

# PRESS RELEASE

**FOR IMMEDIATE RELEASE**

Contact: Andrew D. Regrut  
Vice President, Investor Relations  
(614) 278-6622

## **BIG LOTS REPORTS Q4 RESULTS**

### **COMPANY PROVIDES INITIAL GUIDANCE FOR FISCAL 2020**

### **ROLLOUT OF STRATEGIC TRANSFORMATION UNDERWAY**

Columbus, Ohio – February 27, 2020 – Big Lots, Inc. (NYSE: BIG) today reported net income of \$93.8 million, or \$2.39 per diluted share, for the fourth quarter of fiscal 2019 ended February 1, 2020. This result compares to the company's previously communicated guidance of net income of \$2.40 to \$2.55 per diluted share. Net income for the fourth quarter of fiscal 2018 was \$108.0 million, or \$2.68 per diluted share.

Net sales for the fourth quarter of fiscal 2019 totaled \$1,607 million compared to \$1,599 million for the same period last year, with the increase resulting from sales growth in high volume new and relocated non-comp stores, and a slightly higher store count year-over-year, partially offset by a comparable sales decline. Comparable sales decreased 0.9% for the fourth quarter of fiscal 2019, compared to guidance of slightly positive.

Commenting on today's announcement, Bruce Thorn, President and CEO of Big Lots stated, "Our fourth quarter was a hard-fought one in which our sales came in below expectations and increased promotions drove our gross margin rate lower. However, these impacts were significantly offset by continued strong expense management and a favorable tax rate. On a full year basis, we delivered a positive comp and overall sales growth, and ended the year with significantly reduced debt levels and well-controlled inventories. In addition, we positioned the company for future growth by enhancing our digital capabilities with BOPIS, successfully launching the Broyhill brand, expanding the footprint of our fleet with new, high volume stores, and investing in marketing to drive traffic and build brand awareness."

Mr. Thorn continued, "Looking forward, we remain confident that our Operation North Star strategies will deliver improved performance and enable us to competitively position our business for long-term success. As we execute key initiatives this year, we are evolving our approach, focusing on investing in areas that will drive the highest returns for our shareholders. Based on some recent softness in sales trends, we are slowing our Store of the Future rollout and assessing our capital allocation strategy with a focus on markets where we expect the strongest returns, while adding newer, higher-return growth initiatives."

"We expect a challenging first quarter of 2020, due in part to upfront investments in our higher-return growth initiatives, combined with a slow start to the quarter and the sales impact of supply chain disruption related to the coronavirus. Notwithstanding these near-term uncertainties, we are working hard to deliver sustainable improvements in the company's performance, and we expect the results of these initiatives to become more evident as the year progresses. Importantly, we remain committed to a highly disciplined, growth-focused capital allocation approach, while continuing to strategically take cost out of the business."



Investor Relations Department  
4900 East Dublin-Granville Road  
Columbus, Ohio 43081-7651  
Phone: (614) 278-6622 Fax: (614) 278-6666  
E-mail: [aschmidt@biglots.com](mailto:aschmidt@biglots.com)

|   | Earnings per Share |         |          |         |
|---|--------------------|---------|----------|---------|
|   | Q4 2019            | Q4 2018 | FY 2019  | FY 2018 |
| Earnings per diluted share  | \$2.39             | \$2.68  | \$6.16   | \$3.83  |
| Gain on the sale of the California distribution center <sup>(1)</sup>                                 | -                  | -       | (\$3.47) | -       |
| Impact of the costs associated with the implementation of the strategic transformation <sup>(1)</sup> | -                  | -       | \$0.83   | -       |
| Impact of legal settlement loss contingencies <sup>(1)</sup>  | -                  | -       | \$0.14   | -       |
| Impact of CEO retirement <sup>(1)</sup>   | -                  | -       | -        | \$0.15  |
| Impact of settlement of shareholder litigation matters <sup>(1)</sup>                                 | -                  | -       | -        | \$0.06  |
| Earnings per diluted share - adjusted basis   | \$2.39             | \$2.68  | \$3.67   | \$4.04  |

(1) Non-GAAP detailed reconciliation provided in our statements below.

## **FISCAL 2019**

For fiscal 2019, net income totaled \$242.5 million, or \$6.16 per diluted share. Excluding non-recurring items detailed in this release, adjusted net income for the full year period ended February 1, 2020, totaled \$144.4 million, or \$3.67 per diluted share (non-GAAP), compared to adjusted net income of \$165.6 million, or \$4.04 per diluted share (non-GAAP), for fiscal 2018.

Net sales for fiscal 2019 totaled \$5,323 million, a 1.6% increase compared to \$5,238 million last year, with the increase resulting from sales growth in high volume new and relocated non-comp stores, a comparable sales increase of 0.3%, and a slightly higher store count year-over-year.

## **Inventory and Cash Management**

Inventory ended fiscal 2019 at \$921 million, a 5% decline compared to \$970 million at the end of fiscal 2018, with the decrease in most merchandise categories as inventory levels were elevated at the end of fiscal 2018 as a result of tariff mitigation activities.

The company ended fiscal 2019 with \$53 million of Cash and Cash Equivalents and \$279 million of long-term debt compared to \$46 million of Cash and Cash Equivalents and \$374 million of long-term debt as of the end of fiscal 2018. The reduction in long-term debt was a result of the company using net after-tax proceeds of approximately \$90 million from the sale of its California distribution center to pay down a portion of the outstanding balance on its unsecured line of credit.

For fiscal 2019, approximately \$98 million was returned to shareholders in the form of share repurchases and dividend payments.

## **Dividend**

As announced in a separate press release today, on February 26, 2020, the Board of Directors declared a quarterly cash dividend of \$0.30 per common share. This dividend payment of approximately \$12 million will be payable on April 3, 2020, to shareholders of record as of the close of business on March 20, 2020.



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## **FISCAL 2020 GUIDANCE**

The company's guidance incorporates the anticipated first quarter sales impact of disruption to the supply chain caused by the coronavirus. Due to a lack of visibility at this point, impact of the coronavirus beyond the first quarter is not reflected in guidance.

The company estimates fiscal 2020 net income will be in the range of \$3.20 to \$3.40 per diluted share, compared to adjusted net income of \$3.67 per diluted share (non-GAAP) for fiscal 2019. This guidance is based on comparable sales in the range of flat to a low single digit increase with comparable sales accelerating in the second half of the year as the growth initiatives are rolled out. The company estimates capital expenditures of approximately \$160 to \$170 million.

### ***Q1 Fiscal 2020 Guidance***

For the first quarter of fiscal 2020, the company expects net income in the range of \$0.30 to \$0.45 per diluted share, compared to adjusted net income of \$0.92 per diluted share (non-GAAP) in the first quarter of fiscal 2019. This guidance assumes a decrease in comparable sales in the low to mid-single digit range, which includes the estimated impact of supply chain disruption due to the coronavirus.

|   | Q1              |                     | Full Year       |                     |
|---|-----------------|---------------------|-----------------|---------------------|
|   | 2020 Guidance   | 2019 <sup>(1)</sup> | 2020 Guidance   | 2019 <sup>(1)</sup> |
| Earnings per diluted share - adjusted basis | \$0.30 - \$0.45 | \$0.92              | \$3.20 - \$3.40 | \$3.67              |

(1) Non-GAAP detailed reconciliation provided below.



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## Conference Call/Webcast

The company will host a conference call today at 4:15 p.m. to discuss the financial results for the fourth quarter of fiscal 2019 and provide commentary on the outlook for fiscal 2020. A webcast of the conference call is available through the Investor Relations section of the company's website <http://www.biglots.com>. An archive of the call will be available through the Investor Relations section of the company's website after 7:30 p.m. today and will remain available through midnight on Thursday, March 12, 2020. A replay of this call will also be available beginning today at 7:30 p.m. through March 12 by dialing 1.877.660.6853 (Toll Free) or 1.201.612.7415 (Toll) and entering Replay Conference ID 13698571. All times are Eastern Time.

Headquartered in Columbus, Ohio, Big Lots, Inc. (NYSE: BIG) is a discount retailer operating 1,402 BIG LOTS stores in 47 states with product assortments in the merchandise categories of Furniture, Seasonal, Soft Home, Food, Consumables, Hard Home, and Electronics, Toys & Accessories. The company's mission is to help people Live BIG and Save Lots. The company strives to be the BIG difference for a better life by delivering unmatched value to customers through surprise and delight, being a "best places to work" culture for associates, rewarding shareholders with consistent growth and top tier returns, and doing good in communities as the company does well. For more information about the company, visit [www.biglots.com](http://www.biglots.com).

## Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this release are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and such statements are intended to qualify for the protection of the safe harbor provided by the Act. The words "anticipate," "estimate," "expect," "objective," "goal," "project," "intend," "plan," "believe," "will," "should," "may," "target," "forecast," "guidance," "outlook" and similar expressions generally identify forward-looking statements. Similarly, descriptions of objectives, strategies, plans, goals or targets are also forward-looking statements. Forward-looking statements relate to the expectations of management as to future occurrences and trends, including statements expressing optimism or pessimism about future operating results or events and projected sales, earnings, capital expenditures and business strategy. Forward-looking statements are based upon a number of assumptions concerning future conditions that may ultimately prove to be inaccurate. Forward-looking statements are and will be based upon management's then-current views and assumptions regarding future events and operating performance and are applicable only as of the dates of such statements. Although the company believes the expectations expressed in forward-looking statements are based on reasonable assumptions within the bounds of knowledge, forward-looking statements, by their nature, involve risks, uncertainties and other factors, any one or a combination of which could materially affect business, financial condition, results of operations or liquidity.

Forward-looking statements that the company makes herein and in other reports and releases are not guarantees of future performance and actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including, but not limited to, current economic and credit conditions, the cost of goods, the inability to successfully execute strategic initiatives, competitive pressures, economic pressures on customers and the company, the availability of brand name closeout merchandise, trade restrictions, freight costs, the risks discussed in the Risk Factors section of the company's most recent Annual Report on Form 10-K, and other factors discussed from time to time in other filings with the SEC, including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. This release should be read in conjunction with such filings, and you should consider all of these risks, uncertainties and other factors carefully in evaluating forward-looking statements.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date thereof. The company undertakes no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures the company makes on related subjects in public announcements and SEC filings.



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**BIG LOTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands)

|   | <b>FEBRUARY 1<br/>2020</b> | <b>FEBRUARY 2<br/>2019</b> |
|---|----------------------------|----------------------------|
|   | (Unaudited)                | (Unaudited)                |
| <b>ASSETS</b>                                 |                            |                            |
| <b>Current assets:</b>                        |                            |                            |
| Cash and cash equivalents                     | \$52,721                   | \$46,034                   |
| Inventories                                   | 921,266                    | 969,561                    |
| Other current assets                          | 89,962                     | 112,408                    |
| <b>Total current assets</b>                   | <b>1,063,949</b>           | <b>1,128,003</b>           |
| <b>Operating lease right-of-use assets</b>    | <b>1,202,252</b>           | <b>0</b>                   |
| <b>Property and equipment - net</b>           | <b>849,147</b>             | <b>822,338</b>             |
| <b>Deferred income taxes</b>                  | <b>4,762</b>               | <b>8,633</b>               |
| <b>Other assets</b>                           | <b>69,171</b>              | <b>64,373</b>              |
|   | <b>\$3,189,281</b>         | <b>\$2,023,347</b>         |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                            |                            |
| <b>Current liabilities:</b>                   |                            |                            |
| Accounts payable                              | \$378,241                  | \$396,903                  |
| Current operating lease liabilities           | 212,144                    | 0                          |
| Property, payroll and other taxes             | 82,109                     | 75,317                     |
| Accrued operating expenses                    | 118,973                    | 99,422                     |
| Insurance reserves                            | 36,131                     | 38,883                     |
| Accrued salaries and wages                    | 39,292                     | 26,798                     |
| Income taxes payable                          | 3,930                      | 1,237                      |
| <b>Total current liabilities</b>              | <b>870,820</b>             | <b>638,560</b>             |
| <b>Long-term debt</b>                         | <b>279,464</b>             | <b>374,100</b>             |
| <b>Noncurrent operating lease liabilities</b> | <b>1,035,377</b>           | <b>0</b>                   |
| <b>Deferred income taxes</b>                  | <b>48,610</b>              | <b>0</b>                   |
| <b>Deferred rent</b>                          | <b>0</b>                   | <b>60,700</b>              |
| <b>Insurance reserves</b>                     | <b>57,567</b>              | <b>54,507</b>              |
| <b>Unrecognized tax benefits</b>              | <b>10,722</b>              | <b>14,189</b>              |
| <b>Synthetic lease obligation</b>             | <b>0</b>                   | <b>144,477</b>             |
| <b>Other liabilities</b>                      | <b>41,257</b>              | <b>43,773</b>              |
| <b>Shareholders' equity</b>                   | <b>845,464</b>             | <b>693,041</b>             |
|   | <b>\$3,189,281</b>         | <b>\$2,023,347</b>         |

**BIG LOTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

|   | 13 WEEKS ENDED   |       | 13 WEEKS ENDED   |       |
|---|------------------|-------|------------------|-------|
|   | FEBRUARY 1, 2020 |       | FEBRUARY 2, 2019 |       |
|   | %                |       | %                |       |
|   | (Unaudited)      |       | (Unaudited)      |       |
| <b>Net sales</b>                                  | \$1,606,982      | 100.0 | \$1,598,551      | 100.0 |
| <b>Gross margin</b>                               | 634,019          | 39.5  | 659,344          | 41.2  |
| <b>Selling and administrative expenses</b>        | 471,064          | 29.3  | 476,893          | 29.8  |
| <b>Depreciation expense</b>                       | 37,409           | 2.3   | 34,034           | 2.1   |
| <b>Operating profit</b>                           | 125,546          | 7.8   | 148,417          | 9.3   |
| <b>Interest expense</b>                           | (3,170)          | (0.2) | (3,217)          | (0.2) |
| <b>Other income (expense)</b>                     | (250)            | (0.0) | (1,274)          | (0.1) |
| <b>Income before income taxes</b>                 | 122,126          | 7.6   | 143,926          | 9.0   |
| <b>Income tax expense</b>                         | 28,362           | 1.8   | 35,879           | 2.2   |
| <b>Net income</b>                                 | \$93,764         | 5.8   | \$108,047        | 6.8   |
| <b>Earnings per common share</b>                  |                  |       |                  |       |
| <b>Basic</b>                                      | \$2.40           |       | \$2.70           |       |
| <b>Diluted</b>                                    | \$2.39           |       | \$2.68           |       |
| <b>Weighted average common shares outstanding</b> |                  |       |                  |       |
| <b>Basic</b>                                      | 39,037           |       | 40,043           |       |
| <b>Dilutive effect of share-based awards</b>      | 165              |       | 318              |       |
| <b>Diluted</b>                                    | 39,202           |       | 40,361           |       |
| <b>Cash dividends declared per common share</b>   | \$0.30           |       | \$0.30           |       |

**BIG LOTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

|   | 52 WEEKS ENDED   |       | 52 WEEKS ENDED   |       |
|---|------------------|-------|------------------|-------|
|   | FEBRUARY 1, 2020 |       | FEBRUARY 2, 2019 |       |
|   | %                |       | %                |       |
|   | (Unaudited)      |       | (Unaudited)      |       |
| <b>Net sales</b>                                  | \$5,323,180      | 100.0 | \$5,238,105      | 100.0 |
| <b>Gross margin</b>                               | 2,114,682        | 39.7  | 2,121,895        | 40.5  |
| <b>Selling and administrative expenses</b>        | 1,823,409        | 34.3  | 1,778,416        | 34.0  |
| <b>Depreciation expense</b>                       | 134,981          | 2.5   | 124,970          | 2.4   |
| <b>Gain on sale of distribution center</b>        | (178,534)        | (3.4) | 0                | 0.0   |
| <b>Operating profit</b>                           | 334,826          | 6.3   | 218,509          | 4.2   |
| <b>Interest expense</b>                           | (16,827)         | (0.3) | (10,338)         | (0.2) |
| <b>Other income (expense)</b>                     | (451)            | (0.0) | (558)            | (0.0) |
| <b>Income before income taxes</b>                 | 317,548          | 6.0   | 207,613          | 4.0   |
| <b>Income tax expense</b>                         | 75,084           | 1.4   | 50,719           | 1.0   |
| <b>Net income</b>                                 | \$242,464        | 4.6   | \$156,894        | 3.0   |
| <b>Earnings per common share</b>                  |                  |       |                  |       |
| <b>Basic</b>                                      | \$6.18           |       | \$3.84           |       |
| <b>Diluted</b>                                    | \$6.16           |       | \$3.83           |       |
| <b>Weighted average common shares outstanding</b> |                  |       |                  |       |
| <b>Basic</b>                                      | 39,244           |       | 40,809           |       |
| <b>Dilutive effect of share-based awards</b>      | 107              |       | 153              |       |
| <b>Diluted</b>                                    | 39,351           |       | 40,962           |       |
| <b>Cash dividends declared per common share</b>   | \$1.20           |       | \$1.20           |       |

**BIG LOTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

|  | <u>13 WEEKS ENDED</u>   | <u>13 WEEKS ENDED</u>   |
|--|-------------------------|-------------------------|
|  | <u>FEBRUARY 1, 2020</u> | <u>FEBRUARY 2, 2019</u> |
|  | (Unaudited)             | (Unaudited)             |
| <b>Net cash provided by operating activities</b> | \$258,422               | \$193,640               |
| <b>Net cash used in investing activities</b>     | (33,249)                | (95,440)                |
| <b>Net cash used in financing activities</b>     | <u>(234,246)</u>        | <u>(114,104)</u>        |
| <b>Decrease in cash and cash equivalents</b>     | (9,073)                 | (15,904)                |
| <b>Cash and cash equivalents:</b>                |                         |                         |
| <b>Beginning of period</b>                       | <u>61,794</u>           | <u>61,938</u>           |
| <b>End of period</b>                             | <u>\$52,721</u>         | <u>\$46,034</u>         |



**BIG LOTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

|  | <b>52 WEEKS ENDED</b>   | <b>52 WEEKS ENDED</b>   |
|--|-------------------------|-------------------------|
|  | <b>FEBRUARY 1, 2020</b> | <b>FEBRUARY 2, 2019</b> |
|  | (Unaudited)             | (Unaudited)             |
| <b>Net cash provided by operating activities</b>           | \$338,970               | \$234,060               |
| <b>Net cash used in investing activities</b>               | (74,480)                | (376,473)               |
| <b>Net cash (used in) provided by financing activities</b> | (257,803)               | 137,271                 |
| <b>Increase (decrease) in cash and cash equivalents</b>    | 6,687                   | (5,142)                 |
| <b>Cash and cash equivalents:</b>                          |                         |                         |
| <b>Beginning of period</b>                                 | 46,034                  | 51,176                  |
| <b>End of period</b>                                       | \$52,721                | \$46,034                |

**BIG LOTS, INC. AND SUBSIDIARIES**  
**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES**  
(In thousands, except per share data)  
(Unaudited)

The following tables reconcile: gross margin, gross margin rate, selling and administrative expenses, selling and administrative expense rate, gain on sale of distribution center, gain on sale of distribution center rate, operating profit, operating profit rate, income tax expense, effective income tax rate, net income, and diluted earnings per share for the full year 2019, the full year 2018, and the first quarter of 2019 (GAAP financial measures) to adjusted gross margin, adjusted gross margin rate, adjusted selling and administrative expenses, adjusted selling and administrative expense rate, adjusted gain on sale of distribution center, adjusted gain on sale of distribution center rate, adjusted operating profit, adjusted operating profit rate, adjusted income tax expense, adjusted effective income tax rate, adjusted net income, and adjusted diluted earnings per share (non-GAAP financial measures).

Full Year 2019 - Fifty-two weeks ended February 1, 2020

|  | As Reported  | Impact to exclude<br>department exit<br>inventory<br>impairment | Impact to exclude<br>transformational<br>restructuring costs | Adjustment to<br>exclude legal<br>settlement loss<br>contingencies | Adjustment to<br>exclude gain on<br>sale of distribution<br>center | As Adjusted<br>(non-GAAP) |
|--|--------------|---|--|--|--|---------------------------|
| Gross margin                             | \$ 2,114,682 | \$ 6,050  | \$ -   | \$ -   | \$ -   | \$ 2,120,732              |
| Gross margin rate                        | 39.7%        | 0.1%  | -  | -  | -  | 39.8%                     |
| Selling and administrative expenses      | 1,823,409    | -   | (38,338)   | (7,250)  | -  | 1,777,821                 |
| Selling and administrative expense rate  | 34.3%        | -   | (0.7%)   | (0.1%)   | -  | 33.4%                     |
| Gain on sale of distribution center      | (178,534)    | -   | -  | -  | 178,534  | -                         |
| Gain on sale of distribution center rate | (3.4%)       | -   | -  | -  | 3.4%   | -                         |
| Operating profit                         | 334,826      | 6,050   | 38,338   | 7,250  | (178,534)  | 207,930                   |
| Operating profit rate                    | 6.3%         | 0.1%  | 0.7%   | 0.1%   | (3.4%)   | 3.9%                      |
| Income tax expense                       | 75,084       | 1,553   | 9,836  | 1,696  | (41,930)   | 46,239                    |
| Effective income tax rate                | 23.6%        | 0.0%  | 0.1%   | (0.0%)   | 0.6%   | 24.3%                     |
| Net income                               | 242,464      | 4,497   | 28,502   | 5,554  | (136,604)  | 144,413                   |
| Diluted earnings per share               | \$ 6.16      | \$ 0.11   | \$ 0.72  | \$ 0.14  | \$ (3.47)  | \$ 3.67                   |

The above adjusted gross margin, adjusted gross margin rate, adjusted selling and administrative expenses, adjusted selling and administrative expense rate, adjusted gain on sale of distribution center, adjusted gain on sale of distribution center rate, adjusted operating profit, adjusted operating profit rate, adjusted income tax expense, adjusted effective income tax rate, adjusted net income, and adjusted diluted earnings per share are "non-GAAP financial measures" as that term is defined by Rule 101 of Regulation G (17 CFR Part 244) and Item 10 of Regulation S-K (17 CFR Part 229). These non-GAAP financial measures exclude from the most directly comparable financial measures calculated and presented in accordance with accounting principles generally accepted in the United States of America ("GAAP") (1) an inventory impairment amount of \$6,050 (\$4,497, net of tax) as a result of a merchandise department exit; (2) the costs associated with a transformational restructuring initiative of \$38,338 (\$28,502, net of tax); (3) a pretax charge related to estimated legal settlement of employee class actions of \$7,250 (\$5,554, net of tax); and (4) a gain resulting from the sale of our Rancho Cucamonga, California distribution center of \$178,534 (\$136,604, net of tax).

Full Year 2018 - Fifty-two weeks ended February 2, 2019

|   | As Reported  | Adjustment to<br>exclude CEO<br>retirement costs | Adjustment to<br>exclude<br>shareholder<br>litigation matter | As Adjusted<br>(non-GAAP) |
|---|--------------|--|--|---------------------------|
| Selling and administrative expenses     | \$ 1,778,416 | \$ (7,018)                                       | \$ (3,500)   | \$ 1,767,898              |
| Selling and administrative expense rate | 34.0%        | (0.1%)   | (0.1%)   | 33.8%                     |
| Operating profit                        | 218,509      | 7,018  | 3,500  | 229,027                   |
| Operating profit rate                   | 4.2%         | 0.1%   | 0.1%   | 4.4%                      |
| Income tax expense                      | 50,719       | 895  | 879  | 52,493                    |
| Effective income tax rate               | 24.4%        | (0.4%)   | (0.0%)   | 24.1%                     |
| Net income                              | 156,894      | 6,123  | 2,621  | 165,638                   |
| Diluted earnings per share              | \$ 3.83      | \$ 0.15  | \$ 0.06  | \$ 4.04                   |

The above adjusted selling and administrative expenses, adjusted selling and administrative expense rate, adjusted operating profit, adjusted operating profit rate, adjusted income tax expense, adjusted effective income tax rate, adjusted net income, and adjusted diluted earnings per share are “non-GAAP financial measures” as that term is defined by Rule 101 of Regulation G (17 CFR Part 244) and Item 10 of Regulation S-K (17 CFR Part 229). These non-GAAP financial measures exclude from the most directly comparable financial measures calculated and presented in accordance with GAAP (1) the costs associated with the retirement of our former CEO of \$7,018 (\$6,123, net of tax); and (2) a pretax charge related to the settlement in principle of shareholder litigation matters of \$3,500 (\$2,621, net of tax).

First quarter of 2019 - Thirteen weeks ended May 4, 2019

|   | As Reported | Impact to exclude<br>department exit<br>inventory<br>impairment | Impact to exclude<br>transformational<br>restructuring costs | Adjustment to<br>exclude legal<br>settlement loss<br>contingencies | As Adjusted<br>(non-GAAP) |
|---|-------------|---|--|--|---------------------------|
| Gross margin                            | \$ 519,047  | \$ 6,050  | \$ -   | \$ -   | \$ 525,097                |
| Gross margin rate                       | 40.1%       | 0.5%  | -  | -  | 40.5%                     |
| Selling and administrative expenses     | 460,605     | -   | (15,333)   | (7,250)  | 438,022                   |
| Selling and administrative expense rate | 35.5%       | -   | (1.2%)   | (0.6%)   | 33.8%                     |
| Operating profit                        | 25,645      | 6,050   | 15,333   | 7,250  | 54,278                    |
| Operating profit rate                   | 2.0%        | 0.5%  | 1.2%   | 0.6%   | 4.2%                      |
| Income tax expense                      | 7,282       | 1,553   | 3,935  | 1,696  | 14,466                    |
| Effective income tax rate               | 31.9%       | (0.8%)  | (1.6%)   | (1.4%)   | 28.1%                     |
| Net income                              | 15,540      | 4,497   | 11,398   | 5,554  | 36,989                    |
| Diluted earnings per share              | \$ 0.39     | \$ 0.11   | \$ 0.28  | \$ 0.14  | \$ 0.92                   |

The above adjusted gross margin, adjusted gross margin rate, selling and administrative expenses, adjusted selling and administrative expense rate, adjusted operating profit, adjusted operating profit rate, adjusted income tax expense, adjusted effective income tax rate, adjusted net income, and adjusted diluted earnings per share are “non-GAAP financial measures” as that term is defined by Rule 101 of Regulation G (17 CFR Part 244) and Item 10 of Regulation S-K (17 CFR Part 229). These non-GAAP financial measures exclude from the most directly comparable financial measures calculated and presented in accordance with GAAP (1) an inventory impairment amount of \$6,050 (\$4,497, net of tax) as a result of a merchandise department exit; (2) the costs associated with a transformational restructuring initiative of \$15,333 (\$11,398, net of tax); and (3) a pretax charge related to estimated legal settlement of employee class actions of \$7,250 (\$5,554, net of tax).

Our management believes that the disclosure of these non-GAAP financial measures provides useful information to investors because the non-GAAP financial measures present an alternative and more relevant method for measuring our operating performance, excluding special items included in the most directly comparable GAAP financial measures, that management believes is more indicative of our on-going operating results and financial condition. Our management uses these non-GAAP financial measures, along with the most directly comparable GAAP financial measures, in evaluating our operating performance.