

## BJ's Wholesale Club Holdings

## F4Q preview and bull/bear analysis: Expect share gains to continue into 2024

Maintain Rating: BUY | PO: 80.00 USD | Price: 71.47 USD

## See modest F4Q comp decline on easing food inflation

BJ's Wholesale Club Holdings (BJ's) will report F4Q24 earnings on Thursday 3/7. We forecast \$1.05 adj. EPS (in-line with consensus) and a comparable sales decline (ex-gas) of -1.0% (vs. consensus -0.3%), which reflects sequential pressure from moderating food inflation (see [Tracking Food at Home Inflation](#)), though BJ's still expects F4Q to have net y/y inflation, not deflation. Bloomberg Second Measure credit & debit card data implies a sequential deceleration in observed sales through the quarter (see Exhibit 7). We forecast F4Q merchandise gross margin of 16.6%, an improvement from F3Q given easing supply chain headwinds.

## General merchandise trends should improve in 2024

Gen. merchandise turnaround remains a strategic focus for BJ's and while we see cont'd softness in discretionary, we expect Gen. Merchandise & Services comps will improve in F4Q (from -11.0% in F3Q) and into next year (especially as BJ's will anniversary large declines in F2Q & F3Q). We see various green shoots in apparel, toys, and TVs given refreshed presentation / assortment. Higher gen. merchandise penetration at new clubs suggests initiatives could gain traction as 1) tenured members relearn BJ offerings and 2) new clubs / members continue to grow in size as BJ expands (~10+ clubs per year).

## Strategic initiatives support memberships and MFI growth

We expect new member promotions and sign ups to be stickier vs. the past given improved value, merchandising, and digital offerings. While BJ's is utilizing first year membership discounts to drive new member growth, it is not unlike periods in the past, and we believe first year (and tenured) renewals could hold at/near F23 highs. BJ sees strength in the quality of memberships with increasing penetration of higher tier and co-branded CC program supporting MFI gains and better earnings visibility (see Exhibit 12).

## BJ's well positioned for market share gains; maintain Buy

We maintain our Buy rating and \$80 PO, based on 19-20x our F25E EPS of \$4.10, and expect BJ's (and other warehouse clubs) to gain share in the current environment as consumers continue to adjust to higher prices, making BJ's value proposition and price positioning more attractive vs. mass and traditional grocery (see Exhibit 5 and Exhibit 6 for Item Basket Analysis). Importantly, if BJ's sees deflation in 2024, we do not expect it will change BJ's business model. See Exhibit 1 for our detailed bull/bear case analysis.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.25	3.93	3.85	4.10	4.45
GAAP EPS	3.09	3.77	3.84	4.10	4.45
EPS Change (YoY)	5.2%	20.9%	-2.0%	6.5%	8.5%
Consensus EPS (Bloomberg)			3.86	3.99	4.36
DPS	0	0	0	0	0
<b>Valuation (Jan)</b>					
P/E	22.0x	18.2x	18.6x	17.4x	16.1x
GAAP P/E	23.1x	19.0x	18.6x	17.4x	16.1x
EV / EBITDA*	12.7x	10.8x	10.4x	10.1x	9.5x
Free Cash Flow Yield*	5.2%	3.0%	3.0%	3.4%	4.0%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 12.

04 March 2024

## Equity

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## Stock Data

Price	71.47 USD
Price Objective	80.00 USD
Date Established	22-Aug-2023
Investment Opinion	B-1-9
52-Week Range	60.33 USD - 78.88 USD
Mrkt Val (mn) / Shares Out (mn)	9,558 USD / 133.7
Free Float	99.2%
Average Daily Value (mn)	77.85 USD
BofA Ticker / Exchange	BJ / NYS
Bloomberg / Reuters	BJ US / BJ.N
ROE (2024E)	42.0%
Net Dbt to Eqty (Jan-2023A)	78.2%
ESGMeter™	Medium

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MFI: membership fee income

CC: credit card

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Timestamp: 04 March 2024 05:00AM EST

# iQprofile<sup>SM</sup> BJ's Wholesale Club Holdings

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	12.9%	13.8%	12.4%	12.0%	11.9%
Return on Equity	92.8%	63.3%	42.0%	33.7%	28.6%
Operating Margin	3.8%	4.0%	4.0%	4.0%	4.1%
Free Cash Flow	502	289	289	323	382

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.8x	1.2x	1.4x	1.4x	1.4x
Asset Replacement Ratio	1.7x	1.8x	2.2x	2.1x	2.0x
Tax Rate	23.7%	25.6%	29.2%	27.0%	27.0%
Net Debt-to-Equity Ratio	108.5%	78.2%	46.7%	26.2%	10.4%
Interest Cover	12.2x	17.5x	12.5x	12.3x	12.6x

## Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	16,667	19,315	20,020	20,560	21,590
% Change	8.0%	15.9%	3.6%	2.7%	5.0%
Gross Profit	3,079	3,439	3,666	3,788	3,970
% Change	3.3%	11.7%	6.6%	3.3%	4.8%
EBITDA	822	967	1,008	1,035	1,106
% Change	1.5%	17.6%	4.2%	2.7%	6.8%
Net Interest & Other Income	(52)	(44)	(64)	(67)	(70)
<b>Net Income (Adjusted)</b>	<b>449</b>	<b>537</b>	<b>520</b>	<b>551</b>	<b>592</b>
<b>% Change</b>	<b>4.6%</b>	<b>19.5%</b>	<b>-3.1%</b>	<b>5.9%</b>	<b>7.5%</b>

## Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	449	537	520	551	592
Depreciation & Amortization	181	201	208	214	225
Change in Working Capital	177	(96)	11	8	16
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	0	0	0	0	0
Capital Expenditure	(305)	(353)	(450)	(450)	(450)
<b>Free Cash Flow</b>	<b>502</b>	<b>289</b>	<b>289</b>	<b>323</b>	<b>382</b>
<b>% Change</b>	<b>-14.4%</b>	<b>-42.5%</b>	<b>0.1%</b>	<b>11.6%</b>	<b>18.5%</b>
Share / Issue Repurchase	(120)	(138)	(138)	(138)	(138)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(273)	148	0	0	0

## Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	45	34	185	370	614
Trade Receivables	174	240	248	255	268
Other Current Assets	1,298	1,430	1,482	1,522	1,598
Property, Plant & Equipment	942	1,337	1,579	1,815	2,040
Other Non-Current Assets	3,237	3,310	3,310	3,310	3,310
<b>Total Assets</b>	<b>5,696</b>	<b>6,350</b>	<b>6,804</b>	<b>7,271</b>	<b>7,830</b>
Short-Term Debt	0	405	405	405	405
Other Current Liabilities	1,861	1,963	2,035	2,090	2,194
Long-Term Debt	749	448	448	448	448
Other Non-Current Liabilities	210	251	251	251	251
<b>Total Liabilities</b>	<b>5,048</b>	<b>5,303</b>	<b>5,375</b>	<b>5,430</b>	<b>5,534</b>
<b>Total Equity</b>	<b>648</b>	<b>1,047</b>	<b>1,429</b>	<b>1,842</b>	<b>2,296</b>
<b>Total Equity &amp; Liabilities</b>	<b>5,696</b>	<b>6,350</b>	<b>6,804</b>	<b>7,271</b>	<b>7,830</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 12.

## Company Sector

Supermarkets/Food Retailers

## Company Description

BJ's Wholesale Club, Inc. operates 218 warehouse clubs in 17 states, primarily in the Eastern US. BJ's offers its members brand-name and private label food, general merchandise, gasoline and other specialty businesses. BJ's is based in Westborough, Massachusetts and was founded in 1984.

## Investment Rationale

We rate BJ shares at Buy as we view BJ's as well-positioned in both the near-term as well as long-term given its strong value proposition (esp in fuel) in a highly inflationary environment, as well as strong & improving membership trends.

## Stock Data

Average Daily Volume

1,104,746

## Quarterly Earnings Estimates

	2023	2024
Q1	0.87A	0.85A
Q2	1.06A	0.97A
Q3	0.99A	0.98A
Q4	1.00A	1.05E

**Exhibit 1: BJ's Bull/Bear Debate**

We outline key arguments on both the bull and bear cases

	BJ - BULL	BJ - BEAR
<b>Same-Store Sales</b>	BJ's should continue to gain share in the current environment as consumers continue to adjust to higher prices, even as inflation wanes on a y/y basis. New member promotions and sign ups should result in higher first-year renewal rates vs. past given merchandising initiatives (Fresh 2.0, Healthy & Beauty simplification, Own Brand launches, new general merchandise assortment) and co-branded credit card (1.5mn members). MFI growth (+MSD%) is supported by membership quality (90% tenured renewal rates and increased penetration of higher tier, now 38%). General merch comps should improve, and BJ's should see support from new club openings (see below).	We expect F4Q comps to reflect sequential pressure from moderating food inflation (though BJ's still expects F4Q to have net y/y inflation, not deflation). Discretionary spending could remain soft, pressuring the recovery of general merchandise comps (-11% in F3Q vs. -13% in F2Q). Additionally, it could take longer than expected for BJ's tenured members to relearn BJ's general merchandise offerings. First year member renewal could see pressure from discounting, and we believe BJ's renewal rates are below that of COST and Sam's (by ~2-3ppts) when including first year renewal rates. BJ's also saw some decline in sales in F3Q from lower-income members given reduction in SNAP benefits.
<b>Stores</b>	We see strong whitespace opportunity (~10+ club openings per year) across the U.S. New club openings should drive sales as LTM sales of clubs opened in the last 12 months are running 30%+ ahead of plan and see stronger renewal rates/higher tier penetration vs. clubs opened prior to new playbook.	BJ is opening stores in new markets (outside of Northeast where it has highest regional concentration) with less brand recognition and club growth could be limited given likely entrance as third club name. BJ's underperforms peers (COST and Sam's Club) when sales are stronger in West Coast, Texas, and Sunbelt markets relative to Northeast. Supply chain challenges could constrain club growth and if traffic to clubs decelerates, there will be less opportunity for a "treasure hunt".
<b>Gross Margin</b>	Merchandise margin expansion is supported by mix shift to higher margin private label (~25% penetration in F24, expected to reach 30% LT), better inventory management, improvement in gen. merch, and supply chain efficiencies. We believe acquisition of new members has always been competitive and BJ's promotional cadence of memberships hasn't changed. Additionally, a number of consumables categories undergo category profitability improvement (CPI) process every quarter (to optimize procurement spending) which provides BJ's good visibility on margin growth. BJ expects continued easing of supply chain headwinds y/y in 4Q.	We expect more normalized gas margins (in the low teens compared to 20cpg in 2022) as BJ's unwinds excess gas margin from 2021. A membership increase at COST will likely be used to drive prices down further and provide additional value to members and could temporarily pressure margins at BJ's as it initially responds to price changes.
<b>EBIT Margin</b>	More efficient use of club labor, limited SKU count vs. grocery competitors, pallet presentation, and inventory turns all support BJ's stable and rising EBIT/EBITDA margins (see Exhibit 11). BJ does not expect large labor investments moving forward (compared to the last few years). Other investments incl. acquisition of perishable supply chain (in Jan. 2022) and digital will continue to support club operations. MFI (supported by higher tier penetration and renewal rates) represents over 40% of EBITDA (see Exhibit 13).	SG&A expense will likely rise as BJ expands its footprint of clubs / gas stations and reinvests in existing clubs to drive comps (new clubs scale over five years). Competitive wage pressures and increasing labor costs could also pressure profitability (BJ's largest expense after COGS is labor). We believe a 2%-3% comp is necessary for BJ to leverage expenses.
<b>Digital</b>	Digital now comprises ~10% of sales (vs. ~5-6% ~2 years ago) led by BOPIS, curbside pickup, and same-day delivery (BJ's fulfills ~90% of digital sales in club). BJ leverages member data for targeted messaging and offers coupons/checkout through BJ's app (Express Pay). BJ's also sees benefits from retail media program and automation in clubs (i.e. in-club inventory tracking, pricing precision, faster restocking). We estimate about half of member acquisitions are done digitally.	BJ's competition has strong execution of pickup/delivery (including WMT & TGT) and larger/broader online assortments that are not in-club (e.g. Costco Next). BJ's is refining its digital presence but not meaningfully increasing SKU count online.
<b>Valuation</b>	BJ's current 2-yr fwd P/E of ~16x is below historical average and Food & Discount retail group average of 17-18x. We believe BJ should trade more in-line with peers given 1) BJ's membership fee structure, which provides increased visibility on earnings, 2) BJ's unique positioning as grocery-focused warehouse club, and 3) our forecast for 4% EPS CAGR over the next three years (in-line with Food & Discount retail average of roughly 4%). Share repurchases could also support earnings.	BJ's trades at a discount to COST given its lower new store growth algo (~10 per year vs. COST ~25-30), lower same-store sales growth (low to mid-single-digit vs. COST's mid to high single-digit) and lower ROIC of 20% (vs. COST's 30%).
<b>Other</b>	BJ's faces less overall risk from Red Sea disruptions given we est. over 80% of sales ex-gas are grocery (which is mostly domestically sourced), BJ's store footprint is entirely within the U.S., and exports sourced from China/Asia represent only ~4% of sales (see <a href="#">Red Sea note</a> ).	Gas price deflation could pressure top line and traffic trends. As BJ increases general merchandise penetration it will likely be more exposed to sourcing risks in Asia.

Source: BofA Global Research, Company reports

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## F4Q Preview- BofA vs. Consensus

### Exhibit 2: BJ F4Q24 BofA vs. Consensus Analysis

Our F4Q24 adj. EPS estimate of \$1.05 is in-line with Visible Alpha consensus

	BofA Est.	Consensus Est.	Delta	y/y % change (BofA)
Net Sales	\$5,300	\$5,296	\$4	9.8%
Membership fee income	\$108	\$108	--	6.0%
Total Revenues	\$5,408	\$5,400	\$8	9.7%
Same-store sales (ex-fuel)	-1.0%	-0.3%	-70 bps	-970 bps
EBIT	\$213	\$213	--	6.2%
EPS	\$1.05	\$1.05	--	5.0%
Merchandise gross margin	16.6%	16.8%	-20 bps	-1 bp
Expense Ratio	14.4%	14.4%	6 bps	-8 bps
Operating Margin	3.9%	4.0%	-2 bps	-13 bps

Source: Visible Alpha, BofA Global Research Estimates; Note: \$mn, except per share data

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### Exhibit 3: BJ F2024 BofA vs. Consensus Analysis

Our F2024 adj. EPS estimate of \$3.85 is slightly below Visible Alpha consensus of \$3.86

	BofA Est.	Consensus Est.	Delta	y/y % change (BofA)
Net Sales	\$19,599	\$19,590	\$9	3.6%
Membership fee income	\$420	\$420	--	5.9%
Total Revenues	\$20,020	\$20,007	\$13	3.6%
Same-store sales (ex-fuel)	1.4%	1.6%	-20 bps	-500 bps
EBIT	\$799	\$800	-\$1	4.4%
EPS	\$3.85	\$3.86	-\$0.01	-2.0%
Merchandise gross margin	16.6%	16.5%	10 bps	48 bps
Expense Ratio	14.5%	14.4%	10 bps	52 bps
Operating Margin	4.0%	4.0%	--	3 bps

Source: Visible Alpha, BofA Global Research Estimates; Note: \$mn, except per share data

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### Exhibit 4: BJ F2025 BofA vs. Consensus Analysis

Our F2025 adj. EPS estimate of \$4.10 is above Visible Alpha consensus of \$3.99

	BofA Est.	Consensus Est.	Delta	y/y % change (BofA)
Net Sales	\$20,116	\$20,165	-\$49	2.6%
Membership fee income	\$444	\$442	\$2	5.7%
Total Revenues	\$20,560	\$20,583	-\$23	2.7%
Same-store sales (ex-fuel)	1.9%	1.6%	30 bps	45 bps
EBIT	\$821	\$787	-\$34	2.7%
EPS	\$4.10	\$3.99	-\$0.11	6.5%
Merchandise gross margin	16.6%	17.1%	-50 bps	6 bps
Expense Ratio	14.6%	14.6%	--	11 bps
Operating Margin	4.0%	3.8%	20 bps	--

Source: Visible Alpha, BofA Global Research Estimates; Note: \$mn, except per share data

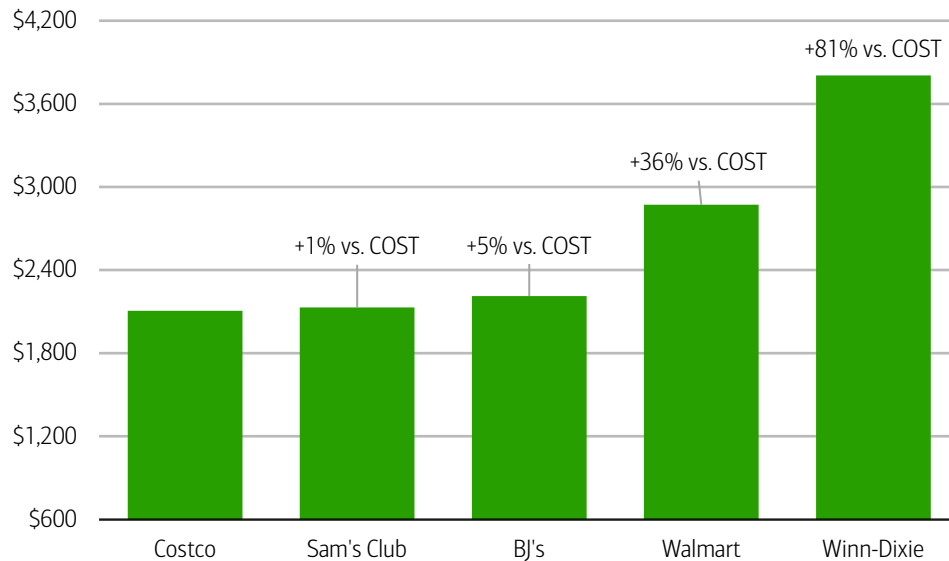
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## BJ has strong value proposition/price positioning vs. grocery

The Warehouse Club Intelligence Center's 2023 Item Basket Analysis suggests BJ's retail prices on overlapping SKUs (foods & non-foods) were priced ~5% higher than COST and ~4% higher than Sam's Club and priced approximately 30% lower than WMT and 72% lower than Winn-Dixie (grocer). The pricing differential on food products (BJ's priced 6% higher than COST) and on non-food products (BJ's priced 4% higher than COST) is consistent with item basket results since 2007.

**Exhibit 5: Warehouse Club Focus August 2023 Item Basket Analysis**

COST had the strongest price positioning on 125 overlapping SKUs in Orlando, FL in August 2023



Source: Warehouse Club Intelligence Center – Item Basket Analysis; SKUs: 125 branded items (73 food and 52 non-food products)

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**Exhibit 6: Warehouse Club Focus Historical Item Basket Analysis – Mass & Grocery price vs. BJ**

BJ's has seen strong price positioning on overlapping SKUs vs. mass and traditional grocery since WCIC analysis began in 2007

	WMT Price vs. BJ (TGT in 2021)	Grocer Price vs. BJ	Grocer used in study	Market	Overlapping basket size
2007	17.1%	50.6%	Giant	Columbia, MD	54
2008	29.8%	57.7%	Giant Eagle	Cleveland, OH	70
2009	22.0%	45.2%	Kroger	Duluth, GA	76
2010	29.2%	59.0%	Publix	Miami, FL	68
2011	25.3%	54.3%	Publix	Fort Myers, FL	77
2012	25.0%	55.0%	Stop & Shop	Nashua/Hudson, NH	82
2013	25.5%	53.5%	Publix	Jacksonville, FL	84
2014	22.0%	62.3%	Food Lion	Raleigh, NC	94
2015	26.5%	59.5%	Safeway	Baltimore, MD	95
2016	23.5%	55.4%	Stop & Shop	Hartford, CT	95
2017	25.0%	52.3%	Shaw's	Nashua/Hudson, NH	97
2018	23.2%	59.1%	Giant Food	Baltimore, MD	107
2019	23.3%	59.3%	Publix	Sarasota, FL	96
2020	23.7%	60.2%	Stop & Shop	Hartford, CT	105
2021	34.0%	47.0%	ShopRite	Westchester, NY	115
2022	40.6%	81.4%	Giant Eagle	Pittsburgh, PA	120
2023	29.8%	72.0%	Winn-Dixie	Orlando, FL	125

Source: Warehouse Club Intelligence Center – Item Basket Analysis

Note: 2021 comparison is vs. Target, while all other years compare to Walmart

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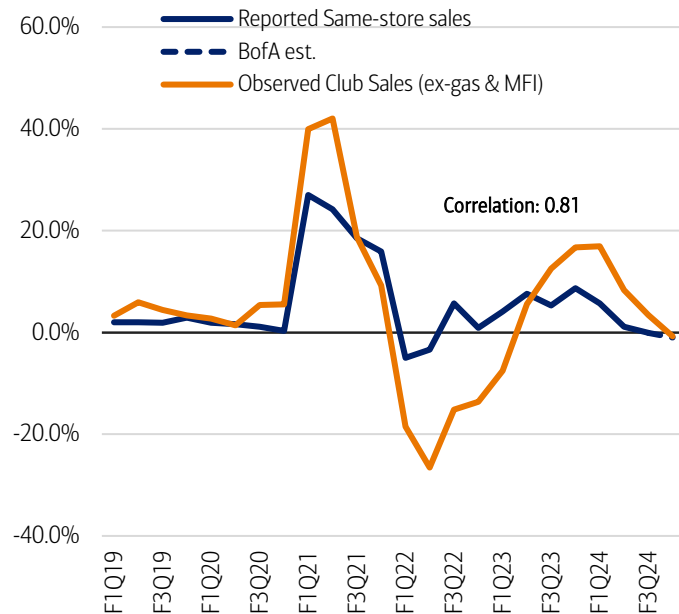
**Bloomberg Second Measure data decelerates in F4Q**

Bloomberg Second Measure credit & debit card data showed BJ's F4Q (ended 1/27) observed sales declined 2.5% y/y vs. +4.0% observed in F3Q. Bloomberg data suggests observed sales decelerated sequentially through the quarter with Jan. observed sales down -6.1% (vs. -2.6% in Dec. & +0.1% in Nov.). Excluding fuel and membership sales, observed sales were down 4.4% in Jan. (vs. -1.5% in Dec. & +3.0% in Nov.).



### Exhibit 7: Bloomberg Second Measure credit and debit card data- Observed Sales

BJ observed sales decelerated modestly in F4Q, in-line with our forecast for a modest deceleration in same-store sales

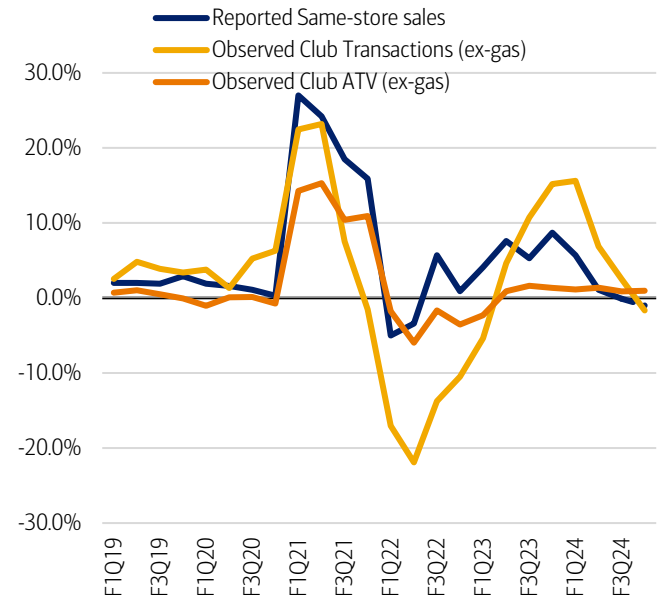


Source: Bloomberg Financial LP – ALTD <GO>, BofA Global Research estimates

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### Exhibit 8: Bloomberg Second Measure credit and debit card data- Observed Transactions & average transaction value (ex-gas)

BJ observed transactions decelerated in F4Q while average transaction value was flattish



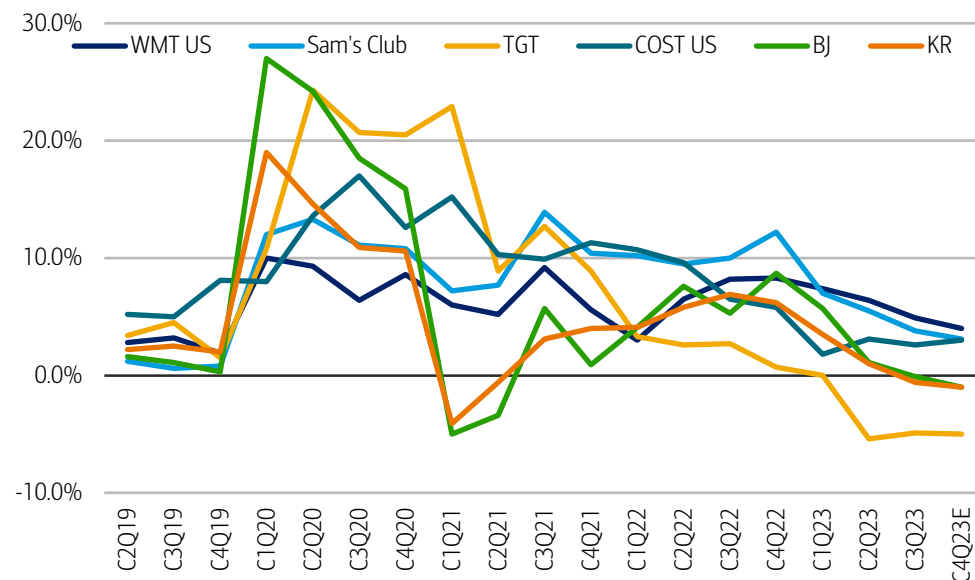
Source: Bloomberg Financial LP – ALTD <GO>, BofA Global Research estimates

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## Despite a weaker top-line near term...

### Exhibit 9: Food & Discount Retailer same-store sales (ex-fuel)

WMT US & Sam's Club comp trends strong relative to peers



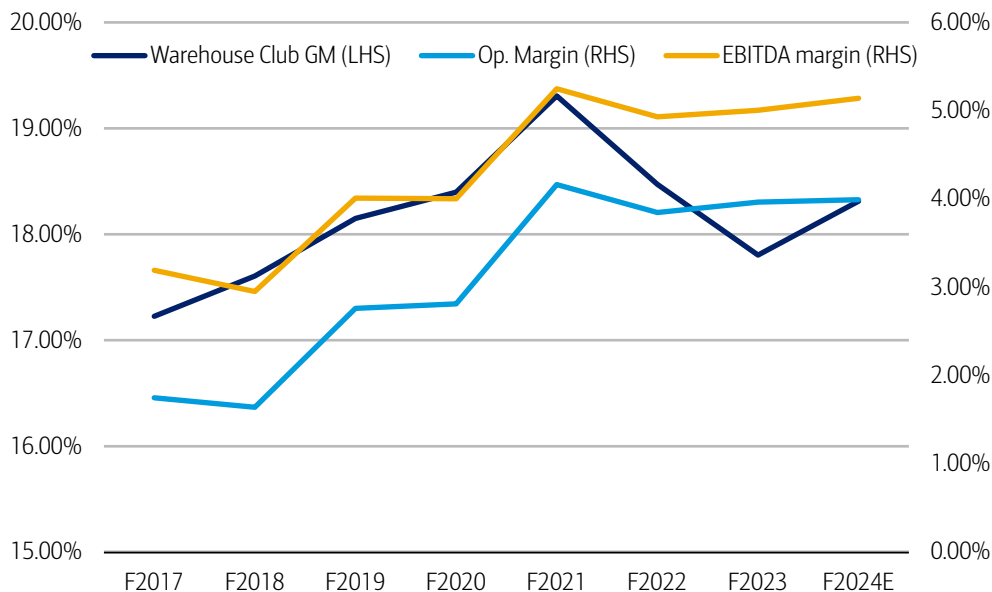
Source: Company filings; BofA Global Research estimates

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## ...BJ's has seen strong earnings growth and stable and rising EBITDA margins

**Exhibit 11: BJ Historical Margins (Gross Margin / Op. Margin / EBITDA Margin)**

BJ's EBIT and EBITDA margins have remained stable-to-higher historically despite gas profitability fluctuations driving Warehouse Gross Margin volatility



Source: Company filings, BofA Global Research estimates

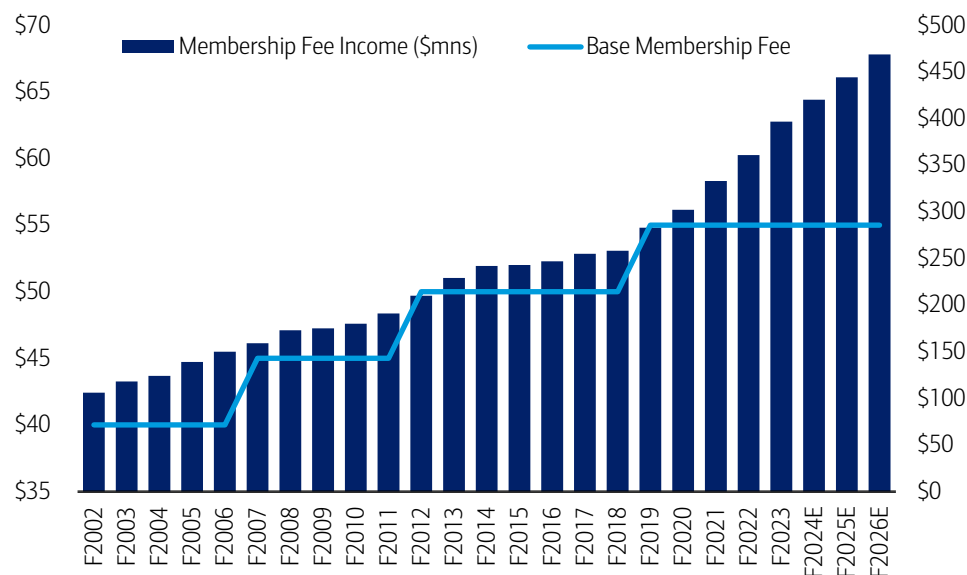
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**Strategic initiatives support memberships and MFI growth**

We expect new member promotions and sign ups to result in higher first-year renewal rates vs. the past given improved value, merchandising, and BJ's digital offerings. While BJ's is utilizing first year membership discounts to drive new member growth, this is not unlike periods in the past, and we believe first year (and tenured) renewals could hold at/near F23 highs. BJ sees strength in the quality of memberships with increasing penetration of higher tier and co-branded CC program which support MFI gains (MFI represents roughly 40% of BJ's EBITDA).

**Exhibit 12: BJ's Membership fee income (MFI) vs. Club Card (base) membership fee**

BJ's continues to see strong MFI income supported member growth and higher tier penetration without a fee increase



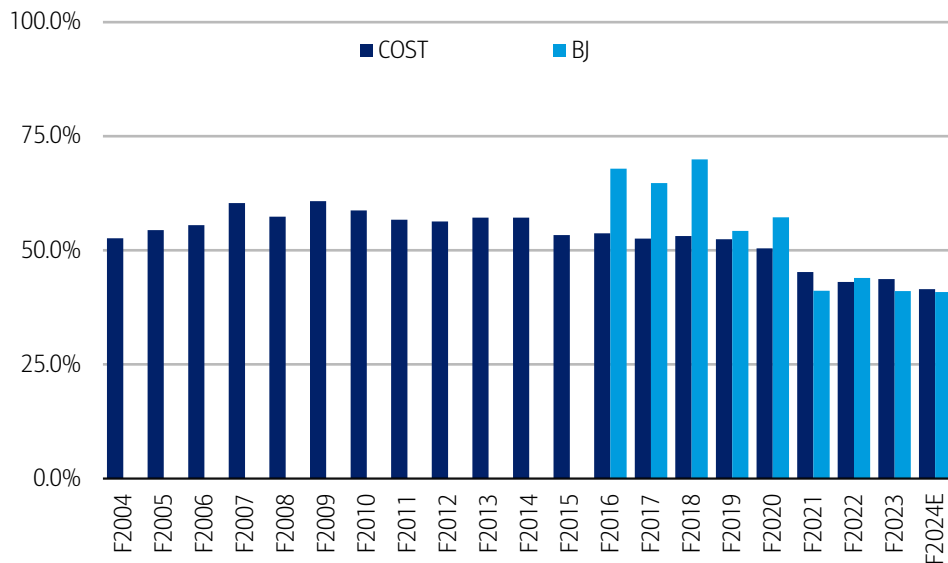
Source: BofA Global Research, Company filings

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**Exhibit 13: Warehouse Club MFI as a % of EBITDA**

While MFI as a % of total EBITDA has trended down more recently for BJ's, it remains material to overall profitability

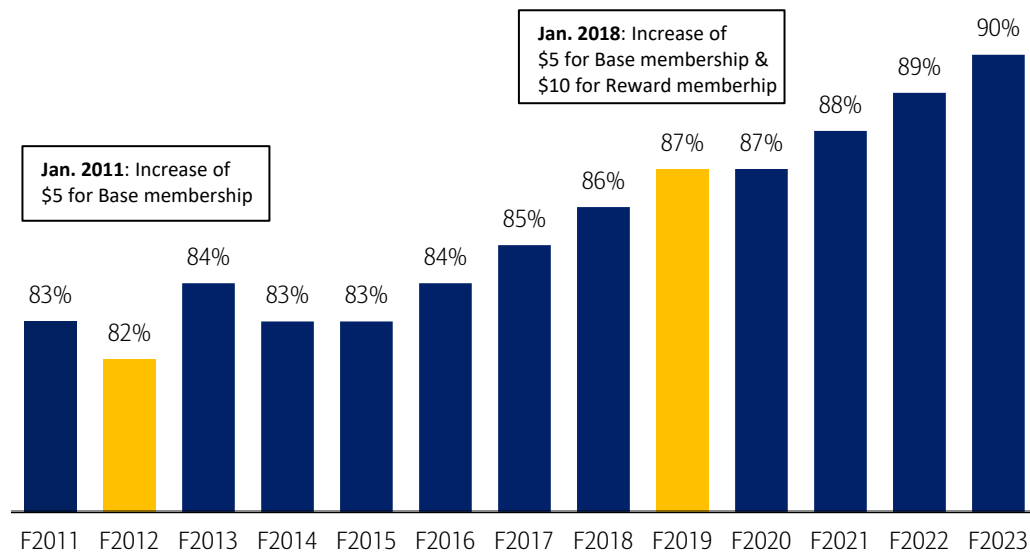


Source: Company filings; COST fiscal calendar ends in Aug. while BJ's fiscal calendar ends in Jan.

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**Exhibit 14: BJ renewal rates (tenured members) vs. membership fee increase timing**

Following previous membership fee hikes, the corresponding drop in renewal rates was 100bps or less



Source: Company filings, BofA Global Research

Membership renewal rate represents renewal rates for members with 2+ years of tenure

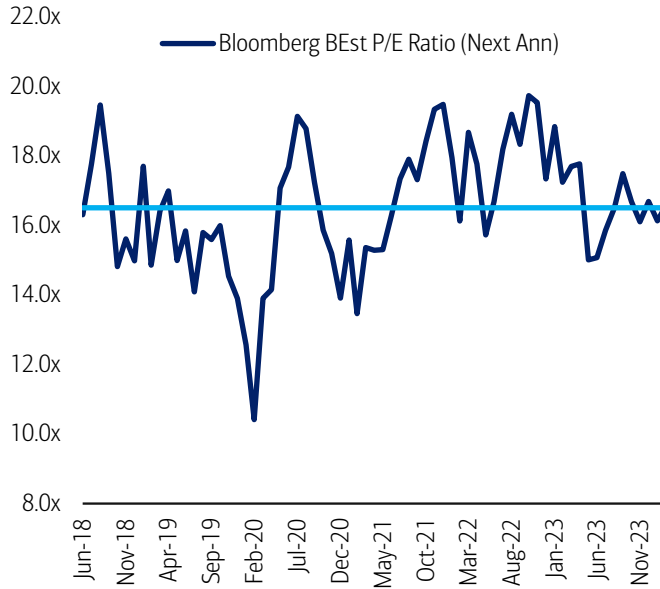
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**Valuation**



**Exhibit 15: BJ's 2-year forward P/E ratio**

BJ's current ~16x P/E is relatively in-line with historical average

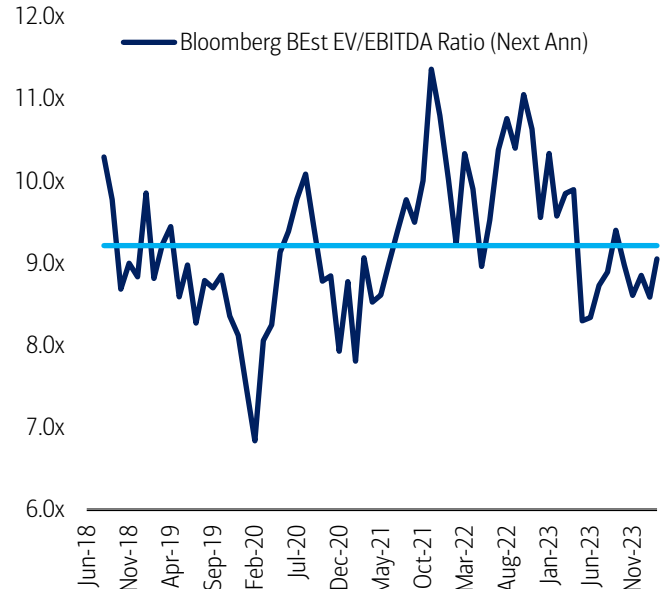


Source: Bloomberg

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**Exhibit 16: BJ's 2-year forward EV/EBITDA ratio**

BJ's current ~9x EV/EBITDA is slightly below historical average

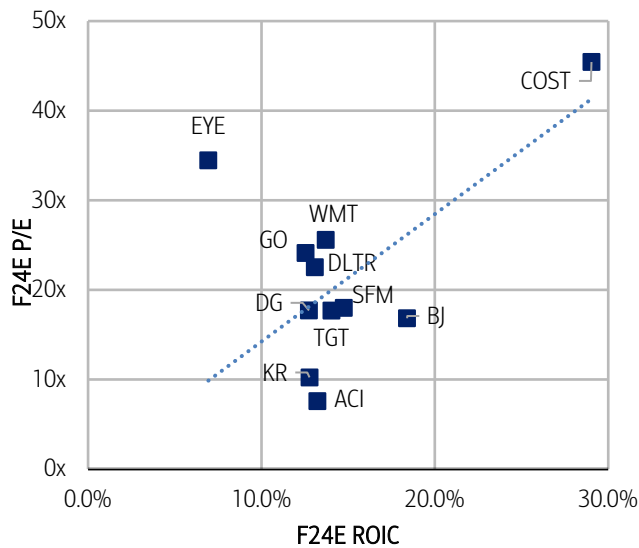


Source: Bloomberg

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**Exhibit 17: Fiscal 2024 (C23) P/E vs. ROIC comparison**

We believe lower-ROIC market share donors could face potential valuation compression

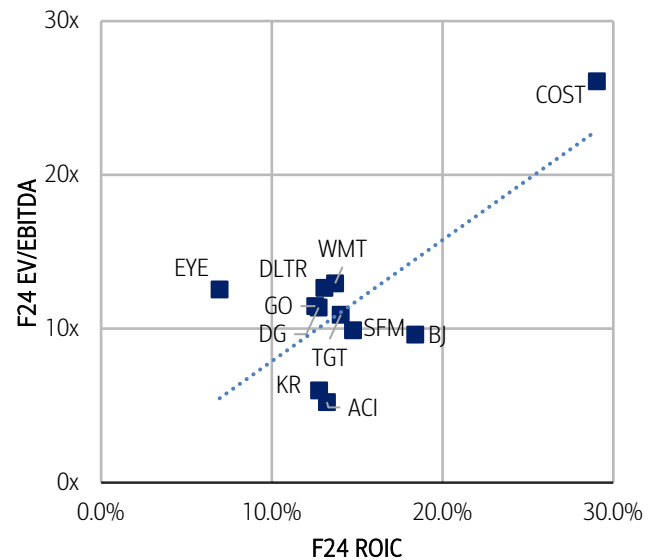


Source: Company filings, Bloomberg, BofA Global Research Estimates

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**Exhibit 18: Fiscal 2024 (C23) EV/EBITDA vs. ROIC comparison**

We believe lower-ROIC market share donors could face potential valuation compression

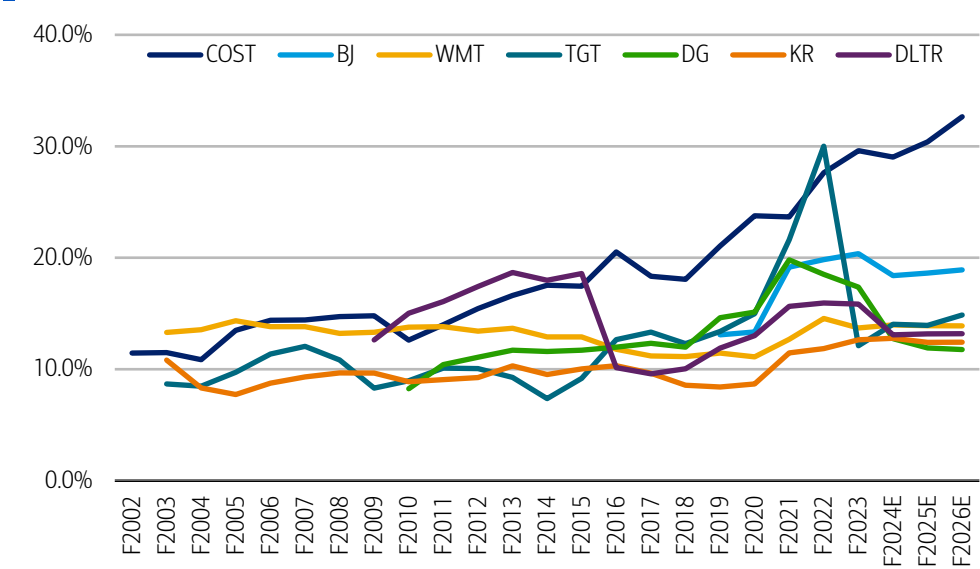


Source: Company filings, Bloomberg, BofA Global Research Estimates

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Exhibit 19: Historical Return on Invested Capital

While COST leads, BJ's ROIC has continued to improve and remains notably above other food & discount retailers



Source: Company filings, BofA Global Research estimates

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## Price objective basis & risk

### BJ's Wholesale Club Holdings (BJ)

Our \$80 price objective is based on 19-20x our \$4.10 F25E adj. EPS, a discount to key warehouse club comparable COST (30-40x) and more in line with the food and discount retail group average (17-18x). We think a discount to COST is warranted given BJ's lower new store growth, lower same-store sales growth (low single digit vs. COST's mid- to high- single digit), and lower ROIC (approx. 20% vs. COST's approx. 30%). We believe BJ will trade more in line with the food and discount retail group avg. given support from: 1) BJ's membership fee structure, which provides increased visibility on earnings, 2) BJ's unique positioning as a grocery-focused warehouse club, and 3) our forecast for an approx. 4% EPS CAGR over the next three years (in-line with the discount and food retail group average of roughly 4% [ex-DLTR]).

Downside risks to our price objective: 1) Difficult stimulus-driven comparisons, 2) comp risk from continued pressure in general merchandise categories, 3) incremental supply chain pressures and other cost increases, 4) the unwinding of excess gas margin from 2021.

## Analyst Certification

I, Robert F. Ohmes, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Broadlines, Hardlines, Food Retailers & Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Academy Sports + Outdoors	ASO	ASO US	Robert F. Ohmes, CFA
	BJ's Wholesale Club Holdings	BJ	BJ US	Robert F. Ohmes, CFA
	Costco Wholesale Corporation	COST	COST US	Robert F. Ohmes, CFA
	Grocery Outlet Holding Corp.	GO	GO US	Robert F. Ohmes, CFA
	Harley-Davidson	HOG	HOG US	Alexander Perry
	Life Time	LTH	LTH US	Alexander Perry
	Mattel	MAT	MAT US	Alexander Perry
	Planet Fitness, Inc.	PLNT	PLNT US	Alexander Perry
	Sprouts Farmers Market, Inc.	SFM	SFM US	Robert F. Ohmes, CFA
	Sysco Corporation	SY	SY US	Kendall Toscano
	Target Corp.	TGT	TGT US	Robert F. Ohmes, CFA
	The Kroger Co.	KR	KR US	Robert F. Ohmes, CFA
	Topgolf Callaway Brands Corp	MODG	MODG US	Alexander Perry
	Walmart Inc	WMT	WMT US	Robert F. Ohmes, CFA
<b>NEUTRAL</b>				
	Dick's Sporting Goods	DKS	DKS US	Robert F. Ohmes, CFA
	Fox Factory Holding Corp	FOX	FOX US	Alexander Perry
	Hasbro	HAS	HAS US	Alexander Perry
	Xponential Fitness	XPOF	XPOF US	Alexander Perry
	YETI Holdings, Inc.	YETI	YETI US	Robert F. Ohmes, CFA
<b>UNDERPERFORM</b>				
	Canada Goose Holdings Inc	YGOOS	GOOS CN	Alexander Perry
	Canada Goose Holdings Inc	GOOS	GOOS US	Alexander Perry
	Columbia Sportswear	COLM	COLM US	Alexander Perry
	Dollar General Corporation	DG	DG US	Robert F. Ohmes, CFA
	Dollar Tree, Inc.	DLTR	DLTR US	Robert F. Ohmes, CFA
	Hibbett Sports, Inc.	HIBB	HIBB US	Alexander Perry
	National Vision	EYE	EYE US	Robert F. Ohmes, CFA



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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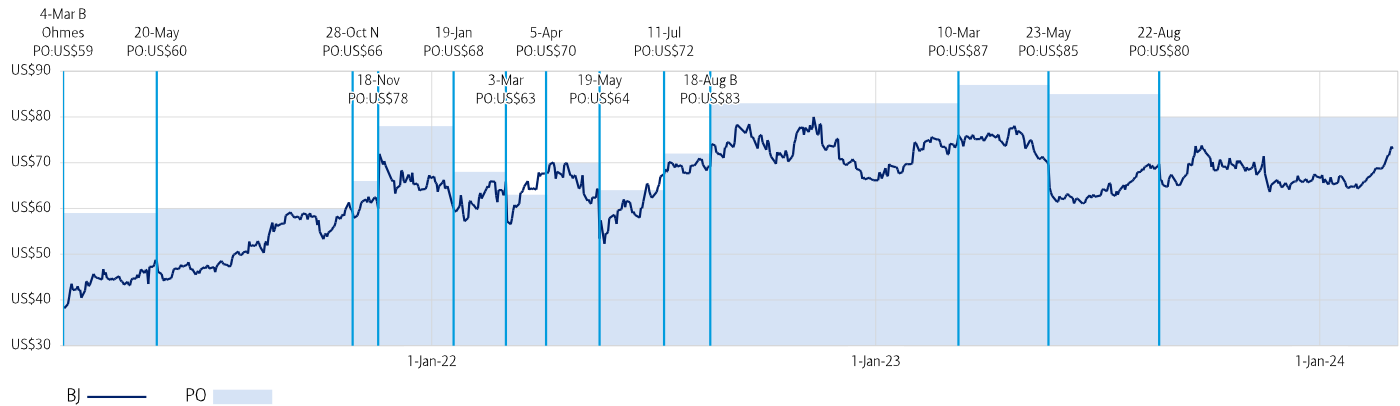
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## Important Disclosures

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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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