

Proposed Leveraged Buyout of

Big Lots Inc. (BIG)

for the Offer Price of:

Two Billion Nine-Hundred Fifty Million U.S. Dollars

(\$2,950,000,000.00)

Material Prepared by Sung Nam,

on behalf of **SN Capital**

November 7, 2011

Company Overview

Big Lots, Inc. is a closeout retailer. The Company's merchandising categories include Consumables, Furniture, Home, Hardlines, Seasonal, and Other. The Consumables category includes the food, health and beauty, plastics, paper, chemical, and pet departments. The Furniture category includes the upholstery, mattresses, ready-to-assemble, and case goods departments. Case goods consist of bedroom, dining room, and occasional furniture. The Home category includes the domestics, stationery, and home decorative departments. The Hardlines category includes the electronics, appliances, tools, and home maintenance departments. The Seasonal category includes the lawn and garden, Christmas, summer, and other holiday departments. The Other category includes the toy, jewelry, infant accessories, and apparel departments. At January 29, 2011, it operated a total of 1,398 stores in 48 states. In July 2011, the Company acquired Liquidation World Inc.

Source: Google Finance

Considerations

For the Leveraged Buyout, we will consider the following factors:

- 1) Intrinsic value of the share and annualized return
 - A. Is the Terminal Value, or the Exit Sales Price, supported by the figures in Year 5?
 - B. Is the growth in increased value supported by the figures leading up to Year 5?
 - C. Would a rational buyer purchase the company from us in Year 5?
- 2) Liquidity and free cash flow to support the additional leverage and interest payments

Intrinsic Value of the Share and Annualized Return

Current Valuation

The company is undervalued, considering the negative enterprise value. The company has net cash of \$177.5 MM, when the market capitalization is \$2.71 BB. The company generates strong cash flow of \$431 MM annually and invests roughly \$100 MM in capital expenditures. The current Enterprise Value/EBITDA is a 5.93 times multiple, so relative to cash flow, the market price is on par with peers.

Intrinsic Valuation

Discounted Cash Flow

WACC Terminal Value:	-
EV/EBITDA Terminal Value:	\$79.86
Net Tangible Asset Terminal Value:	\$47.73
EVA:	\$50.55
Net Tangible Asset/Market Price:	\$30.76
Average:	\$52.22

Offer Price

We are proposing a **\$45.00** per share Leveraged Buyout, or an 8.91% premium over November 4, 2011's market price of \$41.32. At \$45.00 per share, the market capitalization is at \$2.95 BB and the implied Enterprise Value is a positive \$2.77 BB.

Annual Return During Holding Period

Based off the average intrinsic value derived from the valuation methods listed above, we are forecasting a **3.02%** annualized return for a non-LBO equity purchase, excluding extraordinary dividends.

Although the market price based off the valuation models would increase 3.02% annually, for levered equity partners, the return, after paying back \$130 MM of the debt annually for the next 5 years, will be **18.08%**, assuming a 7.76 times EV/EBIT in Year 5 terminal value, which same as the current company multiple. With an exit market price of \$30.99 at Year 5, the investors will see an EV/EBITDA multiple of 7.76 and EV/EBIT multiple of 6.36.

Liquidity and Free Cash Flow to Support the Additional Leverage and Interest Payments**Borrowed Debt Interest and Repayment**

70.0% of the offer price, or \$2.06 BB will be provided by our debt partners. The remaining 30.0%, or \$885.0 MM will be contributed by equity partners and SN Capital.

The special purpose entity (SPE), SN Capital Fund I, LLC, will be the sole owner of the company. As a subsidiary of the SPE, the company will bear the debt borrowed for the transaction.

Currently, the company has zero debt outstanding. By borrowing \$2.06 BB to purchase all of the outstanding shares, \$2.06 BB of debt will be placed on the company's books.

We based our debt interest expense at the forward LIBOR curve plus the corporate debt spread. NYU's Professor Damadoran provides an annually updated spread table. We have based our forecast of the company's debt rating based off the table.

To maintain a "B" debt rating, or SN Capital's standard, we believe the company should have at minimum, a 2.0x times EBITDA/interest coverage ratio. With projected interest rates at an average 6.00%, the company still maintains reliable coverage during the period.

With roughly \$150 MM in cash after capital expenditures, operating and financing cash flow, we will pay back \$130 MM in principal annually.

Risks

We are assuming a 7.7 x EV/EBITDA exit multiple. Should the multiple decrease, the equity holders will recognize a lower annual return. At the current 18.08% return, there is a slim margin to take on the additional risk and labor to execute and operate the company for the next 5 years.

Ownership Structure

SN Capital invests 1% of overall deal amount, gets equity partners to invest 29% of overall deal. Thus, equity is 30% of deal. The remaining 70% are debt partners. No prepay penalty needs to be included in loan covenant.

When disposition occurs, the 3.3% of equity we currently owned (1% of 20% equity), will be changed to 20% of equity. The 97% of equity owned by equity partners will change to 80% of equity.

Conclusion

The company is a tad expensive to purchase for a LBO. When we released our research for the equity valuation back on October 31, 2011, the market price was nearly 10% cheaper than today. The deal would have made more financial sense back then.

At an 8.91% premium, the offer price is not greatly attractive for the current shareholders.

The company would be able to support the interest expense and bring value to the deal by cutting down on the principal. Real value is driven by cash flows that cut down on debt.

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SN VALUATION

LBO Analysis

Discounted Cash Flow

WACC Terminal Value:	-
EV/EBITDA Terminal Value:	\$79.86
Net Tangible Asset Terminal Value:	\$47.73
EVA:	\$50.55
Net Tangible Asset/Market Price:	\$30.76
Average:	\$52.22

Intrinsic Price in 5 Years:

Intrinsic Price in 5 Years:	52.22
Market Price:	41.32
LBO Price:	45.00
Premium to Market Price:	8.91%
LBO Price Annualized Return:	3.02%

Current Evaluation				Exit Evaluation			
Current Market Price:	41.32	LBO Price:	45.00	Exit Price:	52.22	Exit Price:	30.99
Outstanding Shares:	65,550,000	Outstanding Shares:	65,550,000	Outstanding Shares:	65,550,000	Outstanding Shares:	65,550,000
Market Capitalization:	2,708,526,000	Market Capitalization:	2,949,750,000	Market Capitalization:	3,423,272,547	Market Capitalization:	2,031,484,405
Available Cash:	177,540,000	Available Cash:	177,540,000	Available Cash:	306,499,651	Available Cash:	306,499,651
Debt:	0	Debt:	0	Debt:	1,414,825,000	Debt:	1,414,825,000
Net Cash:	177,540,000	Net Cash:	177,540,000	Net Cash:	(1,108,325,349)	Net Cash:	(1,108,325,349)
Enterprise Value:	2,886,066,000	Enterprise Value:	2,772,210,000	Enterprise Value:	4,531,597,896	Enterprise Value:	3,139,809,754
Original EV/EBIT:	7.09	EV/EBIT:	7.76	EV/EBIT at 5 Years:	11.20	EV/EBIT at 5 Years:	7.76
Original EV/EBITDA:	5.93	EV/EBITDA:	6.43	EV/EBITDA at 5 Years:	16.46	EV/EBITDA at 5 Years:	6.36
Competitor Average EV/EBIT:	7.00						
Competitor Average EV/EBITDA:	7.00						

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	45.00	13.50	13.91	14.33	14.76	15.21	15.67
Shares Outstanding:	65,550,000	65,550,000	65,550,000	65,550,000	65,550,000	65,550,000	65,550,000
Market Capitalization:	2,949,750,000	884,925,000	911,670,114	939,223,546	967,609,726	996,853,822	1,026,981,764
Available Cash:	177,540,000	177,540,000	189,186,754	203,998,246	227,595,931	261,249,330	306,499,651
Debt:	2,064,825,000	2,064,825,000	1,934,825,000	1,804,825,000	1,674,825,000	1,544,825,000	1,414,825,000
Net Cash:	-1,887,285,000	-1,887,285,000	-1,745,638,246	-1,600,826,754	-1,447,229,069	-1,283,575,670	-1,108,325,349
Enterprise Value:	4,837,035,000	2,772,210,000	2,657,308,360	2,540,050,300	2,414,838,795	2,280,429,492	2,135,307,113
EBIT	357,350,000	357,350,000	354,136,856	371,019,590	382,581,022	393,358,372	404,614,659
EV/EBIT:	13.54	7.76	7.50	6.85	6.31	5.80	5.28
EBITDA	431,390,000	431,390,000	435,506,397	452,341,870	465,793,330	479,416,085	493,955,801
EV/EBITDA:	11.21	6.43	6.10	5.62	5.18	4.76	4.32

Enterprise Valuation Calculation During Holding Period							
Time Period	0	Adjusted for LBO	1	2	3	4	5
Annualized Price Targets based off LBO Price:	45.00	13.50	15.28	19.49	23.20	26.97	30.98
Shares Outstanding:	65,550,000	65,550,000	65,550,000	65,550,000	65,550,000	65,550,000	65,550,000
Market Capitalization:	2,949,750,000	884,925,000	1,001,645,185	1,277,427,667	1,520,715,340	1,767,976,065	2,030,549,155
Available Cash:	177,540,000	177,540,000	189,186,754	203,998,246	227,595,931	261,249,330	306,499,651
Debt:	2,064,825,000	2,064,825,000	1,934,825,000	1,804,825,000	1,674,825,000	1,544,825,000	1,414,825,000
Net Cash:	-1,887,285,000	-1,887,285,000	-1,745,638,246	-1,600,826,754	-1,447,229,069	-1,283,575,670	-1,108,325,349
Enterprise Value:	4,837,035,000	2,772,210,000	2,747,283,431	2,878,254,421	2,967,944,409	3,051,551,735	3,138,874,503
EBIT	357,350,000	357,350,000	354,136,856	371,019,590	382,581,022	393,358,372	404,614,659
EV/EBIT:	13.54	7.76	7.76	7.76	7.76	7.76	7.76
EBITDA	431,390,000	431,390,000	435,506,397	452,341,870	465,793,330	479,416,085	493,955,801
EV/EBITDA:	11.21	6.43	6.31	6.36	6.37	6.37	6.35

LBO Price	45.00	Equity Partners:	884,925,000	Weighting	30.00%	Annualized Return for Equity Partners: 18.08%
Shares Outstanding	65,550,000	Debt Partners:	2,064,825,000	Weighting	70.00%	
Market Capitalization	2,949,750,000	Total Funds for LBO:	2,949,750,000	Weighting	100.00%	

Book Value	Enterprise Value	Stock Valuation	Debt Reduction
Beginning Book Value	884.93	Current Market Price	Starting Debt
Year 5 Book Value	1,742.58	Year 5 Market Price	Debt Repayment
Annualized Return	14.51%	Annualized Return	68.52%
			Year 5 Ending Debt
			% of Starting Debt

LBO Pro Forma Income Statement

Name:

Big Lots Inc

Ticker:

BIG

	Historical				Forecasted				
	52 weeks ending 2008-02-02	52 weeks ending 2009-01-31	52 weeks ending 2010-01-30	52 weeks ending 2011-01-29	2011	2012	2013	2014	2015
Revenue	4,656.30	4,645.28	4,726.77	4,952.24	5,100.81	5,253.83	5,411.45	5,573.79	5,741.00
COGS	2,815.96	2,787.85	2,807.47	2,939.79	3,031.80	3,121.35	3,215.17	3,311.70	3,411.00
Gross margin	1,840.34	1,857.43	1,919.31	2,012.45	2,069.00	2,132.48	2,196.28	2,262.09	2,330.00
SG&A	1,515.38	1,523.88	1,532.36	1,571.90	1,634.85	1,680.95	1,730.92	1,783.35	1,836.69
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation	83.10	73.79	71.50	74.04	81.37	81.32	83.21	86.06	89.34
Unusual expense	0.00	0.00	-12.96	4.60	-1.35	-0.81	-0.43	-0.67	-0.64
Other operating expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating Income	236.48	254.92	325.01	357.35	354.14	371.02	382.58	393.36	404.61
Interest income/(expense)	2.72	-5.21	-1.66	-1.97	-98.20	-109.95	-110.50	-109.76	-107.74
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Income before tax	239.20	249.71	323.35	355.38	255.94	261.07	272.08	283.59	296.87
Tax	88.02	94.91	121.98	132.83	95.66	97.58	101.70	106.00	110.96
Income after tax	151.18	154.80	201.37	222.55	160.28	163.49	170.39	177.60	185.91
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	151.18	154.80	201.37	222.55	160.28	163.49	170.39	177.60	185.91
*Figures are in millions (\$)									
Revenue Growth	N/A	-0.24%	1.75%	4.77%	3.00%	3.00%	3.00%	3.00%	3.00%
Tax Rate	36.80%	38.01%	37.72%	37.38%	37.38%	37.38%	37.38%	37.38%	37.38%
Debt Interest Rate					5.00%	6.00%	6.50%	7.00%	7.50%
Margins									
COGS	60.48%	60.01%	59.40%	59.36%	59.44%	59.41%	59.41%	59.42%	59.41%
Gross margin	39.52%	39.99%	40.61%	40.64%	40.56%	40.59%	40.59%	40.58%	40.59%
SG&A	32.54%	32.80%	32.42%	31.74%	32.05%	31.99%	31.99%	32.00%	31.99%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Interest expense/(income)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.00%	0.00%	-0.27%	0.09%	-0.03%	-0.02%	-0.01%	-0.01%	-0.01%
Other operating expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Operating Income	5.08%	5.49%	6.88%	7.22%	6.94%	7.06%	7.07%	7.06%	7.05%
Interest income/(expense)	0.06%	0.06%	-0.04%	-0.04%	-0.03%	-0.03%	-0.03%	-0.03%	-0.03%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	5.14%	5.38%	6.84%	7.18%	5.02%	4.97%	5.03%	5.09%	5.17%
Tax	1.89%	2.04%	2.58%	2.68%	2.59%	2.62%	2.61%	2.61%	2.61%
Income after tax	3.25%	3.33%	4.26%	4.49%	3.14%	3.21%	3.34%	3.48%	3.64%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	3.25%	3.33%	4.26%	4.49%	3.14%	3.11%	3.15%	3.19%	3.24%

SN VALUATION

LBO Debt Schedule

	Proforma	2011	2012	2013	2014	2015
Net Change in Cash	-106.19	11.65	14.81	23.60	33.65	45.25
Debt Repayment		130.00	130.00	130.00	130.00	130.00
Outstanding Debt	2064.825	2064.83	1934.83	1804.83	1674.83	1544.83
Ending Debt	2064.83	1934.83	1804.83	1674.83	1544.83	1414.83
Forward Libor Curve		4.00%	4.50%	5.00%	5.50%	6.00%
Spread		1.00%	1.50%	1.50%	1.50%	1.50%
Interest Rate		5.00%	6.00%	6.50%	7.00%	7.50%
Interest Expense		96.74	108.29	108.86	108.14	106.11
EBITDA		354.14	371.02	382.58	393.36	404.61
EBITDA/Interest Expense Coverage		3.66	3.43	3.51	3.64	3.81

Interest Rate Coverage Table

Debt Rating					
AAA					
AA					
A+					
A					
A-					
BBB	BBB		BBB	BBB	BBB
BB+		BB+			
BB					
B+					
B					
B-					
CCC					
CC					
C					
D					

*Source: NYU; Professor Damodaran