

BJs Wholesale Club(BJ)

\$41.44 (As of 07/22/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/21/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

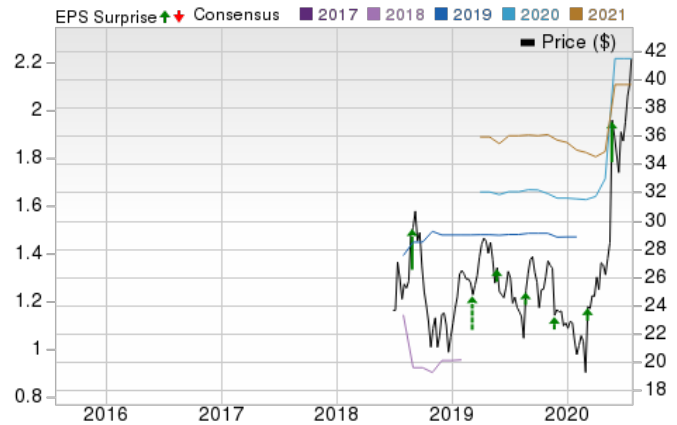
Growth: A

Momentum: C

Summary

Shares of BJ's Wholesale Club have outpaced the industry in the past six months. The company's focus on simplifying assortments, expanding into high-demand categories, enhancing omni-channel capabilities and providing value to customers bodes well. Cumulatively, these efforts have been contributing to growth in membership signups and renewals, resulting in higher membership fee income and comparable club sales growth. Merchandise comparable club sales rose 27% during first-quarter fiscal 2020. Impressively, grocery division contributed to this upbeat performance owing to coronavirus-induced stockpiling. As a result, the company's top and bottom line beat the Zacks Consensus Estimate and grew year over year. Looking ahead, the company cautioned that it may witness elevated expenses related to COVID-19 in the second quarter and beyond.

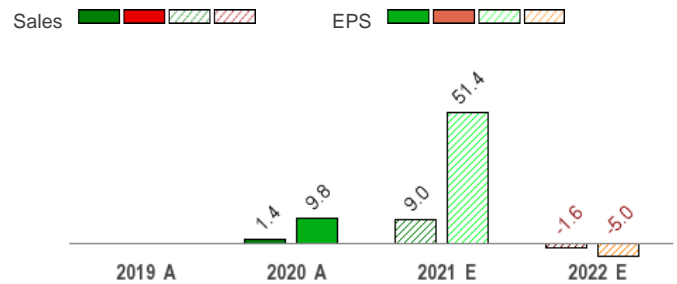
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$42.06 - \$18.84
20 Day Average Volume (sh)	2,122,149
Market Cap	\$5.7 B
YTD Price Change	82.2%
Beta	0.35
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Consumer Services - Miscellaneous
Zacks Industry Rank	Bottom 36% (161 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	97.1%
Last Sales Surprise	15.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/27/2020
Earnings ESP	0.0%
P/E TTM	21.9
P/E F1	18.8
PEG F1	1.4
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	3,184 E	3,505 E	3,414 E	3,723 E	14,139 E
2021	3,798 A	3,645 E	3,386 E	3,635 E	14,374 E
2020	3,143 A	3,346 A	3,229 A	3,472 A	13,191 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.40 E	\$0.52 E	\$0.58 E	\$0.53 E	\$2.10 E
2021	\$0.69 A	\$0.53 E	\$0.52 E	\$0.48 E	\$2.21 E
2020	\$0.26 A	\$0.39 A	\$0.41 A	\$0.40 A	\$1.46 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 07/22/2020. The reports text is as of 07/23/2020.

Overview

BJ's Wholesale Club Holdings, Inc. has emerged as one of the preferred destinations for shoppers when it comes to essentials and other items. The company's focus on simplifying assortments, expanding own-brands portfolio, enhancing digital capabilities and providing value to customers has contributed to growth in membership signups and renewals. The company carries approximately 7,200 active stock keeping units. Notably, the company consistently offers 25% or more savings on a representative basket of manufacturer-branded groceries compared to traditional supermarket competitors.

Headquartered in Westborough, MA, the company operates warehouse clubs on the east coast of the United States. As of Jul 22, 2020, the company operated 218 warehouse clubs (ranging in size from 63,000-163,000 square feet) and 147 BJ's Gas stations in 17 states.

The company offers products under the following categories:

Perishables, which accounted for approximately 32% of fiscal 2019 merchandise sales, consist of meat, produce, dairy, bakery, deli and frozen products.

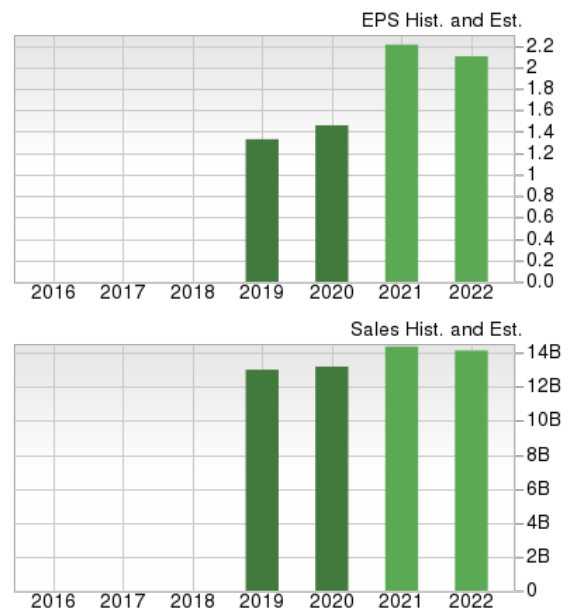
Edible grocery, which accounted for approximately 27% of fiscal 2019 merchandise sales, consists of packaged foods (including breakfast foods, salty snacks and candy) and beverages (including juices, water, beer, wine and liquor).

Non-edible grocery, which accounted for approximately 24% of fiscal 2019 merchandise sales, consists of detergents, disinfectants, paper products, beauty care, adult and baby care and pet foods.

General merchandise, which accounted for approximately 17% of fiscal 2019 merchandise sales, consists of small appliances, televisions, electronics, seasonal goods, gift cards and apparel.

The company's private label products are sold under Wellsley Farms and Berkley Jensen brands, which accounted for about 20% of fiscal 2019 merchandise sales. The company also sells products through websites — Bjs.com, BerkleyJensen.com, Wellsleyfarms.com, delivery.bjs.com — and mobile app.

The company provides significant value to its 5.5 million members. The annual membership fee for Inner Circle membership is \$55, while the annual membership fee for BJ's Perks Rewards membership is \$110. The company also offers co-branded My BJ's Perks Mastercard credit cards.



Reasons To Buy:

▲ **Impressive Q1 Performance:** BJ's Wholesale Club commenced fiscal 2020 on an upbeat note with both the top and the bottom lines surpassing the Zacks Consensus Estimate and improving year over year. The company gained from coronavirus-induced stockpiling. First-quarter net sales came in at \$3,718 million, up 21.1% year over year owing to high demand for grocery products. Notably, total revenues, including membership fee income, rose 20.8% to \$3,797.6 million, and also came ahead of the Zacks Consensus Estimate of \$3,295 million. The company reported adjusted earnings of 69 cents a share that showcased a substantial increase from the prior-year figure of 26 cents. The bottom line also comfortably surpassed the Zacks Consensus Estimate of 35 cents. Additionally, the company registered 40% increase in the number of new members during the first quarter. As a result, membership fee income increased 8.4% during the said period. We believe that the addition of new members should help drive sales at clubs. Shares of the company have surged 93.6% in the past six months against the industry's decline of 7%.

BJ's focus on simplifying assortments, expanding into high-demand categories and building own-brands portfolio bodes well. It also remains committed toward enhancing omni-channel capabilities and providing value to customers.

▲ **Strategic Endeavors:** BJ's Wholesale Club's focus on simplifying assortments, expanding into high-demand categories and building own-brands portfolio bodes well. The company also remains committed toward enhancing omni-channel capabilities and providing value to customers. Cumulatively, these endeavors have been contributing to growth in membership signups and renewals, resulting in higher membership fee income, higher average members per club and decent comparable club sales growth. The company's other notable endeavors include the launch a cost reduction program called Project Momentum. Under this program, management intends to save at least \$100 million over the next two years, and reinvest in growth opportunities. The company is also steadily growing its assortments of healthy and organic products and plant-based foods. Additionally, the company's expansion into new service offerings, such as cellular phones, home improvement, and financial and business services remains on track.

▲ **Digitization Holds Key to Growth:** BJ's Wholesale Club has been directing resources toward expanding digital capabilities in order to better engage with members and provide them a convenient way to shop, including same-day delivery, curbside pick-up and buy-online, pickup-in-club. The coronavirus pandemic and the resultant stay-at-home trends have led to an increase in online shopping. Clearly, the company has been sparing no effort to bolster omni-channel operations and ramp up delivery services. The company has built a strong digital portfolio with Bjs.com, BerkleyJensen.com, Wellsleyfarms.com, delivery.bjs.com as well as the BJ's mobile app. This facilitates members to buy, review products and digitally add coupons to their membership card. We note that during the first quarter of fiscal 2020, digitally-enabled sales soared 350%, and added 5 percentage points to comparable club sales, excluding gasoline sales. Digital channel sales represented 3% and 1.5% of merchandising comp sales in the fourth quarter and first quarter of fiscal 2019, respectively. In the quarter, the company started testing curbside pickup and BOPIC for perishable items in selected clubs.

▲ **Decent Comps Performance:** Comparable club sales particularly gained from strength in the digital channel, given customers' increased shift to online shopping amid coronavirus-led social distancing. Comparable club sales during first-quarter fiscal 2020 rose 19.9%, following an increase of 0.5% in the preceding quarter. We note that comparable club sales, excluding gasoline sales or merchandise comparable club sales rose 27% during the quarter under review, after increasing 0.3% in the preceding period. Impressive comparable sales growth of 33% in the grocery division contributed to this upbeat performance. Notably, the grocery division benefited from increased demand for paper products, cleaning supplies, fresh meat, frozen, dairy, fresh produce, packaged goods and beverages, owing to coronavirus outbreak. We believe the demand for essential products will remain high as more and more people prefer to stay and dine at home. No wonder, BJ's Wholesale Club looks well poised to capitalize on this growing trend.

▲ **Financial Flexibility:** BJ's Wholesale Club ended first-quarter with cash and cash equivalents of \$132.9 million, reflecting a sharp increase from \$30.2 million at the end of the preceding quarter. Although the company's long-term debt (including long-term lease liabilities) of \$3,351 million as of May 2, 2020, increased 0.8% on a sequential basis, its debt-to-capitalization ratio of 0.99 improved from 1.02 at the end of the preceding quarter. Also, the company's times interest earned ratio of 4.2 improved on a sequential basis and was better than the industry's ratio of 3.3. Additionally, the company generated free cash flow of \$434.7 million during the first quarter, which showed a considerable increase from \$8.4 million in the year-ago period. Also, Moody's, on Jul 13, upgraded BJ's Wholesale Club's corporate family rating to Ba2 from Ba3.

Reasons To Sell:

▼ **High SG&A Expense a Concern:** We note that SG&A expenses rose 17.8% to \$590.4 million during first-quarter fiscal 2020, following an increase of 3.7% in the preceding quarter. The year-over-year increase in SG&A expense can be attributed to incremental costs related to the pandemic, comprising \$51.3 million for wage increases and bonus expense, \$8.8 million for safety and protective equipment and \$1.7 million for other operational costs. Management cautioned that the company may witness elevated expenses related to COVID-19 in the second quarter and beyond, albeit at a lower rate than the first quarter. In the second quarter, the company expects to incur roughly \$20-\$25 million of incremental costs related to COVID-19.

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▼ **Merchandise Margin Shrinks in Q1:** Excluding the gasoline business, merchandise gross margin rate contracted about 30 basis points during the quarter. We note that BJ's Wholesale Club witnessed headwinds in three areas — the significant markdown the company took on apparel inventory hurt margin by approximately 20 basis points; higher distribution costs related with COVID-19 lowered margin by approximately 10 basis points; and inflation in some commodities, such as eggs for which the company made a considerable investment in price in order to provide value to its members. The investment hit the margin by about 10 basis points. Industry experts believe that the significant rise in product costs owing to higher commodity prices or general inflation may result in lower sales as well as greater margin pressure.

▼ **Stock Looks Little Stretched:** Considering price-to-earnings (P/E) ratio, BJ's Wholesale Club looks pretty overvalued when compared with the industry as well as the S&P 500. The stock has a trailing 12-month P/E ratio of 21.93, which is above the median level of 16.87 but in line with the higher end scaled in the past year. On the contrary, the trailing 12-month P/E ratio for the industry and the S&P 500 is 15.07 and 21.16, respectively.

▼ **Stiff Competition:** BJ's Wholesale Club is not immune to the competitive retail landscape. The company faces stiff competition from other warehouse club operators and grocery and general merchandise retailers, including supermarkets and supercenters, and gasoline stations. The company competes with Costco and Sam's Club (a division of Walmart stores). These two rivals follow similar business models as they market high volumes of merchandise at low prices in a membership-only warehouse club. The company competes on attributes such as price, merchandise selection, distribution strategy and others.

▼ **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. Due to the coronavirus outbreak, consumers have been curtailing their discretionary purchases. We note that merchandise comparable club sales at general merchandise and services division declined approximately 3% owing to lower sales of apparel and services.

Last Earnings Report

BJ's Wholesale Club Beats on Q1 Earnings

BJ's Wholesale Club came out with its first-quarter fiscal 2020 results, wherein both the top and the bottom line surpassed the Zacks Consensus Estimate and improved year over year. The company gained from coronavirus-induced stockpiling.

The company reported adjusted earnings of 69 cents a share that showcased a substantial increase from the prior-year's figure of 26 cents. The bottom line also comfortably surpassed the Zacks Consensus Estimate of 35 cents.

First-quarter net sales came in at \$3,718 million, up 21.1% year over year owing to high demand for grocery products. We note that membership fee income increased 8.4% to \$79.6 million. during the said period. Notably, total revenues, including membership fee income, rose 20.8% to \$3,797.6 million, and also came ahead of the Zacks Consensus Estimate of \$3,295 million.

Comparable club sales rose 19.9%. Merchandise comparable club sales increased 27% in the quarter under review.

Notably, operating income surged to \$143.8 million from \$70.7 million in the year-ago period. Operating margin increased 160 basis points to 3.8%. Adjusted EBITDA increased 56.3% year-over-year to \$193.9 million, while adjusted EBITDA margin expanded 120 basis points to 5.1%.

The company ended the quarter with cash and cash equivalents of \$132.9 million, long-term debt of \$1,334.8 million and shareholders' equity of \$32.5 million.

Quarter Ending **04/2020**

Report Date	May 21, 2020
Sales Surprise	15.25%
EPS Surprise	97.14%
Quarterly EPS	0.69
Annual EPS (TTM)	1.89

Recent News

BJ's Wholesale Plans to Open Two New Clubs in NY – Jul 22, 2020

BJ's Wholesale Club plans to open two new club locations in New York in early 2021. Located in Long Island City and Newburgh, the two clubs will mark the 220th and 221st locations for the company. The company also plans to open a BJ's Gas location in Newburgh.

BJ's Wholesale Opens Newest BJ's Gas Location – Jul 20, 2020

BJ's Wholesale Club announced the opening of its newest BJ's Gas location in Chesterfield, MI. This marks the 147th location for the company.

Valuation

BJ's Wholesale Club Holdings shares are up 82.3% in the year-to-date period and 73.5% in the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Consumer Discretionary sector are down 11.2% and 6.7%, respectively, in the year-to-date period. Over the past year, the sub-industry and the sector are down 18.3% and 2.5%, respectively.

The S&P 500 index is up 1.4% in the year-to-date period and 8.7% in the past year.

The stock is currently trading at 19.18X forward 12-month earnings, which compares to 12.87X for the Zacks sub-industry, 35.58X for the Zacks sector and 23X for the S&P 500 index.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 20.33X forward 12-month earnings.

Industry Analysis Zacks Industry Rank: Bottom 36% (161 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Dollar General Corporation (DG)	Outperform	1
The Kroger Co. (KR)	Outperform	1
Amazon.com, Inc. (AMZN)	Neutral	3
Best Buy Co., Inc. (BBY)	Neutral	2
Costco Wholesale Corporation (COST)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Target Corporation (TGT)	Neutral	3
Walmart Inc. (WMT)	Neutral	3

Industry Comparison Industry: Consumer Services - Miscellaneous				Industry Peers		
	BJ	X Industry	S&P 500	COST	TGT	WMT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	B
Market Cap	5.74 B	1.03 B	22.74 B	144.95 B	61.57 B	375.92 B
# of Analysts	8	2.5	14	10	12	14
Dividend Yield	0.00%	0.00%	1.81%	0.85%	2.14%	1.63%
Value Score	A	-	-	B	B	B
Cash/Price	0.02	0.18	0.06	0.08	0.08	0.04
EV/EBITDA	17.42	8.28	13.19	22.37	10.08	12.58
PEG Ratio	1.38	1.42	3.05	4.62	4.11	4.78
Price/Book (P/B)	176.83	3.15	3.14	8.43	5.51	5.07
Price/Cash Flow (P/CF)	15.56	7.72	12.31	28.19	10.58	14.98
P/E (F1)	18.67	16.62	22.34	38.81	24.85	26.91
Price/Sales (P/S)	0.41	0.62	2.40	0.90	0.77	0.70
Earnings Yield	5.33%	5.33%	4.27%	2.58%	4.03%	3.72%
Debt/Equity	103.12	0.97	0.75	0.59	1.46	0.85
Cash Flow (\$/share)	2.66	2.35	6.94	11.64	11.64	8.85
Growth Score	A	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	NA%	4.22%	10.82%	12.69%	5.85%	1.81%
Proj. EPS Growth (F1/F0)	51.54%	-34.58%	-9.08%	3.27%	-22.44%	0.00%
Curr. Cash Flow Growth	10.14%	-2.30%	5.51%	14.92%	10.26%	-0.12%
Hist. Cash Flow Growth (3-5 yrs)	NA%	6.25%	8.55%	10.65%	3.95%	-0.31%
Current Ratio	0.81	1.41	1.30	1.11	1.01	0.77
Debt/Capital	99.04%	57.02%	44.41%	37.07%	59.37%	46.01%
Net Margin	1.78%	0.98%	10.46%	2.31%	3.46%	2.81%
Return on Equity	-360.57%	8.53%	15.29%	22.60%	24.17%	18.33%
Sales/Assets	2.61	1.11	0.54	3.26	1.85	2.27
Proj. Sales Growth (F1/F0)	8.97%	0.00%	-2.27%	7.38%	5.95%	4.07%
Momentum Score	C	-	-	B	B	F
Daily Price Chg	2.47%	0.00%	0.60%	0.17%	2.45%	0.25%
1 Week Price Chg	2.37%	3.77%	3.82%	-0.44%	2.36%	0.81%
4 Week Price Chg	12.36%	-1.68%	7.55%	10.16%	2.86%	10.27%
12 Week Price Chg	59.26%	12.99%	7.51%	6.91%	9.85%	7.33%
52 Week Price Chg	73.46%	-14.29%	-3.37%	16.90%	38.22%	18.45%
20 Day Average Volume	2,122,149	175,670	2,037,153	2,204,129	3,154,848	9,483,468
(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%	0.14%	0.06%	0.00%	-0.06%
(F1) EPS Est 12 week change	30.57%	-12.88%	-3.51%	-3.07%	-12.69%	-3.50%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.61%	0.00%	-0.14%

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.

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	C
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.

Disclosures

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