Big Lots Inc. (NYSE:BIG) Investment Overview

October 21, 2011

Investment Overview

Company (NYSE: BIG)

- Discount retailer for general merchandise and close-out liquidation sales
- Headquartered in Columbus, OH
- **Locations:** 1,415 (U.S.), 88 (Canada)
- **Employees:** 35,600 (~13,000 fulltime); no major labor unions
- **Top holders:** Sasco (10.0%), Wellington (8.9%), Blackrock (7.6%), Vanguard (6.8%), LSV (4.9%)
- **Key competitors:** 99 Cents Only (NDN), Dollar General (DG), Dollar Tree (DLTR), Family Dollar (FDO), Wal-Mart Stores (WMT), Target (TGT)
- **Financials (LTM July 2011):** $4,969M (revenue), $2,003M (GP), $427M (EBITDA)
- **Trading (10/19/11):** $36.56 per share, 5.3x LTM July EBITDA, 12.6x P/E

Deal Structure & Returns

Total Sources	$M	EBITDA Multiple	Cash Interest	PIK Interest
Senior Debt	1,282	3.0x	8.0%	0.0%
Subordinated Debt	427	4.0x	12.0%	2.0%
Equity	1,431	7.4x		
Total Sources	*3,140*	*7.4x*		
Fees	150			
Purchase Price	*2,990*	*7.0x*		
LTM Jul-11 EBITDA: $427.2		*LTM M. Capex: $112.4*		

	5 Year Returns		
	Base	Upside	Downside
Exit multiple	8.5x	9.5x	6.5x
IRR	27.7%	36.6%	(2.9%)
Mult of Inv	3.4x	4.8x	0.9x
Dollar Profit	$3,438	$5,377	($195)

Financial Projection (Base Case)

	Actual			Projected YE Jan-31					
($M)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Total Revenue	$4,645	$4,727	$4,952	$5,202	$5,599	$6,056	$6,393	$6,717	$7,057
% YoY Growth	-	*1.8%*	*4.8%*	*5.0%*	*7.6%*	*8.2%*	*5.6%*	*5.1%*	*5.1%*
Gross Profit	1,857	1,919	2,012	2,086	2,262	2,465	2,602	2,734	2,872
Margin	*40.0%*	*40.6%*	*40.6%*	*40.1%*	*40.4%*	*40.7%*	*40.7%*	*40.7%*	*40.7%*
Adjusted EBITDA	329	388	431	437	498	569	614	658	705
Margin	*7.1%*	*8.2%*	*8.7%*	*8.4%*	*8.9%*	*9.4%*	*9.6%*	*9.8%*	*10.0%*
Capital Exp.	89	79	108	113	122	132	139	146	153

Investment Thesis

Merits

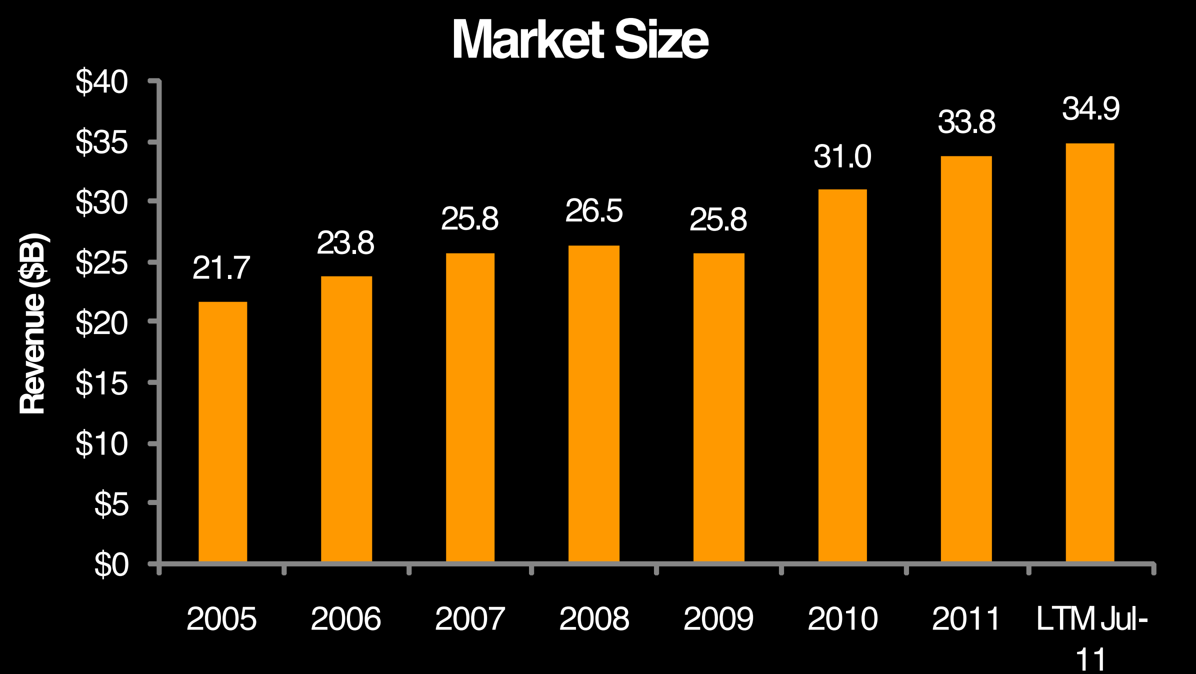
- ***Industry growth*.** Continued success of discount retailers as consumers trade down
- ***Competitive differentiation*.** Designed for opportunistic "treasure hunt" shopping trips for larger-ticket close-out items. Dollar store competitors designed for purposeful Consumables shopping trips
- ***Strategy transition to growth*.** BIG refocused on growth after years of cost reduction. New store format driving growth in net locations and revenue per store
- ***International expansion potential*.** Liquidation World acquisition provides Canada expansion opportunity
- ***Proven management team*.** New CEO has reversed EBITDA decline and driven growth since 2005 introduction
- ***Undervalued*.** Trading at ~50% discount to key dollar store competitors

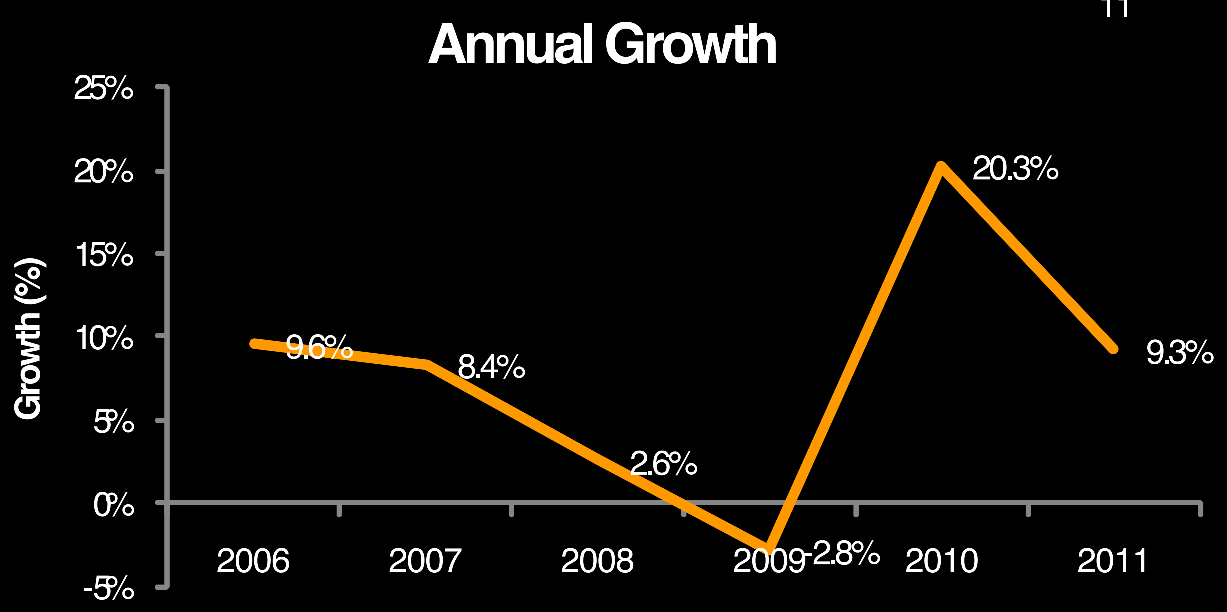
Risks

- ***Industry*.** Continued economic downturn further significantly diminishes consumers' ability to spend
- ***Competition*.** Continued margin pressure from discount retailer competitors and suppliers
- ***Management team*.** Team not suited to successfully transition strategy from cost reduction to revenue expansion
- ***Other*.** Management distraction from Liquidation World acquisition

Industry Momentum and BIG Differentiation

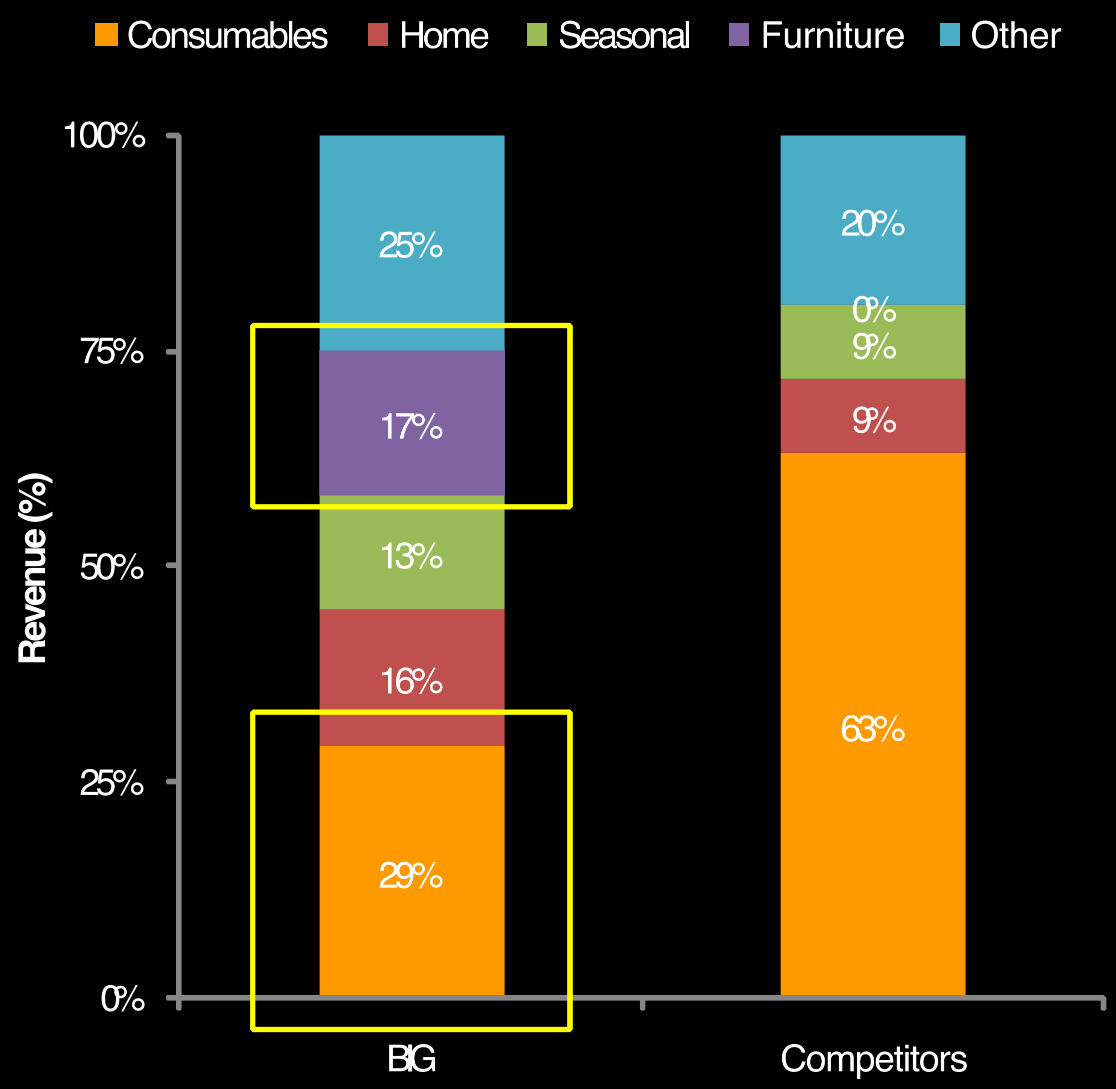
Industry Growth





Product Mix Differentiation

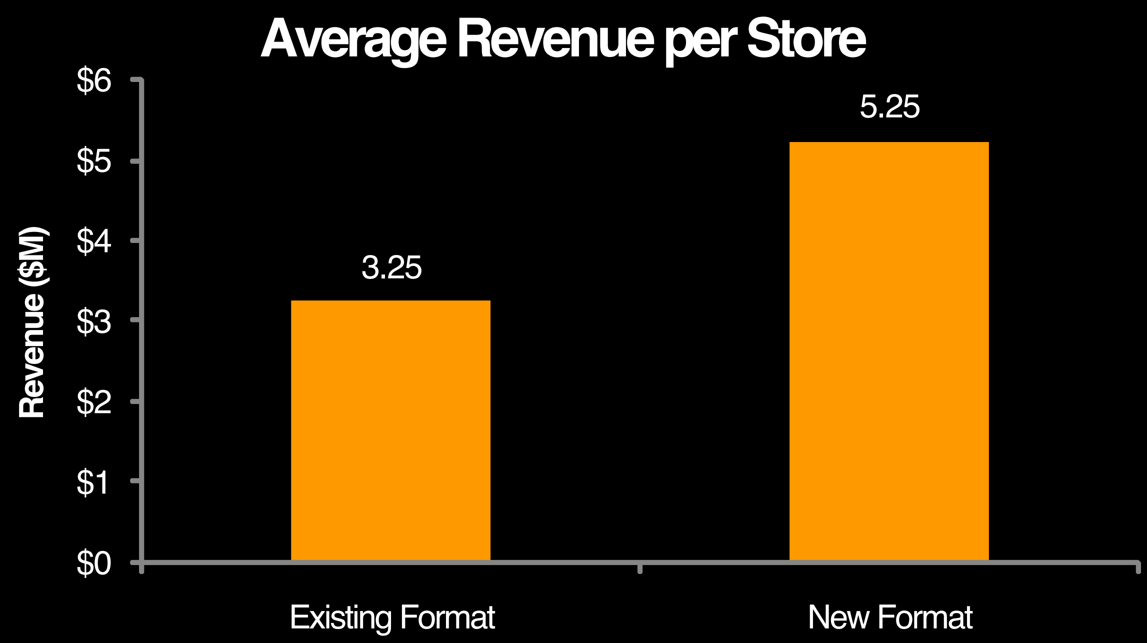
BIG attracts more "treasure hunt" shopping trips for large ticket items given its closeout-focused offerings

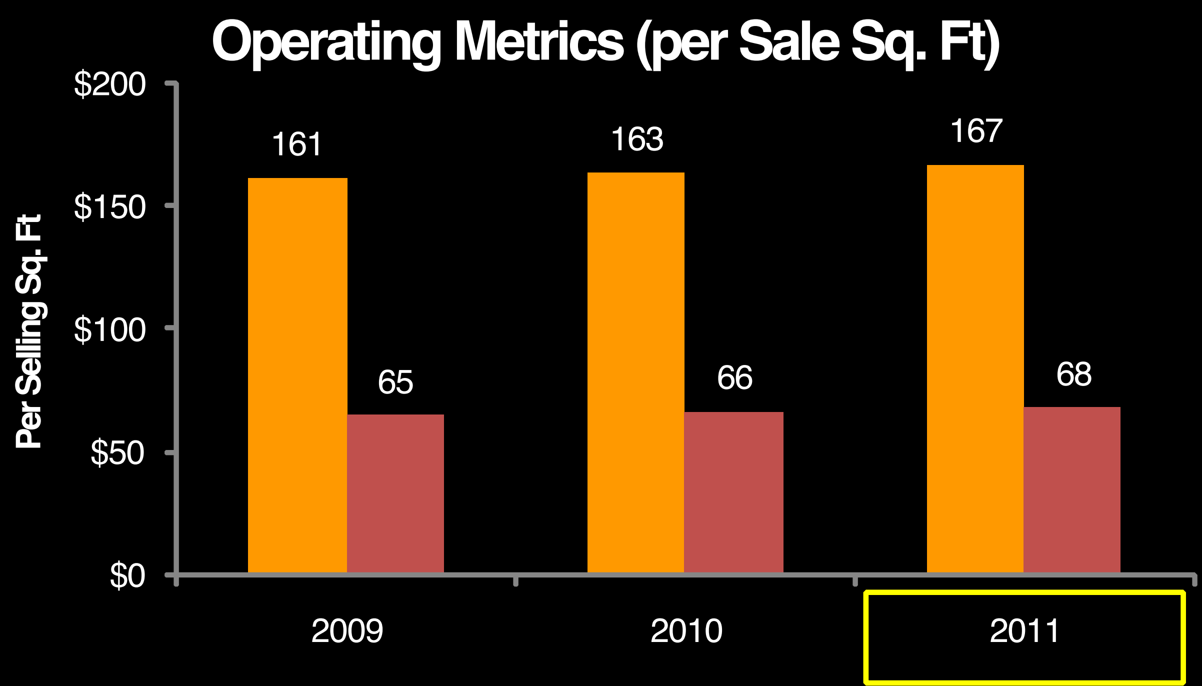


Note: Market consists of BIG Lots, Dollar General, Dollar Tree, Family Dollar Stores, 99 Cents Only Stores
Source: SEC filings

Future Growth Potential

New Format Advantages

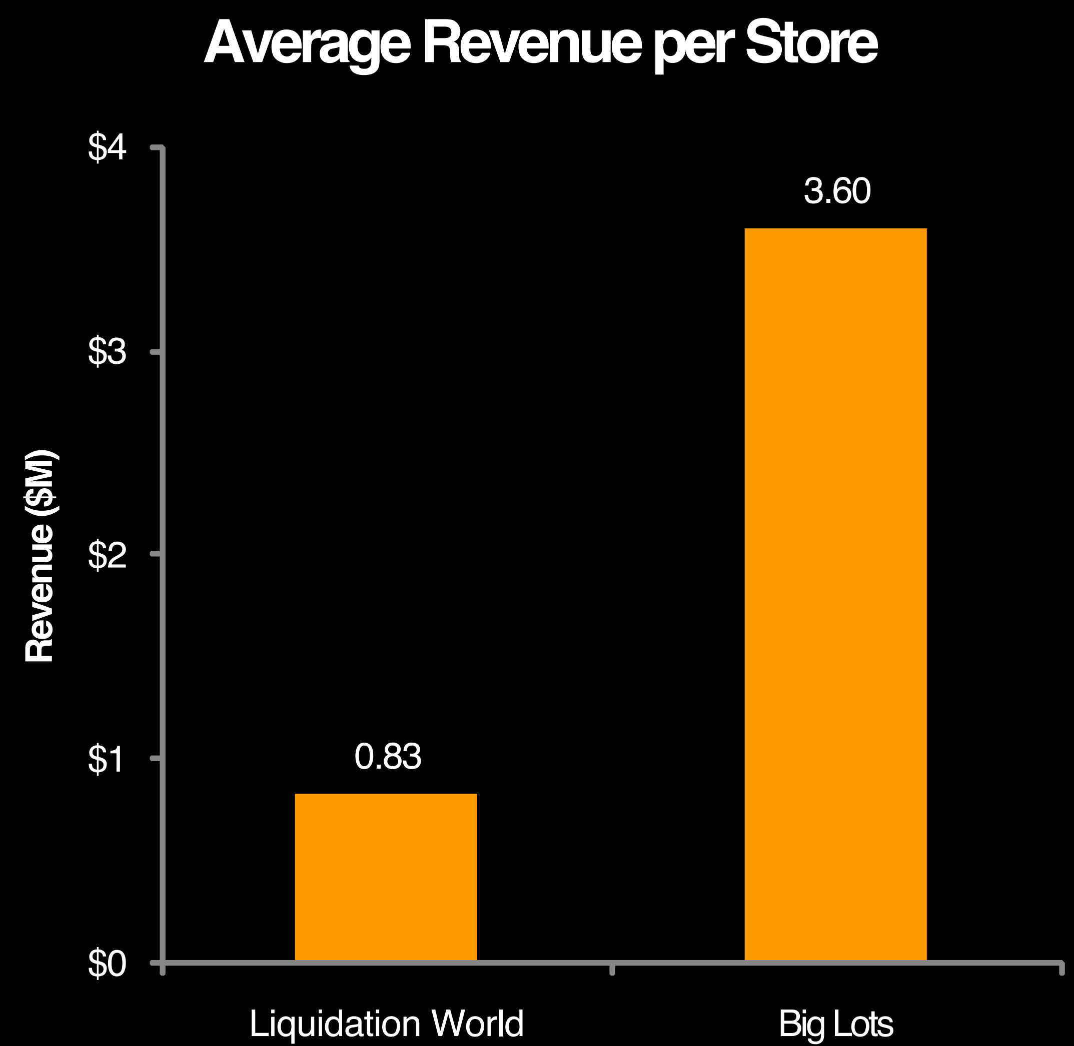




New format introduction began in FYE 2011

International Expansion

BIG recently acquired Liquidation World for $36M ($20M acquisition + $16M payables), creating BIG's first international expansion opportunity



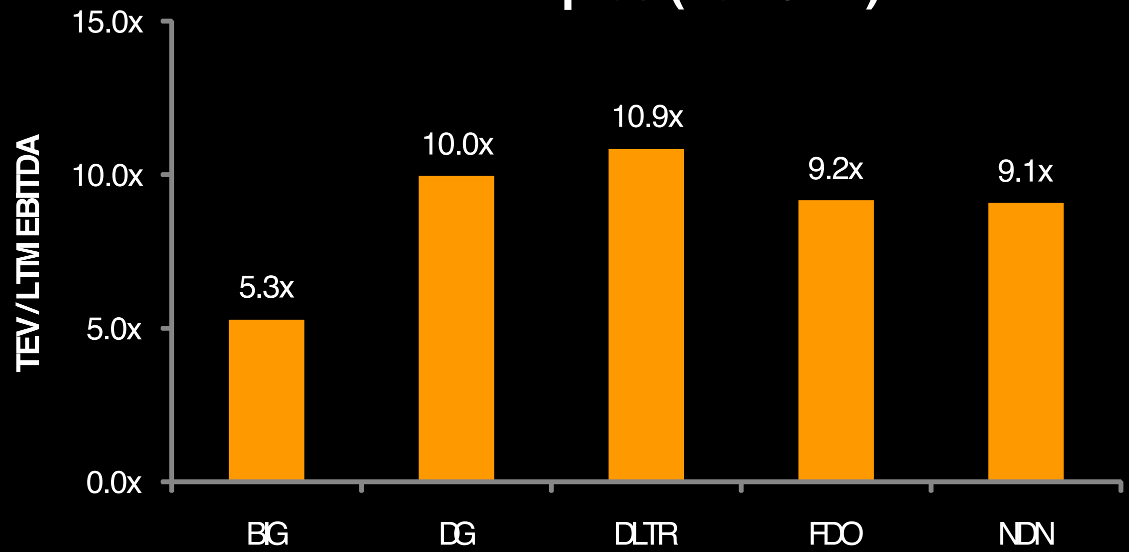
Source: SEC filings

Valuation Rationale and Opportunity (BIG Invest. Valuation: 7.0x, ~130% Premium)

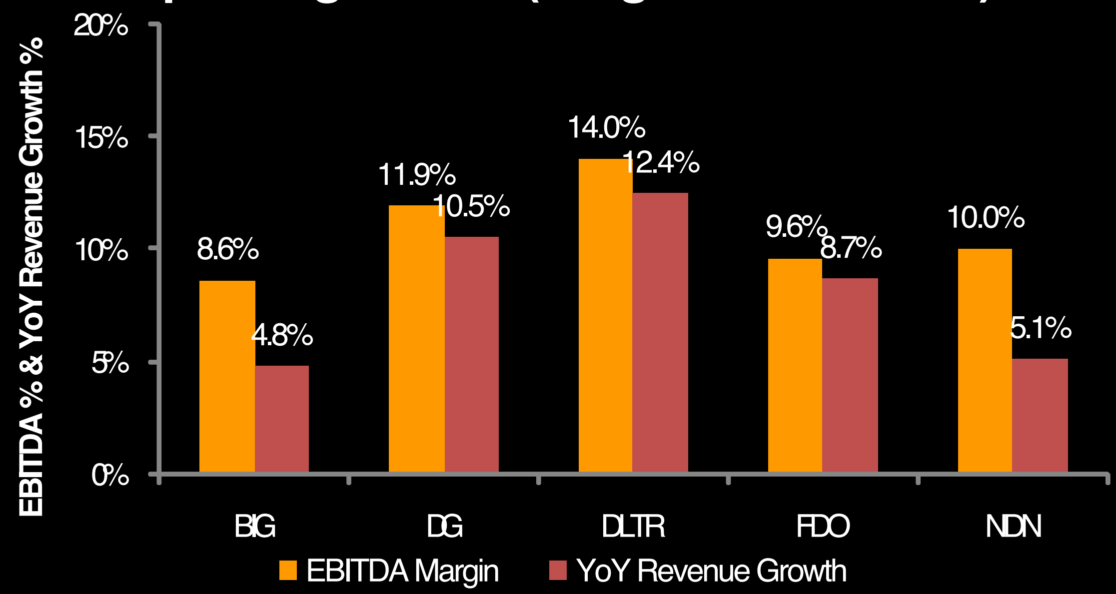
Trading Valuation

BIG has historically traded at a discount given its slower revenue growth

EBITDA Multiples (10/19/11)

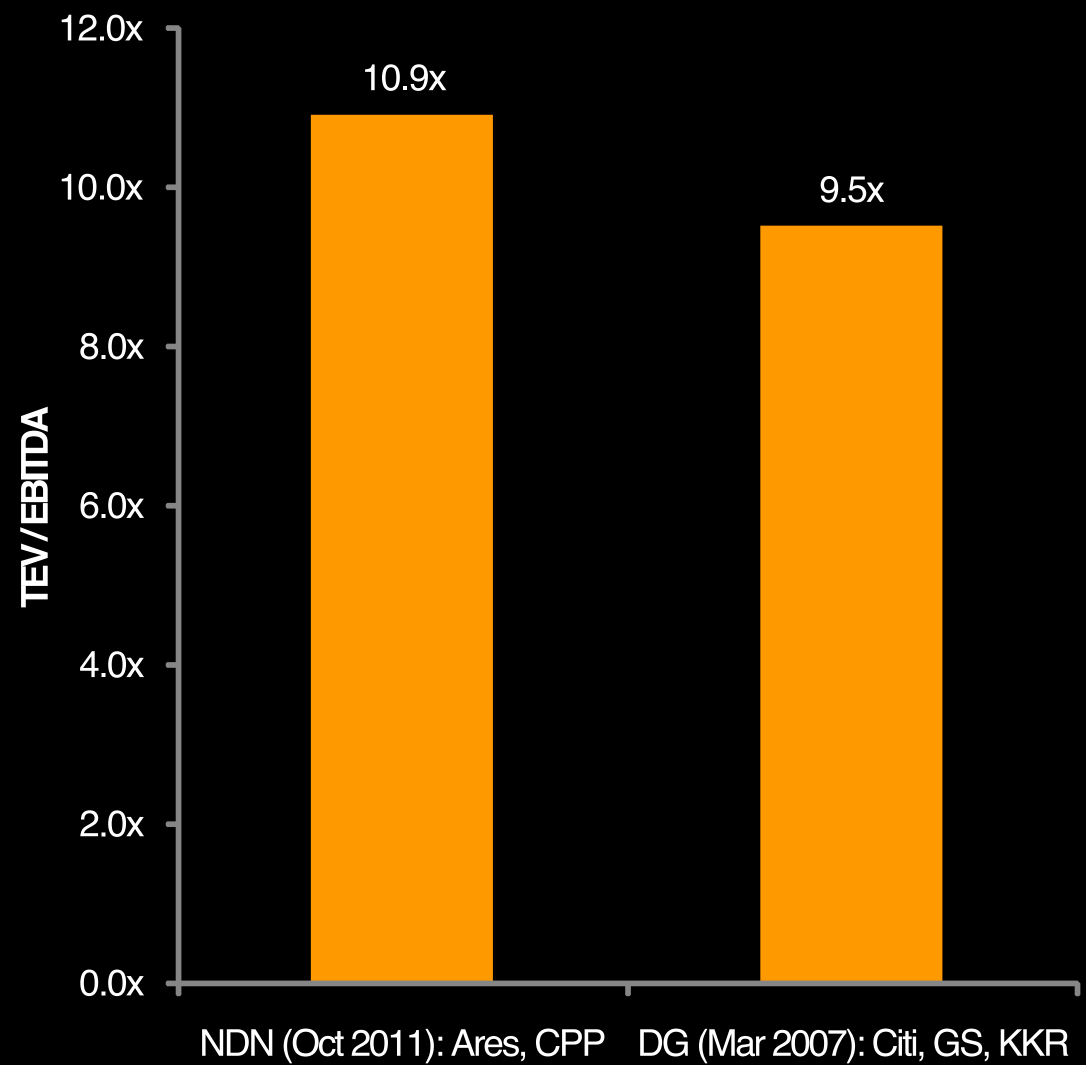


Operating Metrics (Margins and Growth)



Transaction Valuation

Prior Transaction Multiples



Source: Public data, SEC filings

Financial Model (Base Case)

Revenue growth driven by net store openings and revenue per store growth (as new format share increases). EBITDA margins driven by leveraging of fixed expenses

	Actual					Projected YE 1/31					
in $M	**2008**	**2009**	**2010**	**2011**	**LTM Jul-11**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Store Locations	1,353	1,339	1,361	1,398	1,415	1,454	1,519	1,588	1,627	1,668	1,710
% YoY Growth		*(1.0%)*	*1.6%*	*2.7%*		*4.0%*	*4.5%*	*4.5%*	*2.5%*	*2.5%*	*2.5%*
Revenue per Store	3,441	3,469	3,473	3,542	3,512	3,578	3,685	3,814	3,929	4,027	4,127
% YoY Growth		*0.8%*	*0.1%*	*2.0%*		*1.0%*	*3.0%*	*3.5%*	*3.0%*	*2.5%*	*2.5%*
Total Revenue	**$4,656**	**$4,645**	**$4,727**	**$4,952**	**$4,969**	**$5,202**	**$5,599**	**$6,056**	**$6,393**	**$6,717**	**$7,057**
% YoY Growth	-	*(0.2%)*	*1.8%*	*4.8%*	*NA*	*5.0%*	*7.6%*	*8.2%*	*5.6%*	*5.1%*	*5.1%*
COGS	2,816	2,788	2,807	2,940	2,966	3,116	3,337	3,591	3,791	3,983	4,185
Gross Profit	$1,840	$1,857	$1,919	$2,012	$2,003	$2,086	$2,262	$2,465	$2,602	$2,734	$2,872
% of Total Revenue	*39.5%*	*40.0%*	*40.6%*	*40.6%*	*40.3%*	*40.1%*	*40.4%*	*40.7%*	*40.7%*	*40.7%*	*40.7%*
Total Operating Expenses	1,521	1,529	1,531	1,581	1,576	1,649	1,764	1,896	1,989	2,076	2,167
Adjusted EBITDA	**$320**	**$329**	**$388**	**$431**	**$427**	**$437**	**$498**	**$569**	**$614**	**$658**	**$705**
% of Total Revenue	*6.9%*	*7.1%*	*8.2%*	*8.7%*	*8.6%*	*8.4%*	*8.9%*	*9.4%*	*9.6%*	*9.8%*	*10.0%*
% YoY Growth	-	*2.9%*	*18.0%*	*11.2%*	*NA*	*1.2%*	*14.0%*	*14.2%*	*7.8%*	*7.3%*	*7.2%*
Total Capital Expenditures	60	89	79	108	112	113	122	132	139	146	153

Capitalization	**Close**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Cash	-	30	30	30	30	30	30
Senior Debt	1,282	1,305	1,204	1,066	894	692	458
Mezzanine Debt	427	428	436	445	454	463	472
Contributed Capital	1,431	1,431	1,431	1,431	1,431	1,431	1,431
Total Capitalization	3,140	3,134	3,042	2,913	2,749	2,556	2,331
% Cum of Bank Paid Down		(1.8%)	6.1%	16.8%	30.2%	46.0%	64.3%
Coverage Ratios							
Net Senior Debt / EBITDA	3.0x	2.9x	2.4x	1.8x	1.4x	1.0x	0.6x
EBITDA / Cash Interest Expense		2.8x	3.2x	3.8x	4.4x	5.2x	6.4x

Other	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Net PP&E	$490	$491	$525	$551	$580	$610	$643	$677	$713
Working Capital	$337	$246	$283	$298	$320	$346	$366	$384	$404

Investment Overview of Calpine

Why should we buy Calpine Corporation (Calpine)?

Calpine is an independent wholesale power company in the United States who owns and operates primarily natural gas-fired and geothermal power plants in North America.

Why is Calpine a good company for us to buy?

The Company sells wholesale power, steam, capacity, renewable energy credits and ancillary services to its customers, including utilities, independent electric system operators, industrial and agricultural companies, retail power providers, municipalities and power marketers.

Calpine has strong predictable operating cash flows, has limited CapEx, and is undervalued.

Why are we good for Calpine?

Since emerging from bankruptcy in 2010, Calpine has been on a tear, turning down an acquisition offer from NRG Energy, breaking its losing streak when it posted a profit earlier this month and taking on a $1 billion loan two weeks ago.

Calpine is also well-situated because of its ownership of natural gas plants, which will likely become more important in coming years as environmentalists fight to phase out coal power. Its new cash holdings could also be used to gobble up smaller geothermal companies.

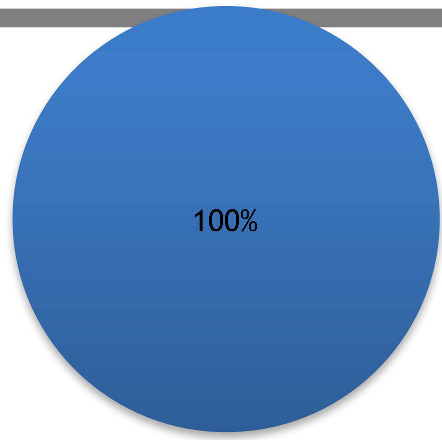
In addition, post-bankruptcy, we can optimize via restructuring by improving operating performance, eliminating wasteful spending and over-investment, all while replacing inefficient management

IRR for LBO equity investor	22.51%

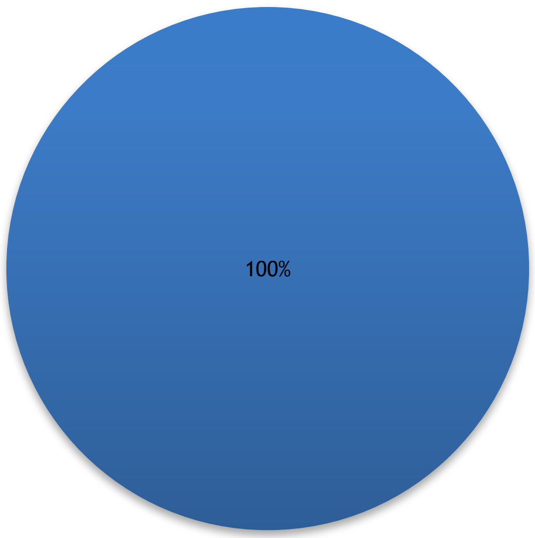
Discount Rate	9.65%
PV of FCFs	$12,551.01
PV of Terminal Value	$11,371.59
Net Debt	-$10,309.00
Diltued Shares (M)	486.2
Equity Value / Share	$28.00

Market Opportunities

US Energy Portfolio Consumption, 2009

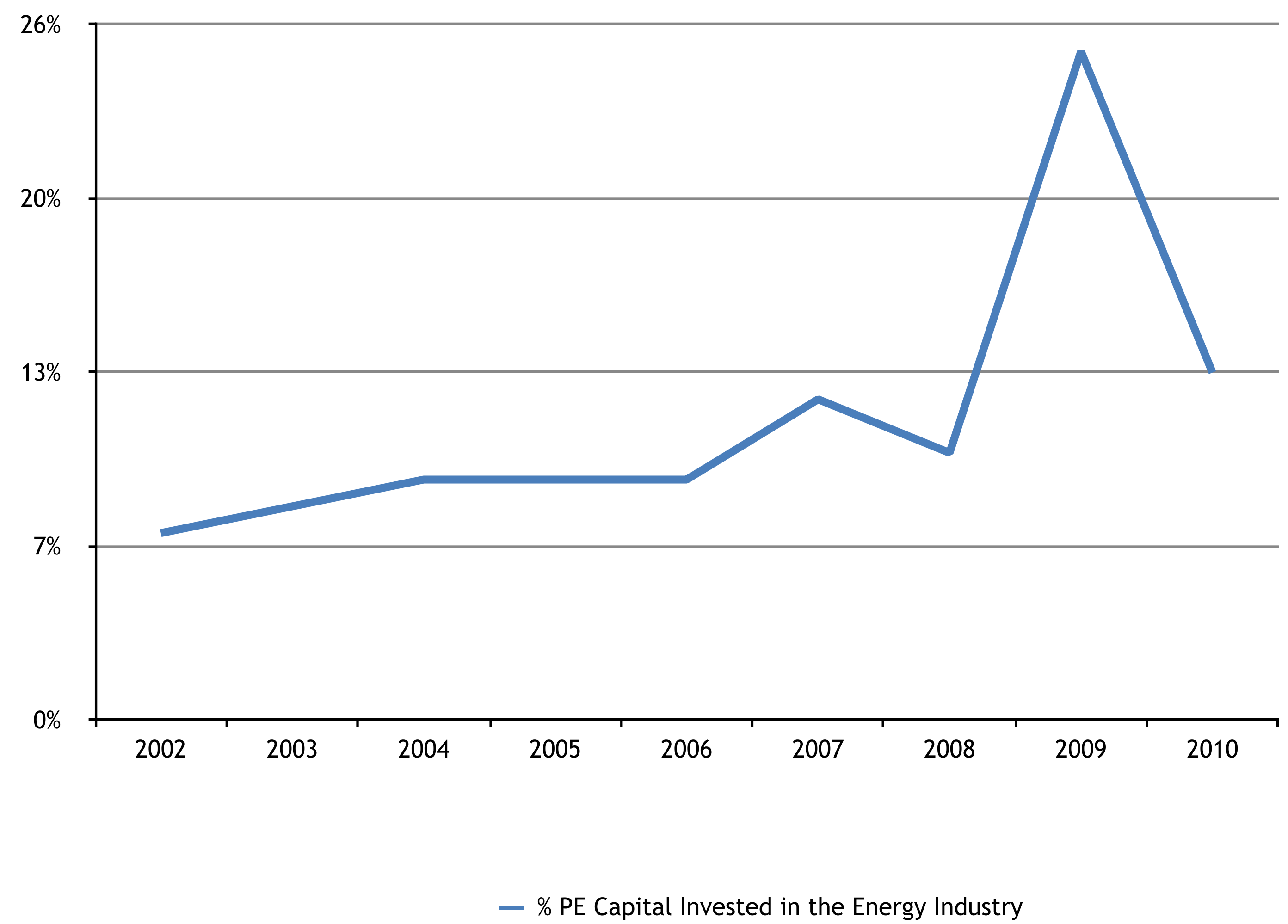


US Energy Portfolio Consumption, 2030

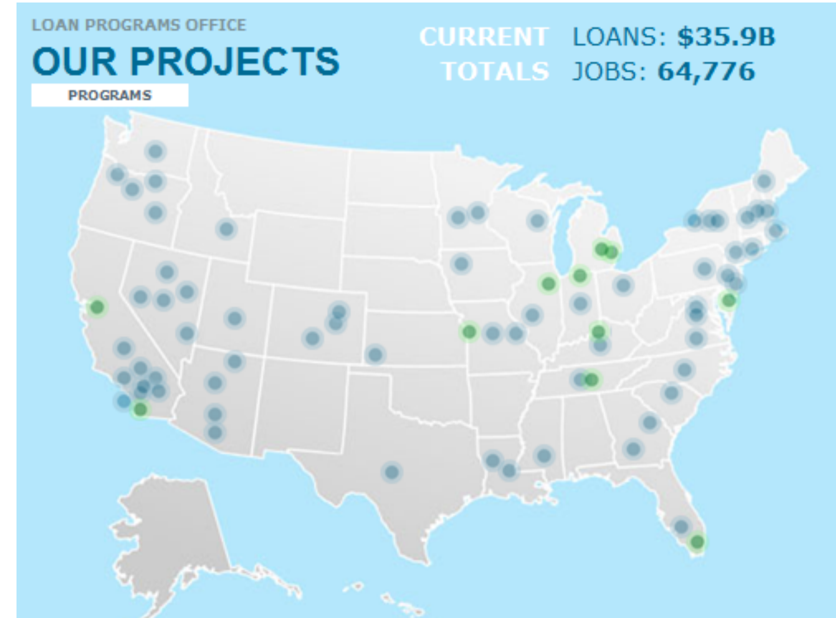


Energy Increase to 25% of Capital Invested in 2010 from 8% in 2002

Percentage of Deal Volume (capital) in Energy



Risks



The Department of Energy's Loan Programs enable DOE to work with private companies and lenders to mitigate the financing risks associated with building out commercial-scale clean energy projects, thereby encouraging the broader and more rapid growth of the sector.

Is Calpine truly flippable?

Will the restructuring of management work despite Takeover Defenses?

How does Calpine's Takeover Defenses stack up against competitors?

Company	Market Capitalization
TEG: Integrys Energy Group	*$3.84B*
CNP: CenterPoint Energy	$8.73B
CEG: Constellation Energy Group	*$7.69B*
PCG: PG&E Corporation	$17.01B
D: Dominion Resources, Inc	*$28.47B*
CMS: CMS Energy Corporation	$5.16B
SRE: Sempra Energy	*$12.53B*
AEE: Ameren Corporation	$7.36B
OGE: OGE Energy Corp	*$4.89B*

Calpine currently trading at a discount from a Comparables Trading Multiples Analysis against AEE, PCG, & D; Calpine is also underperforming compared to the associated comparable companies as well as from a Performance Comparables Analsysis perspective.

	Calpine Corp. (NYSE:CPN)
Number of Companies	1
Number of Companies with Takeover Defenses	1
Takeover Defenses Score	0.28
Takeover Defenses	
Active Poison Pill	No
Permitted Offer/Chewable Provision	No
Dead Hand Provision	No
Sunset Provision	No
TIDE Provision	No
Anti-Greenmail Provision	-
Blank Check Preferred Stock	Yes
Corporate Sponsored Fair Price Provision	No
Preemptive Rights (With Board Approval)	No
Preemptive Rights (Without Board Approval)	No
Secret Ballot Voting	No
Time-Phased Unequal Voting Rights	No
Supermajority Required to Approve Mergers by Interested Shareholder (With	Yes (66.7%)
Supermajority Required to Approve Mergers by Interested Shareholder (With	No
Corporate Governance	
Classified Board	No
Removal of Directors Only for Cause	No
Cumulative Voting for Board Seats	No
Only Existing Directors Can Fill Vacant Board Seats	Yes
Shareholders Can Call Special Meetings	Yes
Supermajority Required to Remove Director	-
Supermajority Shareholder Approval Required to Amend Bylaws	No (50%)
Supermajority Shareholder Approval Required to Amend Charter	No (50%)

Calpine (WACC, Perpetuity, APV, Capital CF, and CF Equity Valuation Methods)

Sensitivity Analysis (WACC & G)

	G	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%
WACC	7.50%	$28,553.50	$28,608.16	$28,678.44	$28,772.13	$28,903.31	$29,100.08
14.18% Growth Rate	8.00%	$25,971.87	$25,801.77	$25,589.14	$25,315.76	$24,951.26	$24,440.96
	8.25%	$24,866.61	$24,620.65	$24,316.82	$23,931.96	$23,428.69	$22,742.41
	8.50%	$23,862.55	$23,557.97	$23,185.70	$22,720.37	$22,122.08	$21,324.37
	9.00%	$22,107.39	$21,723.30	$21,262.40	$20,699.08	$19,994.92	$19,089.58

	G	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%
WACC	7.50%	$21,054.19	$21,087.24	$21,129.74	$21,186.41	$21,265.74	$21,384.74
5% Growth Rate	8.00%	$19,461.68	$19,358.81	$19,230.22	$19,064.89	$18,844.44	$18,535.82
	8.25%	$18,777.92	$18,629.17	$18,445.42	$18,212.67	$17,908.30	$17,493.25
	8.50%	$18,155.54	$17,971.34	$17,746.20	$17,464.78	$17,102.95	$16,620.51
	9.00%	$17,064.28	$16,831.99	$16,553.25	$16,212.56	$15,786.71	$15,239.18

	G	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%
WACC	7.50%	$24,774.27	$24,817.97	$24,874.16	$24,949.07	$25,053.94	$25,211.26
10% Growth Rate	8.00%	$22,693.58	$22,557.59	$22,387.60	$22,169.03	$21,877.61	$21,469.63
	8.25%	$21,801.74	$21,605.10	$21,362.18	$21,054.49	$20,652.13	$20,103.45
	8.50%	$20,990.90	$20,747.39	$20,449.76	$20,077.73	$19,599.40	$18,961.64
	9.00%	$19,571.74	$19,264.66	$18,896.17	$18,445.80	$17,882.83	$17,159.01

	G	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%
WACC	7.50%	$29,375.06	$29,432.12	$29,505.48	$29,603.28	$29,740.22	$29,945.62
15% Growth Rate	8.00%	$26,684.00	$26,506.44	$26,284.48	$25,999.11	$25,618.62	$25,085.93
	8.25%	$25,532.14	$25,275.39	$24,958.22	$24,556.48	$24,013.13	$23,314.74
	8.50%	$24,485.89	$24,167.95	$23,779.35	$23,293.60	$22,669.07	$21,836.36
	9.00%	$22,657.38	$22,256.45	$21,775.33	$21,187.29	$20,452.24	$19,507.18

	G	3.00%	3.50%	4.00%	4.50%	5.00%	5.50%
WACC	7.50%	$34,076.59	$34,147.46	$34,238.57	$34,360.05	$34,530.12	$34,785.23
19.23% Growth Rate	8.00%	$30,756.42	$30,535.88	$30,260.21	$29,905.78	$29,433.20	$28,771.59
	8.25%	$29,336.67	$29,017.78	$28,623.86	$28,124.89	$27,472.40	$26,582.64
	8.50%	$28,047.96	$27,653.07	$27,170.43	$26,567.12	$25,791.45	$24,757.21
	9.00%	$25,798.05	$25,300.08	$24,702.52	$23,972.17	$23,059.23	$21,885.45

9.83% CAGR

Cost of Capital Assumptions:	
Unlevered (Asset) Beta	1.35
L.T. Govt. Bond Rate	2.18%
Market Risk Premium	5.00%
Cost of Debt	6.80%
Tax Rate	40.00%
Target D/V Ratio	25.00%
Cost of Capital Calculations:	
Unlevered COC	8.93%
Debt Beta	0.92
Levered Equity Beta	1.49
Cost of Equity	9.64%
WACC	**8.25%**

Perpetuity Assumptions:	
Nominal ROI (R)	3.50%
Nominal growth rate (G)	3.00%
Perpetuity Calculations:	
Plowback rate (k)	85.71%
Residual Value (levered)	$5,171.44

Value of Operations	$20,863.58
+ Non-operating assets	$1,147.00

Enterprise value	**$22,010.58**
- Existing Debt	($10,309.00)

Equity Value	**$11,701.58**

Discount Rate	8.25%
PV of FCFs	$16,530.75
PV of Terminal Value	$2,882.56
Net Debt	-$10,309.00
Diltued Shares (M)	486.2
Equity Value / Share	$18.73

Calpine (LBO Valuation Method)

Cost of Capital Assumptions:	
Unlevered (Asset) Beta	1.35
L.T. Govt. Bond Rate	2.18%
Market Risk Premium	5.00%
Cost of Debt	6.80%
Tax Rate	40.00%
Target D/V Ratio	25.00%
Cost of Capital Calculations:	
Unlevered COC	8.93%
Debt Beta	0.92
Levered Equity Beta	1.49
Cost of Equity	9.64%
WACC	**8.25%**

Perpetuity Assumptions:	
Nominal ROI (R)	5.58%
Nominal growth rate (G)	3.50%
Perpetuity Calculations:	
Plowback rate (k)	62.70%
Residual Value (unlevered)	$11,371.59

Unlevered Firm Value	$19,729.25
+ PV ITS (year 1-5)	$1,057.67
+ PV ITS (after year 5)	$3,308.14

Value of Operations	$24,095.06
+ Non-operating assets	$1,147.00

Enterprise Value	$25,242.06
- Existing debt	($10,309.00)

Equity value[3]	**$14,933.06**

Paydown Schedule and Present Value of Interest Tax Shields

Assumptions for the LBO Phase:		
Interest rate on LBO debt	8.50%	
Discount rate for ITS	Pre-tax cost of debt	Assumest that the risk of the ITS is the same as the risk of the d
Post LBO Assumptions:		
Target D/V Ratio	50.00%	
Interest rate on debt	7.20%	Interest rate consistent with the assumed D/V ratio.
Post-LBO Cost of Capital:		
Capital structure policy	Harris-Pringle (1985)	Constant D/V ratio - Continuous adjustments
Debt beta	0.86	
Levered equity beta	1.84	
Cost of equity	12.10%	
WACC	8.21%	

	0	1	2	3	4	5
Existing Debt[2]						
Interest rate on debt	6.80%					
Discount rate for ITS	6.80%					
Interest Expense		$701.01	$633.01	$565.01	$480.74	$367.59
Interest Tax Shield		$280.40	$253.20	$226.00	$192.30	$147.03
PV ITS[1]		$262.55	$221.99	$185.53	$147.80	$105.82
Total PV	**$923.69**					
Beginning Debt		$10,309.00	$9,309.00	$8,309.00	$7,069.73	$5,405.67
Principal Repayment		$1,000.00	$1,000.00	$1,239.27	$1,664.06	$2,061.80
Ending Debt	$10,309.00	$9,309.00	$8,309.00	$7,069.73	$5,405.67	$3,343.87

	0	1	2	3	4	5
Standard deviation of FCFs	20.00%					
Unexpected change in FCF		10.00%	10.00%	10.00%	10.00%	10.00%
FCF[4]		$240.83	$819.03	$1,595.18	$1,998.62	$2,308.41
After-tax interest expense		($471.61)	($430.81)	($390.01)	($339.44)	($271.55)
Debt issues (net of retirements)		($1,000.00)	($1,000.00)	($1,239.27)	($1,664.06)	($2,061.80)
Estimated residual value of equity						$19,247.70
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Cash Flows to Equity[5]	($5,533.94)	($1,230.78)	($611.77)	($34.10)	($4.88)	$19,222.76
Unlevered firm value		$12,674.54	$14,468.36	$15,855.84	$17,125.90	$18,347.99
Ending total debt		$10,309.00	$9,309.00	$8,069.73	$6,405.67	$4,343.87
Solvency condition[6]		Solvent	Solvent	Solvent	Solvent	Solvent

Deal Terms

Voting privileges / Board Seat(s), Keep ~2 from Calpine on Board

No right-of-first-refusal protections

No protection against right of co-sale

Return to LBO Investors

		0.1	0.35

Purchase terms and financing:

Premium paid for equity		10.00%
Purchase price of equity		$15,555.26
+ Assumed debt		$10,309.00

Total purchase price		**$25,864.26**
LBO debt		$1,000.00
LBO equity investors[1]		$5,533.94
Proceeds from asset sales at t =		$9,021.32

Total sources financing		$15,555.26
Assumed debt		$10,309.00

Total consideration		**$25,864.26**

Sources of Value Creation:

Pre-LBO Value of Firm			$23,303.14
Value of operating improvemen		($2,448.81)	
Value of incremental ITS[3]		$3,240.72	

Total Value Creation			$791.91

Post-LBO Value of Firm			$24,095.06
Value Created as % of Pre-LBO Value			3.40%

Beginning LBO Debt[1]			$1,000.00	$1,000.00	$1,000.00	$1,000.00	$1,000.00
Principal repayment on LBO debt			$0.00	$0.00	$0.00	$0.00	$0.00
Ending LBO Debt		$1,000.00	$1,000.00	$1,000.00	$1,000.00	$1,000.00	$1,000.00

		Year 5
Estimated Firm Value[7]		$23,591.56
- Total Debt		($4,343.87)

Est. Equity Value		$19,247.70
D/V ratio		18.41%

Discount Rate	9.65%
PV of FCFs	$12,551.01
PV of Terminal Value	$11,371.59
Net Debt	-$10,309.00
Diltued Shares (M)	486.2
Equity Value / Share	$28.00

Return to Bondholders

		0	1	2	3	4	5
Bankruptcy costs[8]		**10.00%**					
Cash flows to LBO bondholders[9]		($1,000.00)	$85.00	$85.00	$85.00	$85.00	$1,085.00
IRR for LBO Bondholders		**8.50%**					

IRR for LBO equity investor	**22.51%**