** Shares of Big Lots have crashed 64% compared with the industry's decline of 19.8% in the past three months. The decline can primarily be attributed to lower-than-expected fourth-quarter fiscal 2019 results and apprehensions regarding the impact of coronavirus outbreak on its first-quarter 2020 performance. Moreover, both earnings and revenues missed the consensus mark after beating the same in the trailing three quarters. The global stock market is currently grappling with the coronavirus outbreak and Big Lots isn't immune to the trend. Supply chain disturbance owing to the outbreak and slow start to the first quarter remain major concerns. The company's first-quarter fiscal 2020 will also be impacted by upfront investments.
- ▼ **Rising S&A Expenses May Hurt Profit:** Big Lots is grappling with rising costs. Any deleverage in adjusted S&A expenses has a direct bearing on the company's profitability. Selling and administrative expenses include store expenses (such as payroll and occupancy costs) and costs related to warehousing, distribution, outbound transportation to our stores, advertising, purchasing, insurance, non-income taxes, accepting credit/debit cards, and other overheads. Big Lots expects deleverage in S&A expenses in the first quarter and fiscal 2020 on account of upfront expenses and additional marketing support as well as the impact of wage pressures.
- ▼ **Margins Look Strained:** Big Lots has been facing soft margins trend for a while now. The company continued to witness gross margin pressures in fourth-quarter fiscal 2019, wherein the metric contracted 170 basis points (bps) to 39.5%. The downside can be attributed to higher markdown from promotional selling and rise in shrink expense. The company expects gross margin for the fiscal first quarter to be under pressure due to higher promotion expenses and adverse impact of tariffs. For fiscal 2020, the company expects gross margin to be flattish. It expects Fund the Journey savings and favorable mix to be offset by higher promotion expenses and adverse impact of tariffs on the margin.
- ▼ **Q1 & FY20 Earnings to Decline Y/Y:** Big Lots expects first-quarter fiscal 2020 to be tough on account of upfront investments in higher-return growth initiatives coupled with sluggish start to the quarter and the sales impact of supply chain disruption related to the coronavirus. Management envisions comps to decline in the range of low to mid-single digit range in the first quarter. Based on comps expectations, the company envisions first-quarter earnings per share in the range of 30-45 cents, which suggests a decline from 92 cents reported in the year-ago quarter. For fiscal 2020, the company expects adjusted earnings in the range of \$3.20-\$3.40 per share. However, the guidance indicates a decline from the prior-year reported figure of \$3.67. Management expects comparable sales to be flat to up low single digit for the fiscal year.
- ▼ **Stiff Competition:** Big Lots is facing intense competition from other general merchandise, discount, food, furniture, arts and crafts, and dollar store retailers, which operate in traditional brick and mortar stores and online. This may result in loss of market share as well as fall in sales and operating margins. Competitors with larger number of stores, greater market presence and better financial resources will continue to weigh on the company's results.
- ▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.
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Management expects first-quarter to be tough on account of supply chain disruption related to the coronavirus outbreak in China as well as upfront investments in higher-return growth initiatives.

Risks

- **Growth Drivers:** Big Lots is likely to continue gaining from its transformation initiative, referred to as Operation North Star that encompasses driving top line growth, cost containment, and enhancement in systems and infrastructure. Management remains focused on improving the performance by enhancing digital capabilities with BOPIS, launching the Broyhill brand, expanding high volume stores, and investing in marketing to drive traffic and build brand awareness. Net sales inched up 0.5% during the final quarter of fiscal 2019. The upside can be attributed to sales growth in high volume new stores and relocated non-comp stores, and increased store count. Notably, furniture was the top performing category that registered a low-double digits comps growth in the quarter with notable strength in mattresses, upholstery and case goods. Upholstery benefited from the introduction of Broyhill, iconic furniture and soft and hard home brand. The company's two financing options for in-store purchases, Easy Leasing and credit card, is performing very well.
 - **Store of the Future and New Stores Strategy:** Among the company's initiatives, Store of the Future and new stores strategy deserve a mention. The Store of the Future initiative is a key driver of the company's recent positive trends in sales and customer feedback. This positions its shareholders for solid returns and its business for long-term success. The positive sales trends in these store formats (Store of the Future and new stores) is being backed by bigger basket as well as higher transactions. After remodeling 205 stores in fiscal 2019, the company plans to convert 80 stores in fiscal 2020. The company targets those stores and markets that generate great returns.
 - **E-commerce and Rewards Growth:** Big Lots is leaving no stone unturned to tap the best in the market, as clear from its efforts to leverage marketing strategies, with loyalty databases and e-commerce enhancement. The company is excited about its strong e-commerce growth, buoyed by the success of the "Buy Online Pick-up In Store" (BOPIS) functionality across many stores. Notably, BOPIS has helped the company to increase their rate of orders. In order to tap higher volume, the company is also leveraging loyalty database with one-to-one marketing, which resulted in increased site traffic in number of orders and higher average basket. Big Lots doubled its digital business in fiscal 2019, and now represents roughly 2% of sales.
 - **Cost Reduction Initiatives:** Big Lots is on track with its three-year cost reduction program. Management now anticipates total savings from Fund the Journey initiative to be more than \$100 million by the end of fiscal 2020. The areas where the company will focus to contain costs include organization size and structure, store payroll, indirect costs, supply chain and cost of goods sold. The company is enhancing in-store labor model by simplifying the management structure, which should improve shopping experience through better utilization of resources to serve customers.
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Last Earnings Report

Big Lots' Q4 Earnings Miss, Coronavirus-Hit View

Big Lots, Inc. reported fourth-quarter fiscal 2019 results, wherein both earnings and revenues missed the consensus mark after beating the same in the trailing three quarters. The company also cautioned about the impact of coronavirus outbreak on its first-quarter fiscal 2020 performance. Supply chain disturbance owing to the outbreak and slow start to the first quarter remain major concerns. The company's first-quarter fiscal 2020 will also be impacted by upfront investments and growth efforts, which will primarily benefit the company in the second quarter and beyond.

Quarter Ending **01/2020**

Report Date	Feb 27, 2020
Sales Surprise	-1.18%
EPS Surprise	-5.53%
Quarterly EPS	2.39
Annual EPS (TTM)	3.66

Q4 in Details

The company reported adjusted earnings of \$2.39 a share, missing the Zacks Consensus Estimate of \$2.53. The bottom line came below management's guidance of \$2.40 to \$2.55. Moreover, the company's adjusted earnings declined 10.8% year over year.

Net sales inched up 0.5% to \$1,607 million but lagged the Zacks Consensus Estimate of \$1,626 million. The upside can be attributed to sales growth in high volume new stores and relocated non-comp stores, and increased store count. The gain was marginally offset by comparable sales decline. Notably, furniture was the top performing category that registered a low-double digits comps growth in the quarter with notable strength in mattresses, upholstery and case goods. Hard home, electronics toys and accessories were down, reflecting the strategic decision to move space to other categories.

Comps declined 0.9% against the company's expectations of marginally positive comps. While sales were above the company's expectation in November, it declined significantly in December. In January, sales were in line with expectations.

Gross profit decreased 3.8% year over year to \$634 million, while gross margin contracted 170 basis points (bps) to 39.5%. The downside can be attributed to higher markdown from promotional selling and rise in shrink expense.

The company expects gross margin for the fiscal first quarter to be under pressure due to higher promotion expenses and adverse impact of tariffs. For fiscal 2020, the company expects gross margin to be flattish. It expects Fund the Journey savings and favorable mix to be offset by higher promotion expenses and adverse impact of tariffs on the margin.

In the reported quarter, S&A expenses came in at \$471.1 million, down 1.2% year over year. Moreover, the metric (as a percentage of net sales) declined 50 bps from the prior-year quarter to 29.3%. Big Lots expects deleverage in S&A expenses in the first quarter and fiscal 2020 on account of upfront expenses and additional marketing support, as well as higher depreciation and occupancy expense and the impact of wage pressures in fiscal 2020. Operating profit came in at \$125.5 million, down 15.4% year over year.

Other Details

The company ended the quarter with cash and cash equivalents of \$52.7 million. Inventories decreased 5% to \$921.3 million. Management stated that inventory levels were up at the end of fiscal 2018 due to tariff mitigation activities. Long-term debt totaled \$279.5 million, down from \$374.1 million in the prior-year quarter. Total shareholders' equity was \$845.5 million.

Big Lots incurred capital expenditures of approximately \$265 million and generated free cash flow of roughly \$74 million in fiscal 2019.

Management envisions capital expenditures between \$160 million and \$270 million in fiscal 2020, lower than what the company had earlier projected. This is due to lower number of store conversions from 205 remodels in fiscal 2019 to 80 in fiscal 2020.

In fiscal 2019, the company has returned about \$98 million to its shareholders in the form of share repurchases and dividends. During the quarter, the company opened four stores and closed 18.

Guidance

Big Lots' projects comps to decline in the range of low to mid-single digit range in first-quarter fiscal 2020, which comprises of effect of supply chain disruption on account of the coronavirus outbreak. Based on comps expectations, the company envisions first-quarter earnings per share in the range of 30-45 cents, which suggests a decline from 92 cents reported in the year-ago quarter.

For fiscal 2020, the company expects adjusted earnings in the range of \$3.20-\$3.40 per share. However, the guidance indicates a decline from the prior-year reported figure of \$3.67. Management expects comparable sales to be flat to up low single digit.

Recent News

Big Lots Approves Quarterly Dividend - February 27, 2020

Big Lots' board has approved a quarterly dividend of 30 cents per share payable on April 3, 2020 as of shareholders record on March 20, 2020.

Valuation

Big Lots shares are down 63% in the year-to-date period and 67.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Retail-Wholesale sector are down 20.5% and 20.1%, respectively, in the year-to-date period. Over the past year, the sub-industry is up 2.9% but the sector is down 11.8%.

The S&P 500 index is down 25.5% in the year-to-date period and 14.7% in the past year.

The stock is currently trading at 3.32X forward 12-month earnings, which compares to 18.71X for the Zacks sub-industry, 19.85X for the Zacks sector and 13.88X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.05X and as low as 3.32X, with a 5-year median of 11.53X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$9 price target reflects 2.81X forward 12-month earnings.

The table below shows summary valuation data for BIG

Valuation Multiples - BIG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	3.32	18.71	19.85	13.88
	5-Year High	17.05	23.75	26.2	19.34
	5-Year Low	3.32	17.95	19.07	13.88
	5-Year Median	11.53	20.04	23.01	17.42
P/S F12M	Current	0.08	1.1	0.82	2.55
	5-Year High	0.52	1.39	1.11	3.43
	5-Year Low	0.08	0.95	0.8	2.54
	5-Year Median	0.4	1.12	0.92	3
EV/EBITDA TTM	Current	3.51	15.42	12.53	8.81
	5-Year High	8.19	19.83	16.23	12.88
	5-Year Low	3.51	10.89	10.82	8.31
	5-Year Median	6.12	13.8	12.49	10.78

As of 03/16/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (206 out of 253)



Top Peers

Zumiez Inc. (ZUMZ)	Outperform
Burlington Stores, Inc. (BURL)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Dollar Tree, Inc. (DLTR)	Neutral
Ross Stores, Inc. (ROST)	Neutral
Target Corporation (TGT)	Neutral
Tuesday Morning Corp. (TUES)	Neutral

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	BIG Underperform	X Industry	S&P 500	BURL Neutral	COST Neutral	TUES Neutral
VGM Score	A	-	-	A	B	A
Market Cap	415.42 M	12.30 B	16.36 B	8.73 B	125.05 B	55.71 M
# of Analysts	6	11	13	10	10	1
Dividend Yield	11.28%	0.93%	2.63%	0.00%	0.92%	0.00%
Value Score	A	-	-	C	D	B
Cash/Price	0.10	0.05	0.06	0.01	0.07	0.07
EV/EBITDA	5.05	11.28	10.54	15.10	19.33	21.91
PEG Ratio	0.49	1.40	1.46	1.07	3.87	NA
Price/Book (P/B)	0.49	4.02	2.26	22.30	7.36	0.32
Price/Cash Flow (P/CF)	1.49	10.65	8.80	13.42	24.32	3.88
P/E (F1)	3.72	14.80	13.18	16.22	32.46	NA
Price/Sales (P/S)	0.08	0.67	1.78	1.20	0.79	0.06
Earnings Yield	30.17%	6.60%	7.56%	6.17%	3.08%	-36.21%
Debt/Equity	1.56	1.46	0.70	8.28	0.44	1.81
Cash Flow (\$/share)	7.16	6.37	7.01	9.82	11.64	0.30
Growth Score	A	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	9.11%	12.09%	10.85%	34.46%	12.09%	NA
Proj. EPS Growth (F1/F0)	-12.44%	7.78%	5.72%	9.68%	6.52%	-50.00%
Curr. Cash Flow Growth	-0.07%	10.26%	6.15%	29.71%	14.92%	245.11%
Hist. Cash Flow Growth (3-5 yrs)	2.88%	8.54%	8.55%	22.30%	10.65%	1.26%
Current Ratio	1.22	1.19	1.24	0.88	1.04	1.17
Debt/Capital	60.86%	59.24%	42.57%	89.22%	30.74%	64.45%
Net Margin	4.55%	4.38%	11.64%	6.38%	2.39%	-1.92%
Return on Equity	19.91%	24.73%	16.74%	151.87%	23.41%	-11.05%
Sales/Assets	1.66	1.76	0.54	1.40	3.34	1.81
Proj. Sales Growth (F1/F0)	0.34%	4.78%	3.50%	9.45%	7.48%	-2.98%
Momentum Score	B	-	-	A	C	C
Daily Price Chg	-24.59%	-8.86%	-12.67%	-29.83%	-6.32%	-18.88%
1 Week Price Chg	-20.60%	-10.03%	-11.01%	-12.34%	-2.91%	-10.63%
4 Week Price Chg	-58.54%	-30.69%	-32.63%	-46.36%	-11.04%	-31.77%
12 Week Price Chg	-63.23%	-29.56%	-30.17%	-41.24%	-3.45%	-36.26%
52 Week Price Chg	-69.11%	-26.50%	-23.26%	-9.40%	19.69%	-50.22%
20 Day Average Volume	2,564,294	2,737,376	3,457,426	1,056,905	4,311,194	189,703
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-20.70%	-0.26%	-0.48%	-0.94%	0.81%	0.00%
(F1) EPS Est 12 week change	-20.82%	-0.46%	-0.93%	-0.46%	1.69%	-90.91%
(Q1) EPS Est Mthly Chg	-59.35%	-1.44%	-0.60%	-6.32%	1.44%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	A
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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