Big Lots, Inc.(BIG)

$28.30 (As of 01/17/20)

Price Target (6-12 Months): **$30.00**

Long Term: 6-12 Months	Zacks Recommendation:	**Neutral**
	(Since: 03/11/19)	
	Prior Recommendation: Underperform	

Short Term: 1-3 Months	Zacks Rank: (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: B Growth: D Momentum: A	

Summary

Big Lots' shares have outpaced the industry in the past three months. The stock got a boost after reporting third-quarter fiscal 2019 results, wherein top and bottom lines fared better than the consensus mark. Moreover, Big Lots' top line witnessed year-over-year growth for the third straight time. To top it, management stated that it began the fourth quarter on a solid note backed by Thanksgiving and Black Friday. In fact, the company expects positive comps for the fourth-quarter. This apart, we commend Big Lots' focus on Operation North Star. However, elevated markdowns and promotional selling is hurting Big Lots' margins. Also, the company is grappling with high S&A expenses. We note that management expects gross margin to remain strained in the fourth quarter, wherein earnings are also expected to drop year over year.
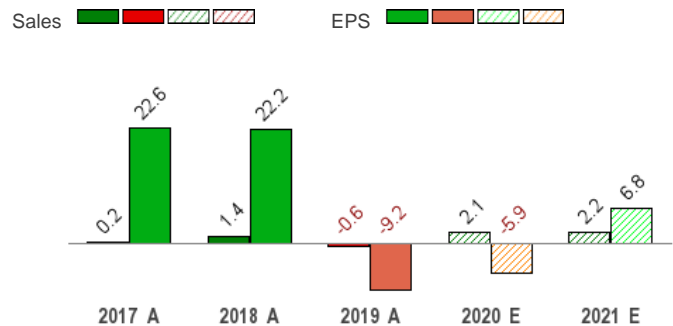
Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$39.53 - $18.54**
20 Day Average Volume (sh)	**1,021,647**
Market Cap	**$1.1 B**
YTD Price Change	**-1.5%**
Beta	**1.39**
Dividend / Div Yld	**$1.20 / 4.2%**
Industry	**Retail - Discount Stores**
Zacks Industry Rank	**Top 18% (45 out of 254)**
Last EPS Surprise	**14.3%**
Last Sales Surprise	**0.6%**
EPS F1 Est- 4 week change	**0.0%**
Expected Report Date	**03/13/2020**
Earnings ESP	**0.0%**
P/E TTM	**7.2**
P/E F1	**7.5**
PEG F1	**1.0**
P/S TTM	**0.2**

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	1,334 E	1,289 E	1,192 E	1,671 E	5,465 E
2020	1,296 A	1,252 A	1,168 A	1,631 E	5,347 E
2019	1,268 A	1,222 A	1,149 A	1,599 A	5,238 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.98 E	$0.54 E	-$0.20 E	$2.81 E	$4.06 E
2020	$0.92 A	$0.53 A	-$0.18 A	$2.53 E	$3.80 E
2019	$0.95 A	$0.59 A	-$0.16 A	$2.68 A	$4.04 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 01/17/2020. The reports text is as of 01/20/2020.

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 Dec 6, 2019, Big Lots operated 1,421 stores across 47 states.

EPS Hist. and Est.

Sales Hist. and Est.
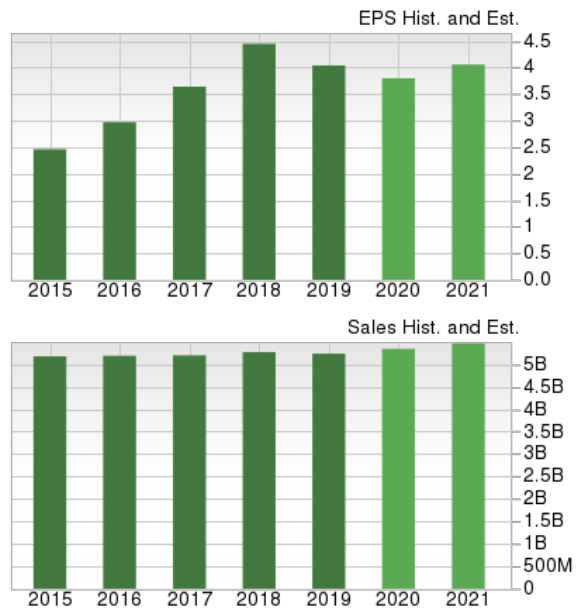
Reasons To Buy:

▲ **Impressive Stock Performance:** Big Lots' shares have surged 40.8% in the past three months, comfortably outpacing the industry's gain of 1.4%. The stock got a boost from the company's third-quarter fiscal 2019 results, wherein the top and bottom-line fared better than the Zacks Consensus Estimate together for the third straight time. On the top-line front, the company witnessed its third consecutive quarter of year-over-year growth. Further, management stated that it began the fourth quarter on a solid note, wherein despite a shorter holiday shopping period, sales were backed by Thanksgiving and Black Friday. Moreover, management expects positive comparable store sales (comps) in the fourth quarter of fiscal 2019, after seeing a dip in the third quarter.

Certainly, Big Lots is likely to continue gaining from its transformation initiative, referred to as Operation North Star. This is focused on four key strategies –Store of the Future, New Stores, Rewards loyalty program and e-commerce..

▲ **Solid Consumables, Seasonal & Furniture Performance Boost Sales**: Big Lots witnessed sturdy performance in the Furniture; Seasonal and Consumables categories in the third quarter of fiscal 2019. Notably, Furniture registered a mid-single digit comps growth in the quarter. Meanwhile, comps for Consumables and Seasonal were up in low-single digits each. Furniture, which is one of the best performing categories of the company, has been witnessing robust sales growth for the past few quarters. The Consumables category delivered positive comps for the fourth straight time in the third fiscal quarter. Additionally, the company is excited about the launch of iconic furniture and soft and hard home brand, Broyhill in January 2020.

Strength in these categories, combined with higher store count boosted net sales in the reported quarter, marking the company's third consecutive period of year-over-year growth. Notably, net sales grew 1.6% to $1,168 million and came marginally ahead of the Zacks Consensus Estimate.

▲ **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 as well as higher engagement and lower turnover in associates' base, and remodeled stores. 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.. Notably, the company ended the third quarter with 452 (32% of total stores) Future format stores. Additionally, its new stores strategy delivered strong results in the third fiscal quarter. Earlier, management stated that, impressed by the success of this strategy, it expects to open or relocate nearly 15 stores in fiscal 2019.

▲ **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. As part of its rewards program, the company expanded active members to 18.8 million as of the end of the fiscal third quarter, adding more than 500,000 active members in the quarter and increasing membership base by 15% from the prior fiscal year. Further, the company is excited about its strong e-commerce growth, buoyed by the success of the "Buy Online Pick-up In Store" (BOPUS) functionality across many stores. Notably, BOPUS 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.

▲ **Cost Reduction Initiatives:** Big Lots is on track with its three-year cost reduction program of $100 million, wherein it expects to realize $40 million in fiscal 2019 along with $30 million each in fiscal 2020 and 2021. 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. In second-quarter fiscal 2019, the company enhanced in-store labor model by simplifying the management structure, which should improve shopping experience through better utilization of resources to serve customers. Additionally, it expects to optimize the impact of expense dollars in the future.

> Big Lots' focuses on four key strategies — namely Store of the Future, New Stores, Rewards program and e-commerce. These strategies aided its results in third-quarter fiscal 2019.

Reasons To Sell:

▼ **Rising S&A Expenses May Hurt Profits**: Big Lots is grappling with rising costs. Any deleverage in adjusted S&A expenses has a direct bearing on the company's profitability. We note that adjusted S&A costs increased 5.3% in third-quarter fiscal 2019, following a hike of 6.7%, and 2.4% in the second and the first quarters, respectively. Persistence of such a dismal trend may hurt the company's profitability in the future. 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.

▼ **Margins Look Strained**: The company has been facing soft margins trend for a while now. Big Lots continued to witness gross margin pressures in third-quarter fiscal 2019, wherein the metric contracted 20 basis points (bps) to 39.7%. The downside was caused by higher markdown rate and promotional expenses. Management forecasts gross margin for the fourth-quarter to remain under pressure due to higher promotion expenses and adverse tariffs impacts .

▼ **Q4 & FY19 Earnings to Decline Y/Y**: Big Lots is encouraged by the progress on its strategic transformation plan, and expects to drive long-term growth and shareholder value. However, its bottom-line guidance for the fourth quarter and fiscal 2019 remains bleak. For the fourth fiscal quarter, earnings per share are anticipated between $2.40 and $2.55, which indicates a decline from earnings of $2.68 delivered in the year ago period. Further, management reiterated its adjusted earnings view of $3.70-$3.85 per share for fiscal 2019, which is below the prior year's reported figure of $4.04.

▼ **Higher Debt Level May Impact Credit Worthiness**: Big Lots ended third-quarter fiscal 2019 with a total debt of $501 million, up from $488 million in the year-ago period. As a result, net interest expense increased roughly $2.2 million year over year to $5.4 million during the third quarter. Higher debt level may adversely impact the company's credit worthiness and make it more susceptible to the macro-economic factors and competitive pressures. Nevertheless, Big Lots repaid a part of its revolver debt during the third quarter, using proceeds from the sale of its California distribution center.

▼ **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.

Big Lots continued to witness margin pressures in third-quarter fiscal 2019 due to higher costs and markdowns. Moreover, high inventory and increased borrowings are hurting investors' sentiment.

Last Earnings Report

Big Lots Posts Narrower-than-Expected Q3 Loss

Big Lots posted adjusted net loss of 18 cents a share in third-quarter fiscal 2019, which was narrower the Zacks Consensus Estimate of 21 cents. The bottom line came within management's guidance range of a loss of 15-25 cents. However, the quarterly loss was wider than a loss of 16 cents reported in the prior-year quarter.

Quarter Ending	10/2019
Report Date	Dec 06, 2019
Sales Surprise	0.62%
EPS Surprise	14.29%
Quarterly EPS	-0.18
Annual EPS (TTM)	3.95

Net sales grew 1.6% to $1,168 million and came marginally ahead of the Zacks Consensus Estimate of $1,161 million. The top line increased on account of sales growth in high volume new stores coupled with higher store count. Notably, furniture was the top performing category registering a mid-single digit comps growth in the quarter.

Comps decreased slightly by 0.1% against the company's expectations of flat comps for the third-quarter. Although sales were sluggish in August, the company saw some sequential improvement in sales trends during September and October.

Gross profit increased 0.9% year over year to $463.4 million, while gross margin contracted 20 basis points (bps) to 39.7%. The downside was caused by higher markdown rate and promotional expenses which was partially offset by favorable merchandise mix. The company forecasts gross margin for the fourth-quarter to remain under pressure due to higher promotion expenses and adverse impact of tariffs.

In the reported quarter, adjusted S&A expenses came in at $433.2 million, up 5.3% year over year. However, the metric (as a percentage of net sales) remained unchanged in the same period last year.

Adjusted operating loss came in at $4.5 million, compared with the prior-year quarter's operating income of $2.8 million.

Other Financial Details

The company ended the quarter with cash and cash equivalents of $62 million. Inventories increased 4% to $1,117 million. Long-term debt totaled $501 million, up from $488 million in the prior-year period. Total shareholders' equity was $762.3 million.

Management stated that increases in inventory were due to planned year-over-year sales increases and inventory builds in certain merchandise categories, including Furniture and Soft Home. However, the company forecasts inventory at the end of fourth-quarter to be to be down slightly year-over-year.

Year to date, the company has returned about $87 million to its shareholders in the form of share repurchases and dividend.

Guidance

Big Lots' anticipates comps to be positive in the fourth quarter. Also, management expects sales growth similar to what was witnessed in the third quarter. Based on these expectations, Big Lots envisions fourth-quarter earnings per share between $2.40 and$2.55 compared with an earnings of $2.68 delivered in the year ago period.

For fiscal 2019, the company continues to expect adjusted earnings of $3.70-$3.85 per share. However, the guided range is still below the prior-year's reported figure of $4.04.

Big Lots Posts Narrower-than-Expected Q3 Loss

Recent News

Big Lots Approves Quarterly Dividend - Dec 6, 2019

Big Lots' board has approved a quarterly dividend of 30 cents per share, paid on Dec 30, 2019 as of shareholders record on Dec 16, 2019.

Valuation

Big Lots shares are down 7.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 38% and 19.8%, respectively, in the past year.

The S&P 500 index is up 26.5% in the past year.

The stock is currently trading at 6.99X forward 12-month earnings, which compares to 23.49X for the Zacks sub-industry, 25.66X for the Zacks sector and 19.2X for the S&P 500 index.

Over the past five years, the stock has traded as high as 19.19X and as low as 5.05X, with a 5-year median of 11.71X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $30 price target reflects 7.41X 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	6.99	23.49	25.66	19.2
	5-Year High	19.19	23.75	26.23	19.34
	5-Year Low	5.05	17.95	19.07	15.17
	5-Year Median	11.71	20.04	22.95	17.44
P/S F12M	Current	0.2	1.38	1.09	3.57
	5-Year High	0.52	1.39	1.11	3.57
	5-Year Low	0.14	0.94	0.8	2.54
	5-Year Median	0.41	1.12	0.91	3
EV/EBITDA TTM	Current	5.02	19.1	15.6	12.38
	5-Year High	10.18	19.31	15.6	12.86
	5-Year Low	4.19	11.12	10.37	8.48
	5-Year Median	6.22	13.47	12.38	10.67

As of 01/17/2020

Industry Analysis
Zacks Industry Rank: Top 18% (45 out of 254)
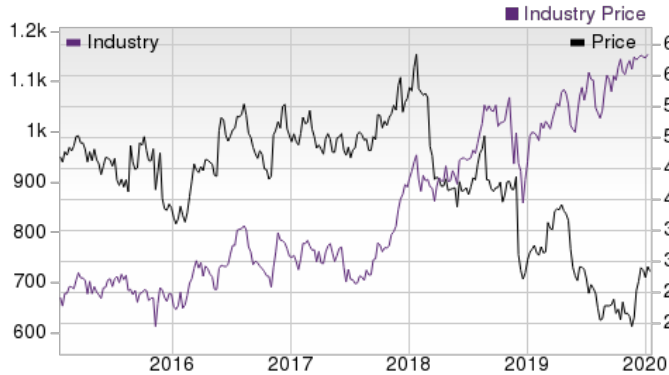
Top Peers

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

Industry Comparison
Industry: Retail - Discount Stores | Industry Peers

	BIG Neutral	X Industry	S&P 500	BURL Neutral	COST Neutral	TUES Neutral
VGM Score	B	-	-	A	A	F
Market Cap	1.10 B	18.35 B	24.65 B	15.04 B	134.59 B	74.00 M
# of Analysts	5	9	13	9	10	1
Dividend Yield	4.24%	0.83%	1.73%	0.00%	0.85%	0.00%
Value Score	B	-	-	C	C	D
Cash/Price	0.05	0.03	0.04	0.01	0.08	0.06
EV/EBITDA	7.87	16.68	14.11	23.15	20.62	26.26
PEG Ratio	0.99	2.18	2.08	1.98	4.38	NA
Price/Book (P/B)	1.45	5.13	3.39	38.40	8.30	0.46
Price/Cash Flow (P/CF)	4.05	17.20	13.81	23.11	26.17	5.19
P/E (F1)	7.45	23.79	19.19	30.94	35.48	NA
Price/Sales (P/S)	0.21	0.82	2.69	2.13	0.87	0.07
Earnings Yield	13.43%	4.20%	5.21%	3.23%	2.82%	-14.19%
Debt/Equity	2.06	1.33	0.72	8.28	0.47	2.28
Cash Flow ($/share)	6.98	6.08	6.94	9.82	11.64	0.30
Growth Score	D	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	11.35%	11.35%	10.56%	34.96%	11.29%	NA
Proj. EPS Growth (F1/F0)	-5.94%	8.76%	7.57%	13.91%	4.86%	21.43%
Curr. Cash Flow Growth	-6.31%	12.70%	14.73%	29.71%	14.92%	245.11%
Hist. Cash Flow Growth (3-5 yrs)	6.55%	7.44%	9.00%	22.30%	10.65%	1.26%
Current Ratio	1.29	1.12	1.24	0.88	1.01	1.31
Debt/Capital	67.30%	57.13%	42.99%	89.22%	31.75%	69.52%
Net Margin	4.83%	4.18%	11.14%	6.26%	2.42%	-1.39%
Return on Equity	23.10%	24.22%	17.16%	145.12%	24.22%	-7.92%
Sales/Assets	1.82	1.87	0.55	1.51	3.37	2.15
Proj. Sales Growth (F1/F0)	2.07%	4.16%	4.16%	9.30%	6.61%	-1.51%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	-1.67%	-0.19%	0.27%	0.88%	0.54%	-3.73%
1 Week Price Chg	6.52%	-0.71%	0.39%	1.14%	1.89%	-5.46%
4 Week Price Chg	-3.05%	0.20%	2.95%	-0.23%	3.73%	-16.22%
12 Week Price Chg	21.56%	4.30%	7.76%	15.96%	2.57%	27.05%
52 Week Price Chg	-10.36%	14.50%	22.29%	35.16%	44.08%	-17.99%
20 Day Average Volume	1,021,647	1,232,801	1,536,375	503,820	1,752,261	100,259
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.10%	0.00%
(F1) EPS Est 12 week change	-0.11%	0.64%	-0.40%	1.57%	0.51%	-10.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.27%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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.

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

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.

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.

Disclosures