



Big Lots, Inc. (BIG)

Updated March 26th, 2023, by Tiago Dias

Key Metrics

Current Price:	\$10	5 Year CAGR Estimate:	1.9%	Market Cap:	\$290 M
Fair Value Price:	\$5	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/16/2023
% Fair Value:	200%	5 Year Valuation Multiple Estimate:	-12.9%	Dividend Payment Date:	03/31/2023
Dividend Yield:	12.0%	5 Year Price Target	\$5	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Big Lots, Inc. (BIG) is a home discount retailer with a focus on closeouts and low prices. With \$5.5 billion in sales and a market cap of around \$290 million, this S&P 600 component can trace its history to 1967, although its regular dividend payments only started in 2014.

The company reported Q4 and full year 2022 earnings on March 2nd, 2023. For the quarter the company reported a net loss of \$0.43 per share, with the full year results being a net loss of \$7.30 per share. Even when adjusting earnings to exclude store asset impairment charges and one-off gains and expenses the company reported an adjusted loss of \$5.96 per share. These results represent a significant downturn compared to what was reported in the prior year, and as a result of the current uncertainty the company has declined to provide any specific guidance for 2023.

The company did not conduct any share repurchases during the quarter, although it did announce a new dividend of \$0.30 per share. This dividend is not covered by the company's earnings, and should the business not see its financial prospects improve it is likely that it will be at risk in the future.

The company ended the fourth quarter with \$44 million in cash and equivalents, and a long-term debt of \$301 million, this represents a significant worsening of the financial situation compared to 2021 where the company had \$53 million in cash and no meaningful long-term debt.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.15	\$2.46	\$2.81	\$3.32	\$4.48	\$3.83	\$2.69	\$7.35	\$5.33	-\$7.30	\$0.50	\$0.50
DPS	--	\$0.51	\$0.76	\$0.84	\$1.00	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20	\$1.20
Shares	58	53	49	44	42	40	39	36	28	28	29.0	29.0

While the earnings-per-share numbers may have looked impressive prior to 2022, the company is in a low margin and competitive business which results in significant swings in EPS as a result of macro factors like what we saw in 2022. If we look at Big Lots' revenue from 2012 to the end of 2019, we can see that revenue did not grow at all for 7 years, and any changes in earnings-per-share numbers were primarily the result of share repurchases.

While 2020 and 2021 have brought substantial growth to the company's revenue and earnings, 2022 has been a financial disaster for the company with significant losses, and no clear path forward to profitability. We estimate that 2023 will be better, but still significantly below its prior performance, and that from then on, no significant growth will come for the foreseeable future. Due to this uncertainty, and despite the increase in stores, we estimate 0% earnings growth through 2028. We expect the dividend to remain flat during that time as well due to the lack of consistent earnings growth, with a significant chance of a dividend cut in the near future.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	16.2	16.9	16.1	14.5	11.5	11.1	10.4	5.1	10.5	--	20.0	10.0
Avg. Yld.	--	1.2%	1.7%	1.7%	1.9%	2.8%	4.3%	3.2%	2.1%	4.8%	12.0%	24.0%

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Historically speaking, low margin retailers trade with lower P/E ratios, though those retailers are generally growing their topline revenue at around the same rate as GDP growth. Big Lots, however, has previously seen over 7 years without any revenue growth at all.

Given the uncertainty that the past few years have brought to the company, we don't expect the company to be re-rated by investors to its previously lofty valuation. We are forecasting a fair value P/E ratio of 10.

Safety, Quality, Competitive Advantage, & Recession Resiliency

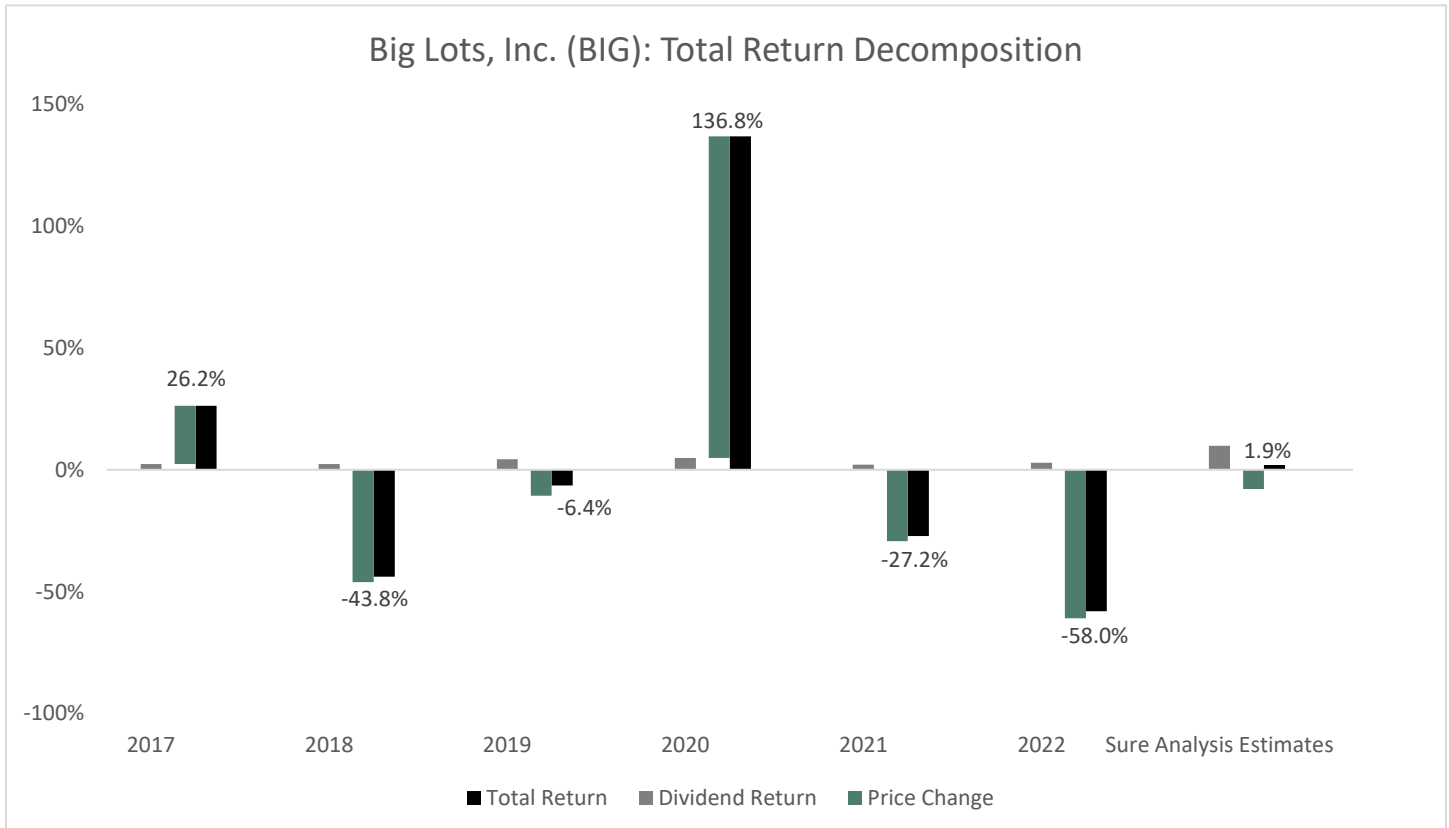
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	--	21%	27%	25%	22%	31%	45%	16%	23%	-16%	240%	240%

As a business revolving around closeouts, and low-price points, the company has an interesting countercyclical theme where it does better than usual during times of economic uncertainty. In such times, its inventory acquisition becomes easier and cheaper, and its value proposition for clients becomes more attractive, resulting in noticeably better sales and margins, as seen in 2020 and 2021. On the other hand, 2022 has brought significant challenges to the company's operations and it's unclear if they will be able to overcome them any time soon. As such, it may prove to be an interesting part of a defensive and diversified portfolio for investors looking for a countercyclical company.

Final Thoughts & Recommendation

Total annual return potential comes in at 1.9% per annum, driven by the 12.0% dividend yield and the potential for a sizable valuation drag. The uncertainty of revenue and earnings growth is a concern and should result in investors demanding a premium for the risks being taken. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	5,125	5,177	5,191	5,194	5,264	5,238	5,323	6,199	6,151	5,468
Gross Profit	2,007	2,044	2,067	2,099	2,142	2,122	2,115	2,497	2,397	1,914
Gross Margin	39.2%	39.5%	39.8%	40.4%	40.7%	40.5%	39.7%	40.3%	39.0%	35.0%
SG&A Exp.	1,664	1,700	1,708	1,731	1,724	1,778	1,823	1,966	2,015	2,020
D&A Exp.	102	106	108	108	106	114	136	139	144	---
Operating Profit	230	224	236	248	301	219	156	393	240	(262)
Op. Margin	4.5%	4.3%	4.5%	4.8%	5.7%	4.2%	2.9%	6.3%	3.9%	-4.8%
Net Profit	125	114	143	153	190	157	242	629	178	(211)
Net Margin	2.4%	2.2%	2.8%	2.9%	3.6%	3.0%	4.6%	10.1%	2.9%	-3.9%
Free Cash Flow	94	225	216	222	92	(143)	74	264	33	(144)
Income Tax	86	85	84	91	106	51	75	215	54	(70)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,740	1,636	1,640	1,608	1,652	2,023	3,189	4,037	3,927	3,691
Cash & Equivalents	69	52	54	51	51	46	53	560	54	45
Inventories	915	852	850	859	873	970	921	940	1,238	1,148
Total Liabilities	838	846	920	957	982	1,330	2,344	2,760	2,920	2,927
Accounts Payable	366	359	382	400	351	397	378	398	587	422
Long-Term Debt	77	62	62	106	200	374	293	50	4	301
Total Equity	901	790	720	651	670	693	845	1,278	1,007	764
LTD/E Ratio	0.09	0.08	0.09	0.16	0.30	0.54	0.35	0.04	0.00	0.39

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	7.2%	6.8%	8.7%	9.4%	11.6%	8.5%	9.3%	17.4%	4.5%	-5.5%
Return on Equity	15.1%	13.5%	18.9%	22.3%	28.8%	23.0%	31.5%	59.3%	15.6%	-23.8%
ROIC	13.1%	12.5%	17.5%	19.9%	23.3%	16.2%	22.0%	51.0%	15.2%	-20.3%
Shares Out.	58	53	49	44	42	40	39	36	28	29
Revenue/Share	88.42	93.19	101.85	112.98	121.58	127.88	135.27	158.68	184.40	189.48
FCF/Share	1.61	4.05	4.25	4.83	2.13	(3.49)	1.87	6.76	0.99	-5.00

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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