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BJ's Wholesale Club – Financial and Operating Analysis

In September, 2011, BJ's Wholesale (BJ's), a publicly traded company, was purchased by Leonard Green & Partners (LGP) and CVC Capital Partners (CVC). At the time of the purchase, BJ's most recently completed fiscal year (2010) ended January 29, 2011. The following seven 2010 fiscal year metrics provide a brief overview of the company at the time: $10.63 billion in merchandise sales, $208 million in operating income (2.0% of merchandise sales), food penetration of 46%, no long term debt, 189 locations of which 26% are owned and 11.60% merchandise gross margins.

On May 17, 2018, CVC and LGP announced it will sell a portion of its ownership of BJ's through an initial public offering (IPO). A specific IPO date was not provided. As part of its intention to take BJ's public, a Form S-1 Registration Statement (S-1) was filed with the Securities and Exchange Commission (SEC). The S-1 is essentially like a 10K annual report. The S-1 included BJ's most recently completed fiscal year (2017) which ended February 3, 2018.

Fiscal Year (millions)	2010 January 29, 2011	2017 February 3, 2018
Merchandise Sales	$10,633	$12,496
Operating Income	$208	$220
Food Penetration	46%	53%
Long Term Debt	$0	$2,493
Locations	189	215
Locations Owned	26%	6%
Merchandise Margin	11.60%	15.87%

BJ's 2010 Annual Report, BJ's 2018 S-1 Registration Statement

The chart on the left provides a brief overview of BJ's at the end of its 2017 fiscal year using the same set of metrics: $12.50 billion in merchandise sales (2.3% annualized growth since 2010), $220 million in operating income (0.8% annual growth since 2010 and 1.8% of merchandise sales), food penetration of 53%, $2.49 billion in long term debt, 215 locations of which 6% are owned and 15.87% merchandise gross margins. As can be seen, BJ's is a much different company: slowing sales (especially the last five fiscal years), slowing profits, a greater reliance on food sales, significant long term debt, a much lower number of locations that it owns and higher merchandise gross margins.

The following article will provide a history of how that long term debt was created, an in-depth analysis of BJ's financial and operating performance and an overview of its buying and growth strategy. The data and information for this article comes from BJ's 2010 10K annual report, its 2018 S-1 and *WCF* research.

Long Term Debt – Dividend Payments

BJ's current long term debt is a result of a leveraged purchase and debt financed dividend payments to LGP and CVC. The following is a summary of information as reported by *Law360.com* (December 12, 2011), *Reuters* (September 10, 2012), *Daily Finance* (December 15, 2012), *Bloomberg News* (November 7, 2013) and *The Worcester Telegram* (May 27, 2018)

September, 2011 – LGP and CVC purchased BJ's for approximately $2.76 billion including $630 million in cash, $1.60 billion in long term debt and $525 million in sale-leaseback transactions (20 clubs were sold and subsequently leased). After the leveraged buyout, BJ's balance sheet had approximately $1.60 billion in long term debt.

September, 2012 – **Divided Payment One** – In September, 2012, BJ's refinanced what remained on its existing long term debt and took out a $1.63 billion long term loan of which $643 million was paid as a dividend to LGP and CVC.

November, 2013 – Dividend Payment Two – In November, 2013, BJ's refinanced what remained on its existing long term debt and took out a $2.10 billion long term loan of which $450 million was paid as a dividend to LGP and CVC.

	BJ's Fiscal Year ends January (fiscal year ending January, 2018 is called 2017)	2017	2016	2015	2010	2009
Income (million)	Merchandise Sales	$12,496	$12,095	$12,220	$10,633	$9,954
	Membership Fees	$259	$255	$247	$191	$182
	Other Revenues	$0	$0	$0	$54	$51
	Total Revenue	$12,755	$12,351	$12,468	$10,877	$10,187
	Cost of Goods Sold	$10,513	$10,223	$10,477	$9,697	$9,081
	SGA	$2,018	$1,909	$1,798	$934	$875
	Preopening Expenses and Other	$3	$3	$6	$38	$7
	Operating Expenses	$12,534	$12,135	$12,281	$10,669	$9,963
	Operating Income	$220	$216	$187	$208	$224
	Net Income	$50	$44	$24	$95	$132
	Interest Expense	$197	$143	$150	n/a	n/a
	Long Term Debt	$2,493	$2,000	n/a	$0	$0.5
Margins	Merchandise Margin	15.87%	15.48%	14.27%	8.80%	8.78%
	Membership Margin	2.07%	2.11%	2.02%	1.79%	1.83%
	Gross Margin	17.93%	17.59%	16.29%	10.60%	10.60%
	Adjusted Merchandise Margin (2.8%) *	n/a	n/a	n/a	11.60%	11.58%
	SGA vs Sales	16.1%	15.8%	14.7%	8.8%	8.8%
	Operating Income vs Sales	1.8%	1.8%	1.5%	2.0%	2.2%
	Net Income vs Sales	0.4%	0.4%	0.2%	0.9%	1.3%
Comps, Clubs	Club Year End Count	215	214	213	189	187
	Full Size (114,000 square feet)	180	180	181	167	167
	Small Format (85,000 square feet)	15	14	12	3	1
	Small Format (71,000 square feet)	20	20	20	19	19
	Overall	0.8%	-2.6%	-4.2%	4.4%	-1.9%
	Gasoline	1.7%	-0.3%	-3.7%	2.0%	-5.9%
	Overall Excluding Gasoline (Merchandise)	-0.9%	-2.3%	-0.5%	2.4%	4.0%
Item Sales	Annual Physical SKU Count	6,157	6,693	6,742	7,352	6,730
	Average Number of SKUs (2 Years)	6,425	6,718	6,707	7,041	6,676
	YEARLY Sales per SKU	$1,711,125	$1,613,307	$1,627,175	$1,356,112	$1,339,081
	WEEKLY Sales per SKU	$32,906	$31,025	$31,292	$26,079	$25,752
	YEARLY Sales per SKU per LOCATION	$7,977	$7,556	$7,748	$7,213	$7,297
	WEEKLY Sales per SKU per LOCATION	$153	$145	$149	$139	$140
	Ancillary Percentage	12.0%	10.4%	10.7%	10.2%	10.2%
	Merchandise Sales less Ancillary	$10,996	$10,837	$10,913	$9,548	$8,939
	Private Label SKUs	802	712	650	608	610
	Private Label Percent of Sales	19.0%	18.0%	16.5%	10.4%	10.4%
	Private Label Yearly Sales (million)	$2,089	$1,951	$1,801	$993	$930
	Private Label Weekly Sales/SKU/Location	$234	$247	$254	$167	$160
	Brand SKUs	5,623	6,006	6,057	6,433	6,066
	Brand Percent of Sales	81.0%	82.0%	83.5%	89.6%	89.6%
	Brand Yearly Sales (million)	$8,907	$8,887	$9,112	$8,555	$8,009
	Brand Weekly Sales per SKU per Location	$142	$133	$138	$136	$138
Sales PCT	Perishable	29%	29%	30%	n/a	n/a
	Edible Grocery	24%	25%	24%	n/a	n/a
	Non-Edible Grocery	21%	22%	21%	n/a	n/a
	General Merchandise	14%	14%	14%	n/a	n/a
	Gasoline and Other Ancillary Services	12%	10%	11%	n/a	n/a
Sales Data	Average Clubs Open During Year	215	214	210	188	184
	Yearly Sales per Avg Club (million)	$58	$57	$58	$57	$54
	Yearly Operating Income per Club (million)	$1.0	$1.0	$0.9	$1.1	$1.2
	Avg Weekly Sales per Avg Club (million)	$1.1	$1.1	$1.1	$1.1	$1.0
	Avg Weekly Oper. Income/Club (thousand)	$19.7	$19.5	$17.1	$21.3	$23.5
	Total Square Footage (thousand)	23,215	23,130	23,074	20,642	20,472
	Avg Square Foot per Club (thousand)	108	108	108	109	109
	Sales per Square Foot	$538	$523	$530	$515	$486
	Operating Income per Square Foot	$9	$9	$8	$10	$11
Empl.	Total Employees	26,520	n/a	n/a	24,800	23,500
	Merchandise Sales per Employee	$471,191	n/a	n/a	$428,748	$423,591
	Operating Profit per Employee	$8,306	n/a	n/a	$8,392	$9,523
Membership	Membership Renewal Rate	86%	85%	84%	87%	87%
	Paid Members (thousand)	5,000	n/a	n/a	n/a	n/a
	Total Members (thousand)	10,000	n/a	n/a	n/a	n/a
	Paid, Supplemental Business (thousand)	n/a	n/a	n/a	1,400	1,396
	Paid, Supplemental Consumer (thousand)	n/a	n/a	n/a	8,200	8,033
	Total Cardholders (thousand)	n/a	n/a	n/a	9,600	9,429
	Rewards, Mastercard Member Percentage	21%	n/a	n/a	n/a	n/a
	Rewards and Mastercard Sales	38%	n/a	n/a	n/a	n/a
	Rewards Membership Percentage	n/a	n/a	n/a	7.8%	5.5%
	Rewards Membership Sales	n/a	n/a	n/a	17%	13%
Growth Rates	Merchandise Sales	3%	-1%	-2%	7%	2%
	Membership Revenue	1%	3%	2%	5%	2%
	SGA	6%	6%	1%	7%	10%
	Cost of Goods	3%	-2%	-3%	7%	1%
	Gross Margins	2%	8%	3%	0%	7%
	Operating Income	2%	16%	1%	-7%	1%
	Warehouse Count	0%	0%	3%	1%	4%

BJ's 2018 S-1 Registration Statement, BJ's 2010 and 2011 Annual Reports, WCF Research

February, 2017 – Dividend Payment Three – In February, 2017, BJ's refinanced what remained on its existing long term debt and took out a $1.93 billion first-lien loan and a $625 million second-lien loan of which $735 million was paid as a dividend to LGP and CVC.

LGP and CVC Returns – From an initial investment of $630 million in September, 2011, LGP and CVC were paid a total of $1.81 billion or just under three-times that cash payment over the course of six years.

Sale-Leaseback Transactions – One of the ways that BJ's was able to mitigate the effect of the debt-backed dividend payments was to raise money through sale-leaseback transactions reducing the percentage of club and distribution center locations it owned. In fiscal 2010, BJ's operated 189 clubs of which 49 buildings were owned. By fiscal 2017, BJ's operated 215 locations of which 12 buildings were owned. Additionally, in fiscal 2009, BJ's owned its distribution centers in Uxbridge, Massachusetts and Jacksonville, Florida. Both of those distribution centers are now leased.

IPO – Assuming the IPO is successful, BJ's will be able to pay down some of its current $2.49 billion in long term debt. However, the debt that has existed and will exist going forward has forced BJ's to change how it operates. As will be examined in the next section, some of those changes are significant and place BJ's at a competitive disadvantage versus Costco and Sam's Club.

Financial and Operating Analysis

The financial and operating analysis includes: an overview of reported and estimated fiscal year finances, a merchandise gross margin analysis, a private label analysis, a department sales penetration analysis and an analysis of the company's membership program.

Fiscal Year Finances – The chart on the left provides BJ's fiscal year data from 2015, 2016 and 2017 as reported in its S-1 and fiscal year data from 2009 and 2010 when it was a public company. The following are explanations and analysis of some of the data and information in the chart. The remaining areas, as mentioned above, are analyzed after this section.

Income – This section includes sales and expense data. The "other revenues" reported in fiscal 2009 and fiscal 2010 represented commissions from BJ's optical provider and revenues from BJ's ancillary businesses.

As a public company, BJ's included its buying and occupancy expenses as part of its cost of goods reducing its merchandise gross margin percentage. While more on this will be analyzed in the next section, it is important to note that since being purchased, BJ's now includes its buying and occupancy expenses as part of its selling, general and administration expenses (SGA). As can be seen in the chart, this caused BJ's SGA expenses to increase dramatically.

The last two lines in this section show BJ's annual interest expense and its total long term debt. Of the $2.49 billion in long term debt, $348 million is due between 2018 and 2022 with the remaining due 2023 and after.

Margins – The merchandise gross margin data will be analyzed in the next section but as can be seen, BJ's SGA percentage of sales is higher as a private company and its operating income and net income figures as a percent of sales are lower as a private company.

Comps, Clubs – This section provides the number of locations, by size, BJ's operated at the end of each fiscal year. BJ's did not report this detail in its S-1 but *WCF* is able to provide it because club opening dates and the size of new locations are recorded as part of our research efforts. This section also provides overall comparable sales, gasoline comparable sales and merchandise comparable sales (overall comparable sales excluding gasoline).

Item Sales – This section provides detailed sales data for an average item, private label SKU and branded product at BJ's. The private label and branded analysis appears in one of the following sections. The average item sales data is based on the physical SKU counts gathered by *WCF* in December/January each year.

Sales Data – This section provides assorted sales data that provides "color" into the performance of an average BJ's location. An average BJ's generates $58 million in sales annually or $1.1 million per week with sales per square foot of $538. For a comparison, the following are sales per location and sales per square foot data for Costco and Sam's Club (these figures represent 2017 calendar year data). An average Costco generates $176 million in sales annually with sales per square foot of $1,219. An average Sam's Club (prior to closing 63 locations) generates $94 million in sales annually with sales per square foot of $697.

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Employees – This section provides the number of BJ's employees along with the sales and operating profit per employee.

Growth Rates – This section provides year-over-year growth rates for key financial and operating items.

Merchandise Gross Margins – Prior to being purchased by LGP and CVC, *WCF* estimated that BJ's buying and occupancy expenses reduced its reported merchandise gross margin percentage by 2.8%. The following are BJ's merchandise gross margin rates (including that 2.8% adjustment) the previous five fiscal years before its purchase: 11.00% in 2006, 10.77% in 2007, 10.94% in 2008, 11.58% in 2009 and 11.6% in 2010.

Margin	BJ's	Costco	PSMT
FY 2013	13.94%	10.62%	14.81%
FY 2014	13.85%	10.66%	14.74%
FY 2015	14.27%	11.09%	14.70%
FY 2016	15.48%	11.35%	14.30%
FY 2017	15.87%	11.33%	14.53%

BJ's 2018 S-1 Registration Statement, Costco 10K

Currently, BJ's does not include buying and occupancy expenses as part of its cost of goods sold. The following are BJ's merchandise gross margin rates the past five fiscal years: 13.94% in 2013, 13.85% in 2014, 14.27% in 2015, 15.48% in 2016 and 15.87% in 2017. As can be seen in the chart on the right, BJ's merchandise gross margins are significantly higher than Costco and even eclipsed PriceSmart over the last two fiscal years. PriceSmart's cost of sales include shipping merchandise over water to the Caribbean, Central and Latin America as well as import duties in the countries in which it operates.

Additionally, *WCF's* item basket comparison shows that BJ's margins on non-competitive branded and private label items are probably significantly higher than its 15.87% merchandise gross margin rate in fiscal 2017. Annually, in September or October, *WCF* releases its item basket comparison. The study analyzes the retail prices at the clubs, a grocery store and a supercenter where all five operators compete in the same market for the same customer.

Item Basket			Sam's Club			Costco			BJ's		
Year	Market	Items	Food	Non-Food	Total	Food	Non-Food	Total	Food	Non-Food	Total
2007	Frederick/Columbia, MD	54	100	100	100	98	99	99	102	102	102
2008	Cleveland, OH	70	100	100	100	100	100	100	104	103	104
2009	Duluth, GA	76	100	100	100	100	100	100	103	104	104
2010	Miami, FL	68	100	100	100	100	98	99	101	101	101
2011	Fort Myers, FL	77	100	100	100	100	100	100	104	104	104
2012	Nashua/Hudson, NH	82	100	100	100	99	100	100	103	103	103
2013	Jacksonville, FL	84	100	100	100	101	100	101	105	104	105
2014	Raleigh, NC	94	100	100	100	101	100	101	104	104	104
2015	Baltimore, MD	95	100	100	100	101	98	100	105	102	103
2016	Hartford, CT	95	100	100	100	99	101	100	105	107	106
2017	Nashua/Hudson, NH	97	100	100	100	98	100	99	103	103	103

WCF Research

Consumer branded products are used exclusively for this analysis to make sure that each item being compared is exactly the same at each retail/club operator. However, package sizes will vary so the unit prices are compared.

The chart on the left shows results for the past ten years. Sam's Club is used as the control retailer and is represented by 100 (a base percentage by which to compare BJ's and Costco). The figures for BJ's and Costco are above or below that 100 baseline figure, depending on the percentage difference compared to Sam's Club. For example, in the 2017 item basket analysis, BJ's food prices were 3% higher than Sam's Club and 5% higher than Costco.

As can be seen from the chart, BJ's retail prices on comparable food and non-food branded products have remained within a consistent range prior to and during its purchase by LGP and CVC. BJ's is clearly making an effort to show its members it remains competitive with Costco and Sam's Club on key branded merchandise.

However, the merchandise margin growth must be coming from other product types like: private label and non-competitive items. Merchandise gross margins on these items must be well in excess of that reported 15.87% in 2017.

BJ's higher merchandise gross margins on some items create an additional long term problem for the company beyond members purchasing items with the best value and possibly avoiding items that don't show the same value. Of BJ's 215 clubs, there are 88 Costco locations and 66 Sam's Club locations within a 10 mile radius. Those Costco and Sam's Club locations can use their marketing teams to convince BJ's business and consumer members in those markets to switch their membership due to their lower prices. Additionally, based on market analysis, Costco and Sam's Club could open new clubs near existing BJ's locations placing further merchandise gross margin pressure on the retailer.

Private Label – Assuming BJ's is generating higher than normal merchandise gross margins from its Wellesley Farms and Berkley & Jensen private label brands, it makes sense that the company has focused on growing its sales penetration of these items.

In fiscal 2010, prior to being purchased, BJ's private label penetration of sales was 10.4%. BJ's reported that its private label sales penetration has grown to 19.0% in fiscal 2017. This greatly eclipsed *WCF's* 2017 penetration estimate of 15.4% for BJ's private label program and dramatically eclipsed the private label penetration growth at Costco and Sam's Club. Costco's private label penetration increased from 20.2% in fiscal 2010 to 24.1% in fiscal 2017 and Sam's private label penetration increased from 13.2% in fiscal 2010 to 16.1% in fiscal 2017.

According to *WCF* club location research in February, 2018, BJ's stocked 802 private label products under its Wellesley Farms and Berkley & Jensen brands compared to 588 private label SKUs at Costco and 849 private label items at Sam's Club. On an annualized basis, private label sales generate $2.09 billion at BJ's, $10.42 billion at Sam's Club and $25.91 billion at Costco. An average private label item generates the following weekly sales per SKU per club: $234 at BJ's, $294 at Sam's Club and $1,120 at Costco.

Department Sales – One of the interesting observations is BJ's shift in sales from general merchandise products to food items. In its S-1, BJ's reclassified its categories into five departments: edible grocery, perishables, non-edible grocery, general merchandise and gasoline/ancillary. The categories within the four non-ancillary departments include:

<u>Edible Grocery</u> – Dry grocery, salty snacks, candy, cookies, juices, water, soda, tea, energy drinks, beer, wine and liquor.

<u>Perishables</u> – Fresh meat, fresh chicken, fresh seafood, produce, dairy, cooler, bakery, deli, prepared foods and frozen food.

<u>Non-Edible Grocery</u> – Detergents, cleaning supplies, disinfectants, paper products, plastic products, trash bags, tin foil, beauty care, adult and baby care and pet foods.

<u>General Merchandise</u> – Small appliances, automotive, bed and bath, books, computers, batteries, cameras, furniture, furnishing, hardware, housewares, kitchen supplies, office equipment, office supplies, sports, camping, luggage, toys, lighting, televisions, electronics, tobacco, imaging and apparel.

In its S-1, BJ's reported that edible grocery generated 24% of sales or $2.98 billion, perishables generated 29% of sales or $3.59 billion, non-edible grocery generated 21% of sales or $2.56 billion, general merchandise generated 15% of sales or $1.87 billion and gasoline and ancillary generated 12% of sales or $1.50 billion. The department dollar figures add up to $12.50 billion which BJ's reported as its fiscal 2017 merchandise sales.

Each year in January, *WCF* provides estimated sales by category for BJ's, Costco and Sam's Club. *WCF's* estimates sales penetration for each of the 55 categories tracked in our database. Those 55 categories comprise all the merchandise sold in the club channel (except optical and greeting cards).

The category penetration percentages are tied to the reported department penetration percentages that Costco and Sam's Club report in their 10K annual reports. *WCF* did this for BJ's when it was a public company and did this for BJ's new department designations as reported in its S-1. For example, all the sales penetration percentages within the categories that comprise BJ's general merchandise department add up to a total of 15% in *WCF's* category database.

WCF compared BJ's current department sales penetration data in two ways: to BJ's historical category sales penetration and to Costco and Sam's current category penetration. BJ's 2011 calendar year sales penetration was used since it was tied to reported department figures in BJ's 2010 10K annual report. This provided a "relatively" accurate profile of the sales BJ's generated, at the time, by category. *WCF* then added up the estimated category penetration figures from 2011 using the new department and category penetration classifications as provided in BJ's S-1.

For example, we'll use the perishable department. In 2011, BJ's perishable department penetration totaled 22.8%. The figure included the following categories: bread and bakery at 1.8%, deli, sliced meat, prepared foods and cheese at 2.5%, frozen food at 6.3%, fresh meat, fresh chicken, fresh seafood and fresh prepared at 3.2%, produce at 3.9% and refrigerated and cooler at 5.1%. This analysis was done for the categories within the remaining for departments.

Next, BJ's department and category classifications from its S-1 were applied to the sales penetration results for Costco and Sam's Club from their respective 2017 calendar years. Essentially, this provides an apples-to-apples comparison of the sales breakdown for all three club operators using BJ's S-1 classifications.

Penetration	2017		2011		2017 Percent	
	Percent	Sales	Percent	Sales	Costco	Sam's
Edible Grocery	24%	$2,983	23%	$2,653	23%	27%
Perishables	29%	$3,586	23%	$2,668	23%	22%
Non-Edible Grocery	21%	$2,562	15%	$1,818	10%	13%
General Merchandise	15%	$1,865	27%	$3,224	28%	21%
Gasoline, Ancillary	12%	$1,500	12%	$1,386	17%	17%
Total	100%	$12,496	100%	$11,750	100%	100%

BJ's 2018 S-1 Registration Statement, WCF Research

As can be seen from the chart on the right, BJ's edible grocery penetration increased from 23% in calendar 2011 to 24% in fiscal 2017, BJ's perishable penetration increased from 23% in calendar 2011 to 29% in fiscal 2017, its non-edible grocery penetration increased from 15% in calendar 2011 to 21% in fiscal 2017 and its gasoline and ancillary business penetration remained the same at 12%. However, its general merchandise penetration decreased from 27% in calendar 2011 to 15% in fiscal 2017. Additionally, BJ's fiscal 2017 general merchandise sales penetration of 15% is much lower than the 28% penetration figure at Costco and the 21% penetration figure at Sam's Club.

While it is very hard to understand why there is such a significant shift in sales, one theory is that BJ's merchandise gross margins remain fairly competitive on the food side as the company tries to take market share and trips away from grocery stores. However, to keep its merchandise gross margins at a level that can support its long term debt, it's possible the company has raised general merchandise margins too high and members recognize the lack of value in these products and are purchasing them elsewhere.

Membership – This section will examine BJ's membership revenues, its renewal rate and the number of members. Unfortunately, as will be shown, there are questions regarding the health of BJ's membership program. BJ's membership revenues in its 2010 fiscal year (it's last as a public company) were $191 million. Over the past five fiscal years, BJ's membership revenues increased gradually from $242 million in fiscal 2013 to $243 million in fiscal 2014 to $247 million in fiscal 2015 to $255 million in fiscal 2016 to $259 million in fiscal 2017.

Additionally, the company reported that its membership renewal rate is growing. BJ's membership renewal rate in its 2010 fiscal year were 87%. It's membership renewal rate increased from 83% in fiscal 2013 and fiscal 2014 to 84% in fiscal 2015 to 85% in fiscal 2016 to 87% in fiscal 2017. However, there is language explaining its membership renewal rate that "clouds" not only its reported renewal rate but also its membership revenue growth.

BJ's is qualifying its membership renewal rate to only include "members with two or more years of tenure". The company did not use this language when it was a public company nor do Costco, Sam's Club and PriceSmart. BJ's is apparently not including member renewal data during their first two years of tenure. This seems to indicate that BJ's is having a difficult time renewing a member during their first and second year of membership.

The possible difficulty of renewing a member during these first two years may also provide a reason as to why BJ's membership revenues have grown. BJ's may be discounting or heavily promoting its membership program which is generating membership revenues in year one or two but this marketing effort is not yielding long term members. Further complicating BJ's membership revenue growth and renewal rate percentage is the fact that the company increased its membership fees by 10% in January, 2018. This will positively affect membership revenue growth over the next couple years.

Lastly, let's compare BJ's membership numbers. In its last fiscal year as a public company, BJ's reported in its 2010 10K annual report that it had approximately 1.4 million paid and supplemental business members and 8.2 million paid and supplemental consumer members for a total membership base of 9.6 million. In its 2017 S-1, BJ's reported that it had 5.0 million paid members and 10.0 million total members. The S-1 does not provide any more "color" on what comprises the 10.0 million total member figure. However, if you assume the fiscal 2010 and fiscal 2017 numbers are defined the same way, the 2017 figure is concerning because BJ's increased its club location count from 189 at the end of fiscal 2010 to 215 at the end of fiscal 2017 and its total members (paid, supplemental or free) should have increased a greater amount.

Buying and Growth Strategy

While BJ's discussed a number of initiatives, philosophies and strategies in its S-1, the following are key points that help to better define what BJ's is today and how it plans to grow.

Grocery Stores – BJ's stated that part of its strategy is to compare itself to grocery stores. BJ's stated, "We deliver significant value to our members, consistently offering 25% or more savings on a representative basket of manufacturer-branded groceries compared to traditional supermarket competitors."

Data Driven Buying, Operating and Location Strategy – BJ's explained how its buying, operating and location strategy is based on member behavior and purchasing patterns. It stated, "Our membership program provides us access to comprehensive data on consumer behavior and purchasing patterns. To capitalize on these data, we have used rich, data-driven analytics to drive improved decision-making in all aspects of our business, including procurement, merchandising, product positioning, club openings, marketing and promotion campaigns, among others. As a result, we have been able to implement a range of assortment initiatives such as supplier renegotiations, competitive contract options, SKU optimization and brand switching. We are also using our data to better target member acquisition and retention efforts for existing and new clubs. While we have made substantial progress, we believe there are opportunities to further develop our data analytics capabilities."

Product Assortment – BJ's explained how its product assortment will evolve. It stated, "We intend to continue our efforts to optimize our product assortment and positioning and plan to expand our current product offerings into new and adjacent categories, including a broader apparel assortment, enhanced perishable offerings, tools and new family-oriented categories. We also have ongoing initiatives to enhance our private label offerings."

Category Profitability Improvement – BJ's discussed its category profitability improvement strategy whose goal is to reduce its cost of sales. It said, "In 2015, we launched our category profitability improvement (CPI) program to address our procurement spending, and during fiscal years 2016 and 2017 we negotiated over $260 million in expected annual procurement savings. We drove these savings by improving dialogue with our national brand and private label suppliers to educate them on the value proposition we offer to our members and by implementing competitive bidding throughout our buying process. [We also implemented] supplier renegotiations, SKU optimization and brand switching. We are continuing to review additional product categories through our CPI program, which we believe can deliver significant incremental procurement savings."

Location Growth – BJ's stated it plans to open a total of 15 to 20 new clubs over the next five years. The company plans to locate these new buildings in existing markets or areas that are adjacent to existing markets.

Distribution Centers – BJ's operates six distribution centers: three dry and general merchandise facilities in Uxbridge, Massachusetts, Burlington, New Jersey and Jacksonville, Florida. BJ's operates three perishable distribution centers: Rocky Hill, Connecticut, Elkton, Maryland and Orlando, Florida. BJ's stated it could support an additional 100 locations through its existing distribution center network.

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