



Opportunity Equity Research

Big 5 Sporting Goods (BGFV)

Initiation Report (Date Published 12/01/2017)

Big 5 Sporting Goods (BGFV) Stats

\$7.55 Current Price

\$161.8 Million Market Cap

52 Week Range \$ 6.10 -\$ 20.35

Shares Outstanding: 21.4 mil

Enterprise Value: \$207.6 million

Debt: \$49 million

Institutional Holdings: 116.1% of float

Insider Holdings: 5.6%

Short Interest: 11.4 mil/56% of float

100 Day Avg Volume: 983k

Condensed Income Statement

FY (Dec)	Q1	Q2	Q3	Q4	Yr
EPS 16a	-\$0.02a	\$0.12a	\$0.41a	\$0.38a	\$0.80a
EPS 17e	\$0.24a	\$0.13a	\$0.28a	\$0.23e	\$0.87e
EPS 18e	\$0.09e	\$0.13e	\$0.33e	\$0.26e	\$0.81e
Rev16a	\$234.5a	\$241.4a	\$279a	\$266.3a	\$1.0Ba
Rev17e	\$252.6a	\$243.7a	\$270.5a	\$262e	\$1.0Be
Rev18e	\$248e	\$248.5e	\$279e	\$268.5e	\$1.0Be

EV/Revenue: 2016a: .21 2017e: .21 2018e: .21

PE: 2016: 9.4a 2017: 8.7e 2018: 9.3e

Stock Chart-Short Term



Stock Chart-Long Term



Company Description: Big 5 Sporting Goods owns and operates 432 sporting goods stores in twelve Western United States. They sell competitive and recreational sporting goods including athletic shoes, apparel and accessories, as well as equipment for team sports, fitness, camping, hunting, fishing, roller sports, tennis, and golf. They also sell skiing and snowboarding equipment, firearms, and ammunition. They finished this past quarter with 432 stores in operation with plans to add another 3 by year end.

Opportunity Summary: This stock has been under considerable pressure over this past year as the company begins to lap difficult same store sales comps, consumers are focusing incrementally more of their buying towards direct and online channels, and sporting goods retailing remains competitive. The current valuation combined with a huge short interest, a high current dividend, and a share buyback make this an attractive stock at these levels.

- The market has been concerned about: the competitive environment, consumers moving to online purchasing, suppliers moving to DTC, and the ramifications of the Sports Authority and Sports Chalet bankruptcies.
- This backdrop has provided solid consistent downward pressure both on BGFV and also on HIBB and DKS (two other public sporting goods stores), with huge short interest in the space and 56% of BGFV float being short at this point.
- Strong company cash flow on lowered earnings expectations combined with a reasonable amount of leverage give the management flexibility, including the ability to continue to pay some level of dividends and buyback stock.
- BGFV is currently trading at roughly 9 times estimated earnings and about .2 times EV/Revenue. Even modest results from a typically seasonally strong Q4 results could provide a nice boost to this volatile stock.

CEO Name: Steven Miller, Chairman/President/CEO

CFO Name: Barry Emerson, CFO/Treasurer

IR Contact: John Mills, ICR

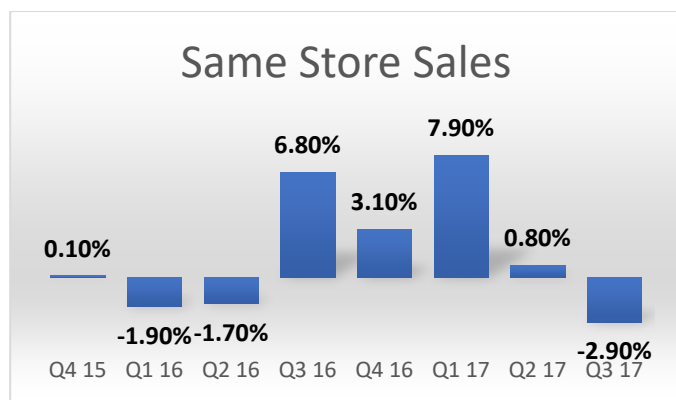
IR Number: 646-277-1254

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Company Overview/History:

Big Five Sporting Goods owns and operates 432 sporting goods retail stores in 12 Western states, with approximately 50% of their store base in California, and other locations in Nevada, Arizona, Oregon, New Mexico, Idaho, Utah, Montana, Wyoming, Colorado, Texas and Washington. Store sizes range from 8,000 to 15,000 square feet, with 11,000 being the average. In the third calendar quarter of 2016, over 200 competitor stores within their trading area were closed, as both The Sports Authority and Sports Chalet went out of business.

Although the time period prior to that was incredibly challenging as these competitors promoted aggressively in an attempt to stay in business, their closure helped BGFV immediately as they saw a large same store sales increases starting in that quarter (see below for history). Big Five management took advantage of the change in competitive dynamics with opportunistic buys and benefitted from a less promotional environment.



Both Q4 16 and Q1 17 same store sales comps also were nicely positive, as some of those customers went to Big Five for their sporting goods needs. Since then, comps have returned to a flat to low digit negative level as the company goes up against those strong numbers. Even with a -2.9% negative comp in the most recent quarter, and guidance and expectations for slightly negative comps in the upcoming quarter, Big Five has solid two-year stacked comps that indicates that they have been able to keep some of the share gain from the competitive closings. More recently, Dicks Sporting Goods has been opening new competitive locations in approximately 10% of the 200 or so closures from the

prior year. Big Five's response has been to keep their store count relatively flat, choosing to open a few new locations if the opportunity is right.

There have been a number of things that have placed "negative noise" pressure on the stock and the sporting goods retail space over this year. There continues to be a general shift to consumers moving some of their buying dollars to the internet, there is a more recent shift by some of the sporting good suppliers to attempt to get more of their sales from the Direct to Consumer channel (think Under Armour, Nike, etc.) and the entire space is lapping tough firearms and ammunition comp sales last year both post shootings in California and leading up to the Presidential election. Big Five does have some exposure to the fire-arms and ammunition space, although it represents less than ten percent of sales.

Another headwind that the management has had to deal with and will have to going forward are changes in minimum wage rates, particularly in California, where minimum wage will increase in small increments for the upcoming years. It will put some pressure on SG&A that the team will simply need to adjust to over time.

Looking back at last fall, as the company saw some of the benefits of the competitive closures come through in their results, they upped the dividend to \$.15/Q or \$.60/year now (trading at roughly a 10% yield) and have recently begun a stock buyback. They initially used excess cash flow to pay down debt towards the end of last year, but since have returned that total debt number back to the range where they historically have been comfortable with it (ending this past quarter at \$49 million total on their revolver).

This is an incredibly volatile small cap stock which has historically had multiple strong runs followed by painful downturns (see valuation section that follows). The management team has been through these volatile times before and in our opinion has the shareholders' best interests in mind. They have kept a stable balance sheet, have stopped adding to their store base "just to show unit growth" and are being particular about where they bring out new units. They have also shown

a desire and historical ability to return excess cash to shareholders through a strong level of dividends and now more recently through a strengthened stock buyback program.

Management Profile:

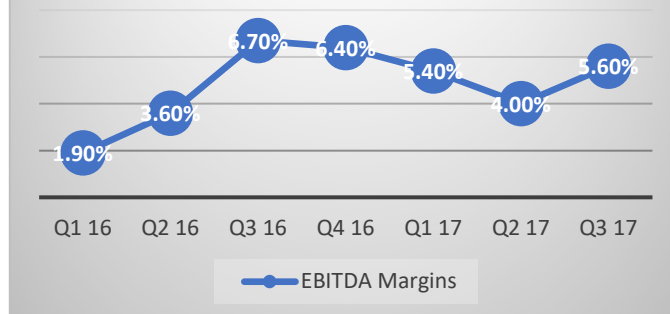
The management team is led by Steven Miller, Chairman, President and CEO, who has been at the helm and at Big Five since June of 2002. His CFO and Treasurer is Barry Emerson, another longstanding team member who has been with Big Five since fall of 2005. The VP of Operations, the General Counsel and the VP of Human Operations all have been with the company for over ten years, so you have a team with some history and stability to it. As an investor considers this stock and specifically the volatility it has shown over the years, it is important to note that the management has been through the volatility before, has seen both the good and bad times, and can manage through the ups and downs.

About half of the company's board has also been with the company showing ten years plus in tenure, with three newer adds coming in the past 2-4 years. One more recent add is Mr. Van Honeycutt, notable in that he was a trimmer of his own stock holdings when the stock was in the mid to high teens, but has recently shown belief in the company through some insider purchases.

Growth Opportunities/Margin Profile:

Big Five has the look and feel of a typical brick and mortar retailer with EBITDA margins in the low to mid-single digits (see below). Recent quarters have benefitted from increased promotional buys from their supplier base as that base responded to the competitive bankruptcies and focused more effort (and gave better deals) to their key customers.

EBITDA Margins



Margin leverage is definitely present in this business model, and the additional same store sales comps and boost that started in Q3 of 2016 definitely benefitted the company. The recent same store comps seems to indicate that BGFV has been able to keep some of the additional business that came about from the competitive closures, with EBITDA margins coming in above 5% for the past quarter even with slightly negative comps.

A longer-term look at the growth profile shows a topline that has been pretty stable at the \$1 billion in sales level with store count also being relatively stable for the past few years (historical income statement is a few pages in). Gross income, SG&A expense and normalized EBITDA have been consistent from 2014-2016 on a yearly basis. Looking at Net Income in those years at approximately \$25 million per year and EPS at \$.74-\$.80, it simply doesn't seem to be the same company you see depicted in the stock chart.

One piece of their business that can be volatile are the sales of firearms and ammunition. Management has described this piece as being "significantly less than 10% of sales". While not huge, they still have been lapping comps of strong sales in these categories post the Orlando nightclub shootings and the strength into the November elections. Although a small headwind still, they are almost through these difficult category comps. Worth note, although it had a negative topline impact, sales in the firearms and ammunition segment carry lower margins than company average, so there is a positive margin mix shift on this trend.

Although any quarter for a sporting goods retailer can come in choppy in either direction based on weather trends, management appears to be guiding to reasonable expectations for the upcoming quarter. The management team doesn't give long-term guidance to the street, but the upcoming quarter guidance is for same store sales to be in the negative low-single-digit range and earnings to be in the range of \$.16 to \$.28 per diluted share. This is lapping off of a stronger Q4 last year with results that included 3.1% sss comps and EPS at \$.35 adjusted. For historical perspective, the management team had guided to a range of \$.22 to \$.32 for the third quarter, and results came in at \$.28 actual. Even if they come in at the low EPS point of the Q4 guided range at \$.16 (might occur if weather is particularly challenging in the quarter), the company would still come out with EPS at approximately \$.80 for the year.

Trading at around \$7.50/share with the street estimating EPS of around \$.80 next year (and even if it comes short on that, and even if they take their dividend down and use excess cash for share repurchases at this level), it doesn't take any massive topline growth or incredible bottom line results to make this stock work from these valuation levels.

Competitive Environment/Industry Thoughts:

There has been a tremendous amount of noise surrounding this space and brick and mortar retail in general. Perception pressure comes from the ideas that 1) all sales will go online, 2) all major suppliers will shift to DTC channels, 3) all brick and mortar sporting goods retailers will "over promote" each other out of business and 4) industry leverage will lead to more bankruptcies. It is interesting to note that in the 2008/2009 period when some of the same types of concerns were mounted, investors also had the chance to pick up shares in BGFV at similar types of valuation multiples.

Although the sporting goods market is competitive, arguably they seem to be getting better with promotions and don't seem so pressed to drive each other out of business (the fact that Dicks Sporting Goods has decided to only open new competitive locations in about 10% of the 200 or so store closings in

BGFV's markets is promising.) The management team will certainly have to continue to address pricing pressure from internet retailers and will have to work with their own suppliers (and give their support to the suppliers that continue to value a brick and mortar presence).

The management team has mentioned that their own e-commerce business is growing nicely, but they are clearly focused on profitability in that channel. They don't anticipate this channel to be meaningful to 2017 results, and don't want it simply to be a channel where they replace in-store purchases with lower margin online sales. Brick and mortar Sporting Goods retailers in general are able to add value to a customer by showing them different options for their sporting needs and giving them the convenience of an immediate buy (including trying on shoes, swinging and getting a feel for a particular golf club or fishing equipment, etc.).

A look at BGFV's balance sheet on page 9 also gives one a sense of a management team that has historically been very comfortable with a modest level of debt, but has kept that level under a certain manageable threshold for years now. Retail will always be competitive. Under that competitive backdrop, this management team has shown an ability to generate significant cash flow that they have a history of returning to shareholders.

Ownership Profile:

Big 5's ownership profile is incredibly interesting. Insiders are listed as owning 5.6% of the stock, with institutional holders owning 116% of float. Blackrock comes up as owning over 20% distributed among a large number of their funds. Dimensional Fund Advisors is in at 8.7%, Vanguard at 5.6%, LSV Asset Management at 5.2% and Denver Investment Advisors wrapping up the top five at 5.1%. The top ten holders as of last reporting date hold approximately 64% of the shares, with the top 20 holders owning over 86% (and again, insiders also own 5.6%).

Given recent stock action in the past quarter, it wouldn't be surprising to see a couple of these investors at much smaller positions now or having moved out of the stock altogether. This is an incredibly concentrated

ownership position for an underfollowed small cap. It provides both immediate short-term risk if any of these institutions use the end of year for tax loss selling (some of what we might be seeing in current stock action), but provides a buying opportunity for adds to positions or for new owners who are patient and can weather short term volatility.

To drive the point home, current short interest is over 11 million shares, or over 56% of the float. This has been on a steady increase since November of last year (where roughly 3.4 million shares were short) to over 11 million shares in July of this year. The shorts were short-term correct on their position and are sitting on nice gains, yet they can't be too comfortable with a total short position outstanding at 56% of the float.

An additional spark on the ownership section is provided by a director who had been regularly trimming his holdings when the stock was trading in the mid to high teens. Mr. Van Honeycutt recently started purchasing shares at the \$7 and change level. He has been a director of Big 5 since 2013, and his purchases are both meaningful on an absolute basis (he bought 48,000 shares) and also as an important directional change and sign of confidence by a board member post the stock's drop this year.

Over the past few years, the company focused its excess cash flow on an increasing dividend rate, currently at \$.60/year. During this past quarter, post the large downward move in the stock, the company has significantly increased their stock buyback program and activity. Year to date, the company has repurchased 677,109 shares at around \$10.20/share average price. 666,609 of those were purchased in the third quarter alone (activity has increased substantially). As of the beginning of this quarter, they have \$16.5 million left on this \$25 million share repurchase program. Using that firepower at these stock levels could bring in over 2.5 million shares of stock.

All of this points to an extremely unusual ownership position. Very concentrated large institutional positions, a massive short position, a time of the year for tax loss selling, recent insider buying (smart, long-term money), and a large company share buyback

where they are being aggressive in activity is a really interesting starting point for an investment.

Risk Profile:

Big 5 has a number of risks that mirror all traditional retailers in this environment. Competition has historically been sharp in this space, and competitors that used too much leverage on their balance sheets in the past have been driven out of business. There is constant pressure from the move to online purchasing (the "Amazon Effect") as well as the move by a number of their suppliers to try to drive incremental sales by going directly to their end consumers, bypassing traditional channels.

Weather is a significant short-term risk to any quarter's results and can either help or harm them based on geographical results. The management team needs to continue to monitor inventory levels and quality (the key large asset on their balance sheet). The management team for Big 5 has been in place for a long time and has seen the ups and downs of this market and has lived through volatility before.

A few other specific risks to Big 5 stock include the interesting ownership profile. A huge short position (sitting on a profit at this point), concentrated large holders, insider stock purchases and company share buybacks all will add to the volatility over time in this small cap stock. Although there is decent trading volume in this stock for a company this size, investors should be aware of the general illiquidity of small caps and chose position size and diversification accordingly.

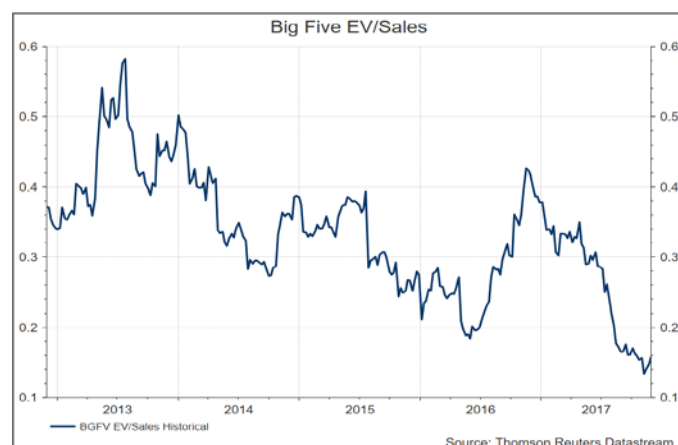
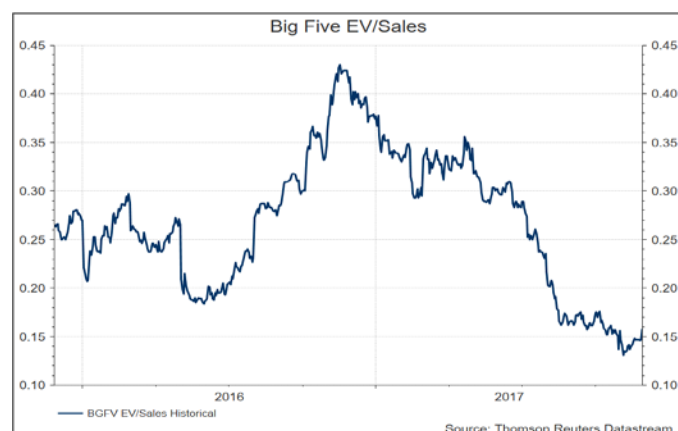
Valuation:

This is where the stock gets fun. In addition to trading at multi-year lows in terms of EV/Sales, EV/EBITDA and PE, the main other public competitors in the sporting goods retail space have charts that are very similar. The table below shows that the group is trading at 8-12 times PE right now and 9-14 times the out year PE, EV/TTM EBITDAs are all at 4.8ish or below, and two of them even sport a yield of 2.2%ish for Dicks and 7.8%ish currently for Big 5. Among other things, the stock action this year for the group (and the presence of the huge short position), puts in to real question what

investors believe are the future earnings power of the industry. Investors expect earnings and revenue to be under pressure, but given the recent stock action, how much of that is in the stock and when is it cheap enough to jump in?

Company	Cap	EV	P/E	P/E est	EV/TTM EBITDA	Yld
Big 5	162	208	7.7	8.7	3.73	7.8
Hibbett	410	352	12	13.5	4.24	0
Dicks	3.1B	3.6B	10.9	9.9	4.79	2.2

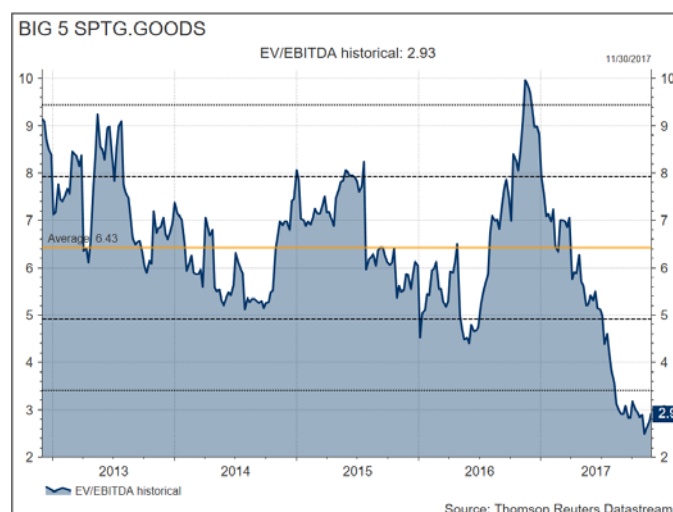
Street estimates are calling for \$.23 EPS in this upcoming Q4 (vs. \$.38 actual EPS Q4 last year). Last quarter, management guided to a range of \$.16-\$.28 in EPS for the upcoming quarter, with comp guide for negative low single digits. Expectations have been taken down, and the stock's valuation is simply incredibly compelling. More views on current valuation are below.



Both of the above charts highlight BGFV's EV/Sales ratios in the past few years. Looking back to 2013, Big 5

traded over .5 times EV/Sales and recently traded at over .4 times at the end of 2016. The second chart highlights how some investors may have "thrown in the towel" (and the shorts pressed their bets?) into the summer months. The stock now trades at .21 EV/Sales, a new low level for the stock and an indication of investor's fear of competition in the space, competition from online distribution and competition from its very own suppliers. Does the .21 level indicate we are at or very near a bottom in this fear level, and can simply decent Q4 results provide the impetus to get the stock moving to much higher levels in the near-term?

Below is a look at Big 5 valuation on an EV/EBITDA level over the past five years and over this past year. It basically tells the exact same story as the above charts, but using EBITDA as the basis. The enterprise value is just under three times EBITDA, a massive discount to historical averages. The chart below also highlights the historical volatility of the stock, as the EBITDA number has not changed that dramatically, but the multiple that investors have placed on this stock has. Big 5 is trading at new lows vs. EBITDA. At some point of valuation investors have to wonder if this becomes a management buyout candidate or some type of VC play. A simple short-squeeze on decent fourth quarter results could also be meaningful.

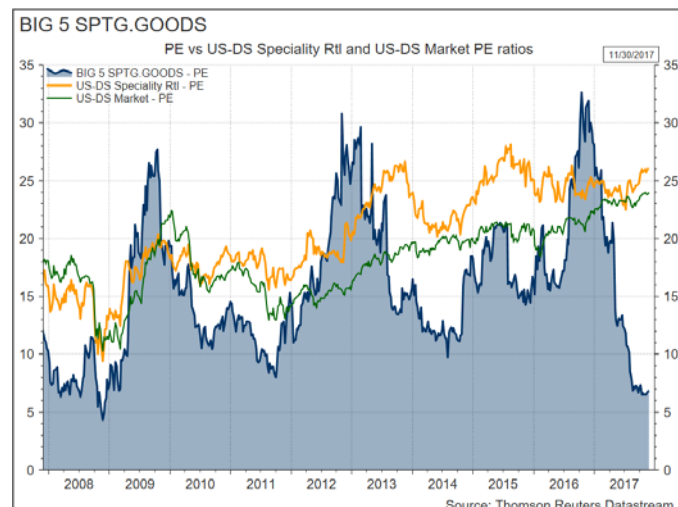


Below is a short-term look at the EV/EBITDA measure, the stock has been under consistent pressure during the

year, and has been basing at these levels for the past three months.

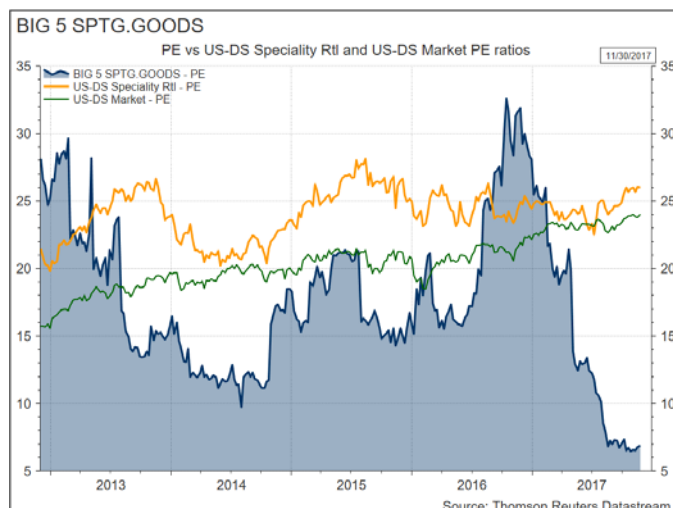


A different way to look at valuation for Big Five is in the following charts showing historical PE ratio for itself and for the specialty retailing group and the market. Although specialty retail has been volatile, this highlights Big Five's even higher volatility historically, and shows that Big Five is reaching its historical low PE that it bounced off of at the end of 2008 under intense retail and consumer spending concerns at the time.

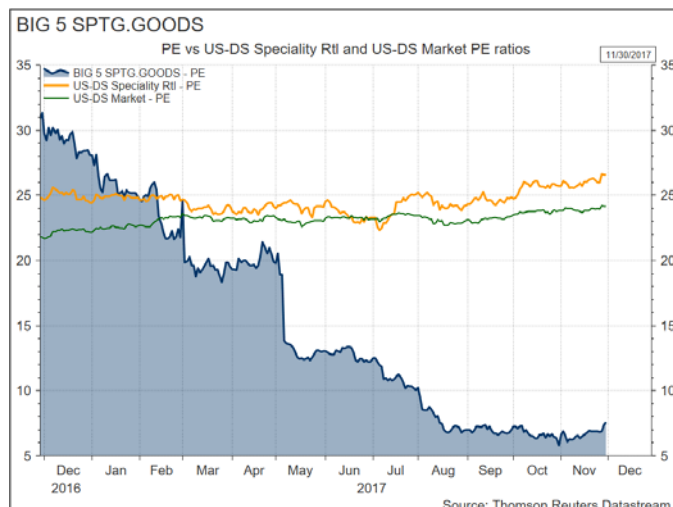


Below, a shorter-term chart showing PE vs. the group for the past five years. Again, volatility is huge, it can be

your friend if timed correctly, and we are trading at five-year lows and near ten-year lows on the PE measure.



Just one more look, consistent pressure since last fall, estimates have been taken down, valuation is very compelling vs. historical ranges, short interest ratio is incredibly high, some institutional investors are likely to be "tax loss selling" (a short-term pressure that will seasonally disappear soon), all a solid backdrop for an investment in a volatile stock and space. Opportunity Knocks...



www.big5sportinggoods.com Company webpage/more information on the company/historical financials/links to IR/etc.

Historical Income Statement:

BGFV Income Statement (in millions)										
	2014	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Sales	977.9	1029.1	234.5	241.4	279	266.3	1021.2	252.6	243.7	270.5
Cost of Goods Sold incl. D&A	664.4	704.1	163.6	165.2	189.1	178.9	696.8	169	164.4	182.9
Gross Income	313.4	325	71	76.3	89.9	87.3	324.5	83.6	79.3	87.5
SG&A Expense	287.1	298.2	71.2	72.3	76.3	75.2	295	74.6	74.2	77.4
EBIT (Operating Income)	25.2	26.5	-0.3	4	13.6	12.2	29.5	9	5.1	10.2
Interest Expense	-1.7	-1.8	-0.5	-0.4	-0.3	-0.3	-1.6	-0.3	-0.4	-0.4
Pretax Income	23.5	24.7	-0.7	3.6	13.3	11.8	27.9	8.7	4.7	9.7
Income Taxes	8.6	9.5	0.4	1.4	5.1	4.1	11.1	3.4	2	3.8
Net Income	23.5	24.7	-1.1	2.1	8.2	7.7	27.9	5.3	2.8	6
EPS (diluted) per share	0.74	0.77	-0.02	0.12	0.41	0.38	0.8	0.24	0.13	0.28
Normalized EBITDA	47.9	48.1	4.4	8.6	18.6	17	48.6	13.7	9.9	15

A number of things stand out when looking at Big 5's historical income statement. Topline growth has been minimal over the past few years, as the company has kept total store count relatively stable during the turmoil caused by industry competitiveness and the bankruptcy and closure of The Sports Authority and Sports Chalet. Normalized EBITDA has also been very stable at approximately \$48 million/year (on a company with a total enterprise value of \$180 million.) Pretax income was helped substantially in 2016 as the company benefitted from the competitive closures in its markets, with EBIT moving up to \$29.5 million for the year from the \$25 level in 2014. EPS has also been relatively stable at the \$.74-\$.80 level for the past few years, and although any given quarter may be choppy due to the positive and negative effects of weather on sales, the company shows significant long-term stability from a revenue and earnings perspective in a difficult retail environment.

In a retail sector that arguably may have become "overstressed", particularly with competition from growth over the years in online sales and more recent pressure from suppliers that are pushing direct to consumer channels, it makes sense for management of Big 5 to return whatever excess cash happens to flow through in any given year to shareholders (both in the form of dividends and share buybacks). They resisted the temptation to buy more store locations during the recent competitive bankruptcies, and have kept their store count fairly stable, choosing to add a few new units when the right opportunities come up and return excess capital to shareholders.

Historical Balance Sheet:

BGFV Balance Sheet (in millions)										
	2014	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
Assets										
Cash & Short Term Investments	11.50	7.10	6.40	8.10	5.50	7.90	7.90	5.90	6.60	5.3
Account Receivable-trade, net	15.70	14.20	12.30	13.30	8.90	12.20	12.20	10.50	12.10	8.6
Total Inventory	310.10	299.40	286.40	304.50	289.80	294.30	294.30	296.50	328.70	309.3
Prepaid Expenses	9.40	12.20	12.90	14.00	9.90	10.10	10.10	9.80	11.50	11.5
Total Current Assets	357.70	332.90	318.10	340.00	314.10	324.50	324.50	322.70	359.00	334.8
Gross Property, Plant and Equipment	289.90	NF					319.30			
Net Property, Plant and Equipment	78.40	82.00	80.80	79.20	79.40	78.40	78.40	77.00	77.40	77.70
Goodwill Net	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40	4.40
Intangibles Net	2.30	2.20	2.30	2.20	2.30	2.50	2.50	2.60	2.70	2.90
Other Long Term Assets	12.80	23.40	20.80	21.60	21.70	23.70	23.70	21.90	21.60	21.60
Total Assets	455.60	445.00	426.40	447.30	421.90	433.60	433.60	428.70	465.20	441.40
Liabilities & SH Equity										
Accounts Payable	92.40	90.00	85.50	104.70	105.00	109.30	109.30	101.60	116.40	93.60
Accrued Expenses	70.40	69.50	58.60	60.00	63.80	76.90	76.90	67.00	61.80	66.00
Current Port of LT Debt/Cap Leases	1.20	1.40	1.30	1.20	1.40	1.30	1.30	1.40	1.70	1.80
Total Current Liabilities	164.00	160.90	145.50	166.00	170.20	187.50	187.50	169.90	180.00	161.40
Long-Term Debt	67.50	57.20	58.70	59.20	25.20	12.00	12.00	23.80	50.80	49.40
Other Liabilities	29.10	28.00	27.50	27.40	27.40	29.00	29.00	28.20	27.60	27.10
Total Liabilities	260.60	246.20	231.70	252.60	222.70	228.50	228.50	221.80	258.40	237.90
Common Equity	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Additional Paid In Capital	110.70	112.20	112.00	112.70	113.20	114.80	114.80	114.60	115.20	115.90
Retained Earnings	112.50	119.00	115.10	114.50	120.00	124.40	124.40	126.40	125.90	128.60
Treasury Stock-Common	-28.50	-32.60	-32.70	-32.70	-34.30	-34.40	-34.40	-34.40	-34.50	-41.30
Total Equity	195.00	198.80	194.70	194.70	199.20	205.00	205.00	206.80	206.80	203.50
Total Liabilities & SHEquity	455.60	445.00	426.40	447.30	421.90	433.60	433.60	428.70	465.20	441.40
Tangible Book Value	188.30	192.20	188.00	188.10	192.50	198.10	198.10	199.80	199.70	196.10

Big 5s balance sheet shows relative stability over the years that doesn't match the stock chart volatility at all. Total inventory over the last three years has been pretty stable at the \$300 million level, with net PP&E at just under \$80 million during those years. Total current liabilities have stayed in the \$160ish level with a temporary boost at the end of 2016 as accrued expenses increased (a trend that has reversed over the past few quarters). Total debt was at \$67.5 million at the end of 2014 and was lowered temporarily to the \$12 million level at the end of Q3 2016, only to rebound back to more normalized levels at the \$50 million mark at the end of last quarter. They recently amended their existing credit facility to extend the maturity date to 9/29/2022 with a total availability of \$140 million. The total inventory level needs to be monitored over time as does its aging and composition. Tangible book value of \$196 million compares favorably to the current enterprise value and market cap.

Historical Cash Flow Statement:

BGFV Cash Flow Statement (in millions)										
	2014	2015	2016	2016	2016	2016	2016	2017	2017	2017
	Year	Year	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3
<u>Operating Activities</u>										
Net Income/Starting Line	14.88	15.30	-1.12	2.12	8.19	7.69	16.89	5.33	2.78	5.95
Depreciation, Depletion, & Amort.	21.51	21.41	4.69	4.64	4.97	4.84	19.13	4.74	4.73	4.85
Deferred Taxes & Inv. Tax Credit	1.75	0.42	2.56	-0.71	-0.13	-2.02	-0.30	1.79	0.27	0.08
Non-cash items	3.07	2.47	0.63	0.67	0.57	0.20	2.07	0.63	0.63	0.62
Changes in Working Capital	-12.66	0.06	2.88	0.04	25.04	7.92	35.89	-13.56	-26.74	2.35
Net Operating Cash Flow	28.54	39.65	9.64	6.76	38.64	18.63	73.67	-1.08	-18.33	13.85
<u>Investing Activities</u>										
Capital Expenditures	-22.57	-24.57	-3.16	-3.65	-3.40	-3.89	-14.11	-4.37	-2.78	-4.22
Other Funds	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net Investing Cash Flow	-22.47	-24.57	-3.16	-3.65	-3.4	-3.89	-14.11	-4.37	-2.78	-4.22
<u>Financing Activities</u>										
Financin Cash Flow Items	-0.62	-0.55	-0.56	0.00	0.01	0.37	-0.18	-0.81	0.00	0.21
Cash Dividends Paid	-8.89	-8.81	-2.82	-2.71	-2.69	-3.25	-11.48	-3.39	-3.27	-3.18
Issuance/Reduction of Stock, net	-2.41	-4.03	-0.03	0.00	-1.53	0.92	-0.64	-0.04	-0.07	-6.65
Issuance/Reduction of Debt, net	7.94	-6.07	-3.74	1.30	-33.68	-10.37	-46.48	7.70	25.17	-1.29
Net Financing Cash Flow	-3.97	-19.46	-7.15	-1.41	-37.90	-12.32	-58.79	3.46	21.83	-10.91
Net Change in Cash	2.10	-4.38	-0.67	1.70	-2.67	2.42	0.78	-1.99	0.72	-1.28
Free Cash Flow	5.97	15.08	6.48	3.11	35.23	14.74	59.56	-5.45	-21.11	9.63

Big Five's historical cash flow statement shows that net income has been fairly stable on a yearly basis and increased steadily from 2014 to 2016. Operating cash flow increased dramatically in the third and fourth quarter of 2016, apparently used to pay down debt in an economic environment where weaker competitors were going bankrupt. The company bottomed recent absolute debt levels in Q4 of last year, only to steadily increase them back to prior levels using their line of credit. Capex was at the \$20 million plus level for 2014 and 2015 and was dialed back in 2016 to the \$14 million level. Management guidance for 2017 is that this will increase to the \$16-\$20 million level this year with focus on store remodeling, new stores, IT systems and their distribution center. Cash dividends have been steady, large and increasing over the past few years, with \$29.2 million distributed to shareholders in the past three years through 2016 (on a \$180 million total current enterprise value). Stock buybacks were at a much lower level in those years, with approximately \$7 million in capital used from 2014-2016, but this has recently changed with \$6.7 million being used in Q3 alone for share buybacks (with \$16.5 million left in their stock buyback program at the end of the quarter).



The chart above shows BGFV long-term stock prices. What is clear is that ups and downs in this stock are common, with the stock trading in the mid-single digits in the 08/09 time-frame and then again in 11/12. The recent downturn in the stock has brought it back to these low levels, with the stock trading now at just over 3 times EV/TTM EBITDA. Earnings and revenue expectations have come down for the stock and the group, and any stabilization in here could help this form yet another bottoming formation for the chart. The massive short interest, combined with some small but positive insider buying recently, could provide a spark for another sharp move up off these levels. Trading at less than 8 times estimated earnings, the stock has considerable upside with a dividend income stream to add to the attractiveness. Given industry weakness, some may be anticipating a lowered dividend (now sporting about a 10 % yield). Even if it is cut, the stock is still attractive at these levels.

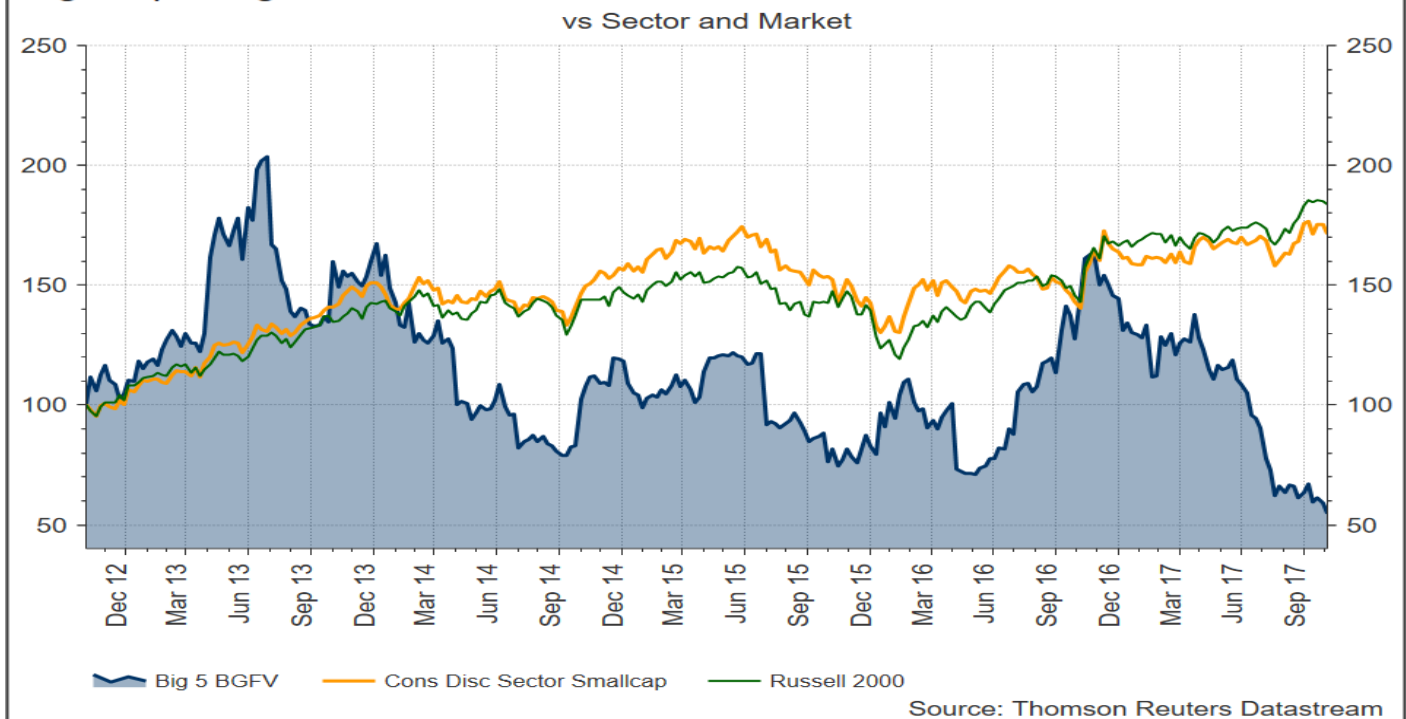


Big Five Sporting Goods



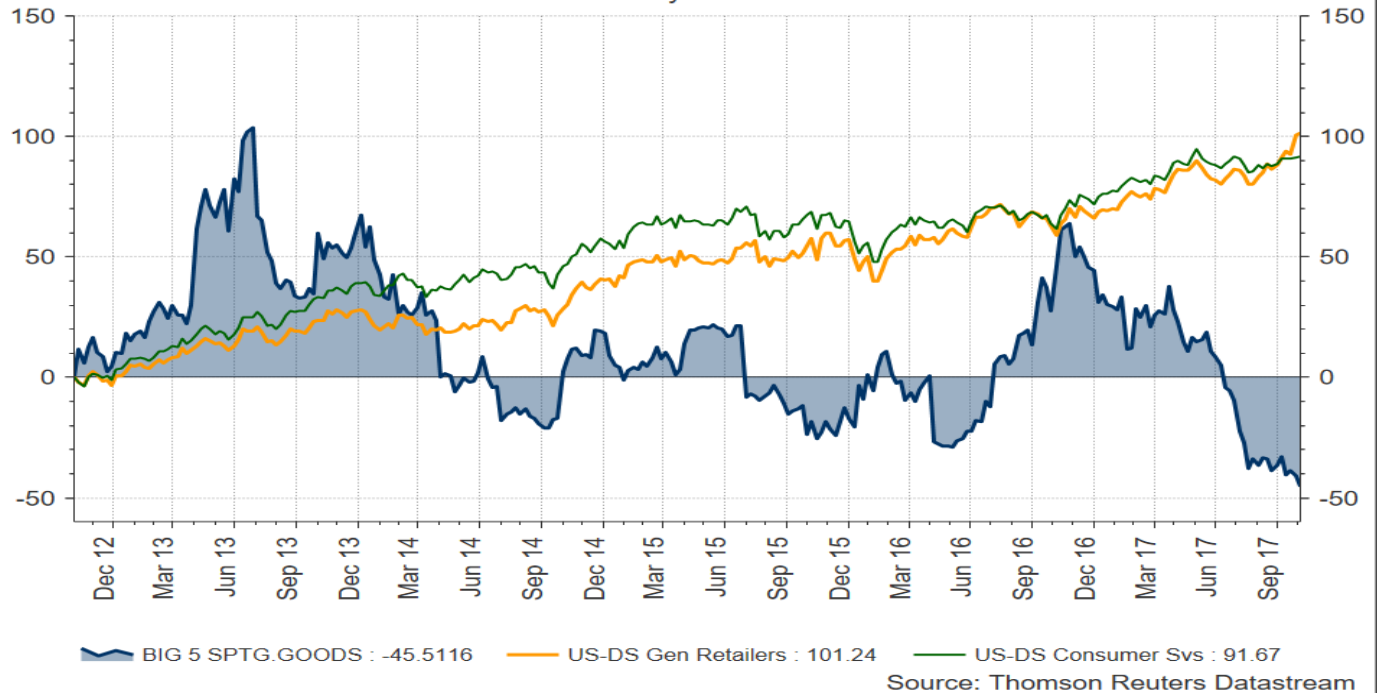
Reaching a high of over \$20 last fall, BGFV's stock price has been under considerable pressure since then, failing a base at the \$13-14 level mid-year to trade down to the \$6 level currently. The considerable short position (55% of float) has been well positioned vs. this historical move, and yet decent Q4 results, continued share buybacks and dividends, and a focus on stability and profitability from the management team makes this stock interesting in here from a valuation perspective. The chart below shows how BGFV has been very volatile over time in comparison to the consumer discretionary space and the market. The stock has been through large down trends before, providing opportunity for interested investors.

Big 5 Sporting Goods



Big Five Sporting Goods

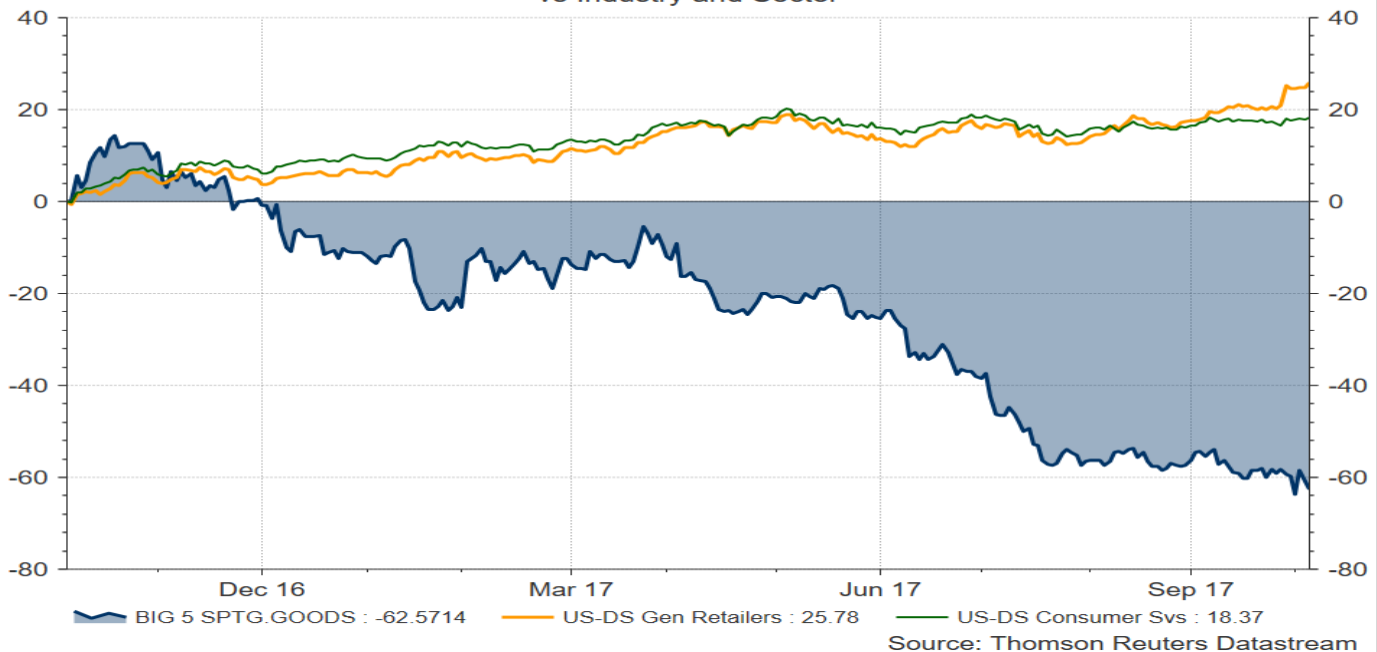
vs Industry and Sector



The chart above shows the five-year performance of BGFV vs. general retailers and the consumer services space. What is very apparent is both the drubbing this stock has already taken on a relative basis over the past year (seen in both charts), but also that this is a stock that historically has gone to extremes before. We are now at the point in the year where tax loss selling makes sense for holders that have been in the stock for this entire year (taking a loss in a stock is a real economic help to PMs, particularly in a strong year where they may be offsetting gains). This gives others an opportunity to pick up stock and volume from sellers who are motivated by a purpose.

Big Five Sporting Goods

vs Industry and Sector



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