



Big Lots, Inc. (BIG)

Updated June 17th, 2023, by Tiago Dias

Key Metrics

Current Price:	\$8	5 Year CAGR Estimate:	-9.0%	Market Cap:	\$230 M
Fair Value Price:	\$5	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	N/A
% Fair Value:	160%	5 Year Valuation Multiple Estimate:	-9.0%	Dividend Payment Date:	N/A
Dividend Yield:	0.0%	5 Year Price Target	\$5	Years Of Dividend Growth:	0
Dividend Risk Score:	N/A	Retirement Suitability Score:	N/A	Rating:	Sell

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 \$230 million, this S&P 600 component can trace its history to 1967, although its regular dividend payments only started in 2014.

The company reported Q1 2023 earnings on May 26th, 2023. For the quarter the company reported a net loss of \$7.10 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 \$3.40 per share. This includes a net after-tax charge of \$107 million or \$3.70 per share, associated with the net impact of synthetic lease exit costs, forward distribution closure costs, store asset impairment charges and a gain on sale of real estate and related expenses.

These results continue the downturn seen over the past year and have led the company to make the difficult decision to suspend the dividend and not engage in any additional share buybacks for the foreseeable future.

The management team blamed macroeconomic headwinds for the significant challenges that has affected the company's performance, though they expect that once these headwinds abate, they will see a major boost to the business.

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	\$0.00	\$0.00
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 2013 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, while 2023 has shown no signs of stopping this downturn. Due to this uncertainty, and poor prospects, we estimate 0% earnings growth through 2028.

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	--	16.0	10.0
Avg. Yld.	--	1.2%	1.7%	1.7%	1.9%	2.8%	4.3%	3.2%	2.1%	4.8%	0.0%	0.0%

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.

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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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

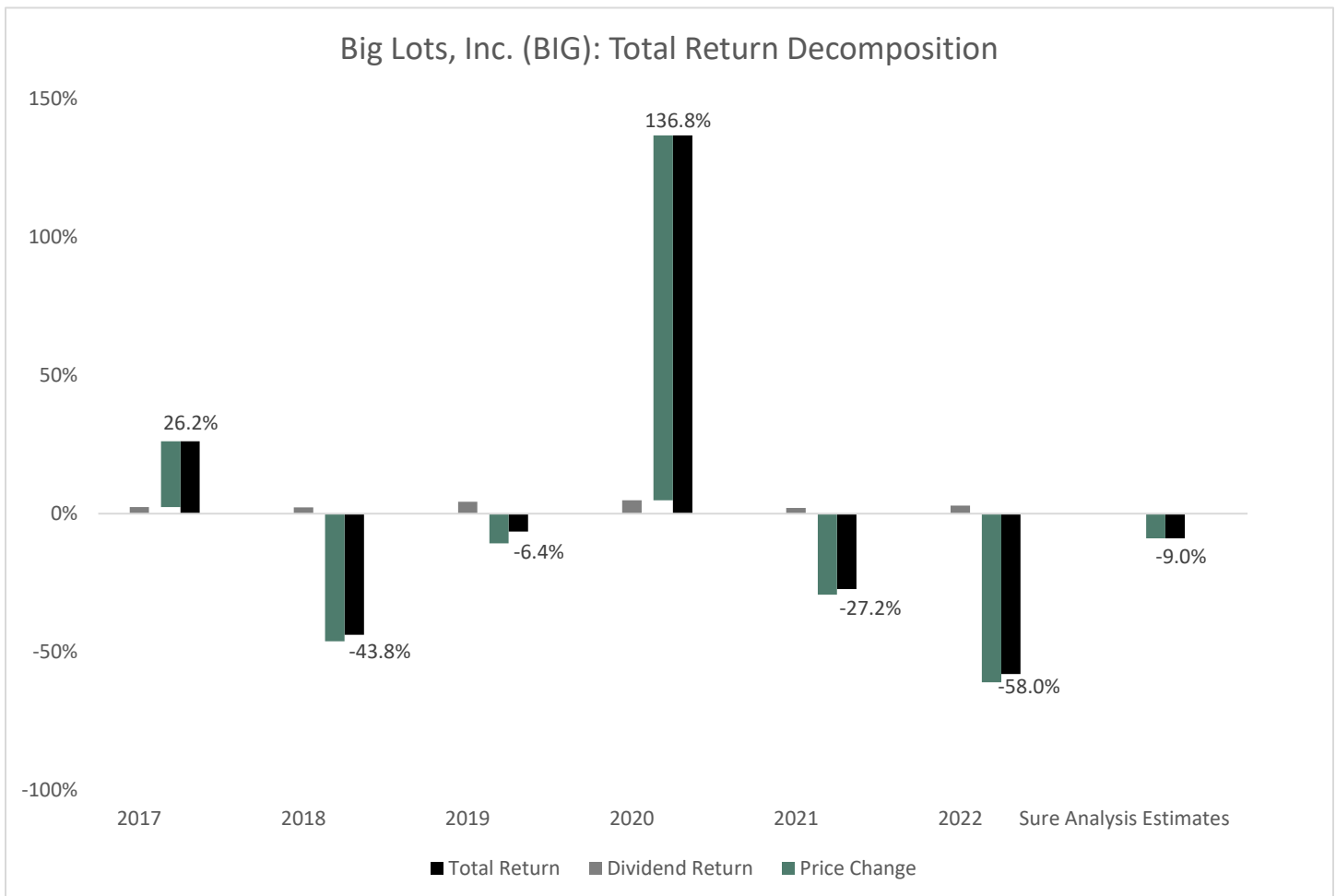
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	--	21%	27%	25%	22%	31%	45%	16%	23%	-16%	0%	0%

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 and 2023 have 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 -9% per annum, driven by the lack of a dividend following its suspension 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 sell 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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