

Big Lots: The Good, the Bad, the Ugly

By Derek Simon December 3, 2007

1 Recommendation

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First the good news, then the bad.

It's a rose-colored remedy for despair that's been around ever since bad news was invented -- probably with the advent of polyester leisure suits and the opening of the first discotheque. (The good news was that the disco craze and its associated clothing styles lasted only a few horrific years.)

Big Lots (NYSE: [BIG](#)) recently used the good news/bad news strategy in a press release announcing the company's third-quarter earnings, reporting a better-than-expected rise in quarterly profits while simultaneously bracing investors for a miserly holiday season.

The company earned \$0.14 per diluted share on net income of \$14.3 million, compared to \$0.02 per diluted share on net income of \$1.7 million the year before. Analysts had expected a profit of \$0.12 per share.

The company also trumpeted the growth of its operating profit, which shot up from 0.2% of sales in 2006 to 2.2% of sales this year. The operating margin now compares favorably with the 1.7% operating profit [recently reported](#) by rival **Fred's** (Nasdaq: [FRED](#)).

Big Lots management viewed even a slight decline in same-store sales from a glass-half-full perspective, noting that the 0.5% dip came "on top of a 5.8% comparable store sales increase in the third quarter [last year](#) which represented the strongest quarterly performance of the year in fiscal 2006."

Still, there was no getting around a fourth-quarter forecast that sounded about as gloomy as a Marilyn Manson Christmas CD.

According to company officials, Big Lots now expects comparable-store sales to be slightly negative compared to prior guidance, which called for a 1% to 3% increase.

However, given that we experienced one of the [worst retail sales months](#) in a decade this past October, and that predictions abound for an equally meager holiday shopping season, Big Lots is not the only discounter feeling the pinch.

Family Dollar (NYSE: [FDO](#)), for example, expects November same-store sales to range from flat to 2% growth. Meanwhile, **Dollar Tree** (Nasdaq: [DLTR](#)) just reported comps that inched up 1.9%, and also expects flat to low-single-digit comps in its next quarter.

The good news? There's always next year.

For related Foolishness:

- [Foolish Forecast: Big Lots Staying Small?](#)
- [No Lean Times at Dollar Tree](#)
- [Consumed by Family Dollar](#)
- [99 Cents Only: Check the Bargain Bin](#)