
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 2, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-38559



BJ'S WHOLESALE CLUB HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

45-2936287

(I.R.S. Employer
Identification No.)

25 Research Drive

Westborough, Massachusetts

(Address of principal executive offices)

01581

(Zip Code)

(774) 512-7400

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	BJ	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 22, 2019, the registrant had 137,266,498 shares of common stock, \$0.01 par value per share, outstanding.

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FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including, without limitation, statements regarding our future results of operations and financial position, business strategy, transformation, strategic priorities and future progress, including expectations regarding deferred revenue, lease commencement dates, impact of infrastructure investments on our operating model and selling, general and administrative expenses, sales of gasoline and gross profit margin rates, and new club and gas station openings, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expect," "plan," "anticipate," "could," "intend," "project," "believe," "estimate," "predict," "continue," "forecast," "would," or the negative of these terms or other similar expressions. The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including the factors described under the section titled "Risk Factors" in Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2019 (the "Annual Report on Form 10-K for the fiscal year 2018") and in this Quarterly Report on Form 10-Q in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Because forward-looking statements are inherently subject to risks and uncertainties, you should not rely on these forward-looking statements as predictions of future events. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

TRADEMARKS

BJ's Wholesale Club[®], BJ's[®], Wellsley Farms[®], Berkley Jensen[®], My BJ's Perks[®], BJ's Easy Renewal[®], BJ's Gas[®], BJ's Perks Elite[®], BJ's Perks Plus[®], Inner Circle[®] and BJ's Perks Rewards[®] are all registered trademarks of BJ's Wholesale Club, Inc. Other trademarks, tradenames and service marks appearing in this Quarterly Report on Form 10-Q are the property of their respective owners. We do not intend our use or display of those other parties' trademarks, trade names or service marks to imply, and such use or display should not be construed to imply, a relationship with, or endorsement or sponsorship of us by, these other parties. Solely for convenience, trademarks, trade names and service marks referred to in this Quarterly Report on Form 10-Q may appear without the [®], [™] or SM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks, trade names and service marks.

DEFINED TERMS

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires:

- "the Company," "BJ's," "we," "us" and "our" mean BJ's Wholesale Club Holdings, Inc. and, unless the context otherwise requires, its consolidated subsidiaries;
- "fiscal year 2018" means the 52 weeks ended February 2, 2019;
- "fiscal year 2019" means the 52 weeks ended February 1, 2020; and
- "Sponsors" means investment funds affiliated with or advised by CVC Capital Partners and Leonard Green & Partners, L.P.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

BJ'S WHOLESALE CLUB HOLDINGS, INC.
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands)
(Unaudited)

	November 2, 2019	February 2, 2019	November 3, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 29,968	\$ 27,146	\$ 31,502
Accounts receivable, net	185,983	194,300	179,091
Merchandise inventories	1,271,172	1,052,306	1,245,110
Prepaid expenses and other current assets	55,285	63,454	104,258
Total current assets	1,542,408	1,337,206	1,559,961
Operating lease right-of-use assets, net	2,067,626	—	—
Property and equipment:			
Land and buildings	390,085	390,243	396,900
Leasehold costs and improvements	211,824	203,394	197,006
Furniture, fixtures and equipment	1,130,854	1,039,360	1,012,195
Construction in progress	53,244	23,749	15,065
	1,786,007	1,656,746	1,621,166
Less: accumulated depreciation and amortization	(1,010,348)	(907,968)	(875,277)
Total property and equipment, net	775,659	748,778	745,889
Goodwill	924,134	924,134	924,134
Intangibles, net	150,357	200,870	206,706
Other assets	17,897	28,297	28,265
Total assets	\$ 5,478,081	\$ 3,239,285	\$ 3,464,955
LIABILITIES			
Current liabilities:			
Current portion of long-term debt	\$ 449,377	\$ 254,377	\$ 389,377
Current portion of operating lease liabilities	121,961	—	—
Accounts payable	973,328	816,880	976,518
Accrued expenses and other current liabilities	507,141	506,431	487,912
Total current liabilities	2,051,807	1,577,688	1,853,807
Long-term operating lease liabilities	1,980,447	—	—
Long-term debt	1,339,700	1,546,471	1,549,406
Deferred income taxes	50,486	36,937	51,810
Other non-current liabilities	160,127	280,273	266,550
Commitments and Contingencies (see Note 8)			
STOCKHOLDERS' DEFICIT			
Common stock, par value \$0.01; 305,000 shares authorized, 140,642 shares issued and 137,217 outstanding at November 2, 2019; 138,099 shares issued and 137,317 outstanding at February 2, 2019; and 137,620 shares issued and 136,838 outstanding at November 3, 2018	1,406	1,381	1,376
Additional paid-in capital	766,050	742,072	738,134
Accumulated deficit	(758,131)	(915,113)	(979,420)
Accumulated other comprehensive income (loss)	(27,397)	(11,315)	2,401
Treasury stock, at cost, 3,425 shares at November 2, 2019; and 782 shares at February 2, 2019 and November 3, 2018	(86,414)	(19,109)	(19,109)
Total stockholders' deficit	(104,486)	(202,084)	(256,618)
Total liabilities and stockholders' deficit	\$ 5,478,081	\$ 3,239,285	\$ 3,464,955

The accompanying notes are an integral part of the consolidated financial statements.

BJ'S WHOLESALE CLUB HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Amounts in thousands, except per share amounts)
(Unaudited)

	Thirteen Weeks Ended	
	November 2, 2019	November 3, 2018
Net sales	\$ 3,152,887	\$ 3,150,234
Membership fee income	76,517	71,429
Total revenues	3,229,404	3,221,663
Cost of sales	2,611,758	2,629,575
Selling, general and administrative expenses	510,410	499,554
Preopening expense	6,304	2,207
Operating income	100,932	90,327
Interest expense, net	27,702	33,029
Income from continuing operations before income taxes	73,230	57,298
Provision for income taxes	18,034	2,730
Income from continuing operations	55,196	54,568
Loss from discontinued operations, net of income taxes	(104)	(137)
Net income	\$ 55,092	\$ 54,431
Income per share attributable to common stockholders—basic:		
Income from continuing operations	\$ 0.41	\$ 0.40
Loss from discontinued operations	—	—
Net income	\$ 0.41	\$ 0.40
Income per share attributable to common stockholders—diluted:		
Income from continuing operations	\$ 0.40	\$ 0.39
Loss from discontinued operations	—	—
Net income	\$ 0.40	\$ 0.39
Weighted average number of common shares outstanding:		
Basic	135,521	135,018
Diluted	138,192	139,368
Other comprehensive loss:		
Unrealized loss on cash flow hedge, net of income tax of \$305	\$ (787)	\$ —
Total other comprehensive loss	\$ (787)	\$ —
Total comprehensive income	\$ 54,305	\$ 54,431

The accompanying notes are an integral part of the consolidated financial statements.

BJ'S WHOLESALE CLUB HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
(Amounts in thousands, except per share amounts)
(Unaudited)

	Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018
Net sales	\$ 9,493,795	\$ 9,380,640
Membership fee income	224,587	209,825
Total revenues	9,718,382	9,590,465
Cost of sales	7,913,820	7,858,515
Selling, general and administrative expenses	1,523,480	1,534,314
Preopening expense	10,727	4,065
Operating income	270,355	193,571
Interest expense, net	82,274	137,787
Income from continuing operations before income taxes	188,081	55,784
Provision (benefit) for income taxes	42,507	(7,595)
Income from continuing operations	145,574	63,379
Loss from discontinued operations, net of income taxes	(161)	(425)
Net income	\$ 145,413	\$ 62,954
Income per share attributable to common stockholders—basic:		
Income from continuing operations	\$ 1.07	\$ 0.58
Loss from discontinued operations	—	—
Net income	\$ 1.07	\$ 0.58
Income per share attributable to common stockholders—diluted:		
Income from continuing operations	\$ 1.04	\$ 0.55
Loss from discontinued operations	—	—
Net income	\$ 1.04	\$ 0.55
Weighted average number of common shares outstanding:		
Basic	136,301	110,162
Diluted	139,390	114,944
Other comprehensive loss:		
Unrealized loss on cash flow hedge, net of income tax of \$6,253	\$ (16,083)	\$ —
Total other comprehensive loss	\$ (16,083)	\$ —
Total comprehensive income	\$ 129,330	\$ 62,954

The accompanying notes are an integral part of the consolidated financial statements.

BJ'S WHOLESALE CLUB HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CONTINGENTLY REDEEMABLE COMMON STOCK AND
STOCKHOLDERS' DEFICIT
(Amounts in thousands)
(Unaudited)

	Contingently Redeemable Common Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Treasury Stock		Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, February 2, 2019	—	\$ —	138,099	\$ 1,381	\$ 742,072	\$ (915,113)	\$ (11,315)	(782)	\$(19,109)	\$ (202,084)
Net income	—	—	—	—	—	35,798	—	—	—	35,798
Unrealized loss on cash flow hedge, net of tax	—	—	—	—	—	—	(3,755)	—	—	(3,755)
Common stock issued under stock incentive plans	—	—	1,737	17	(17)	—	—	—	—	—
Stock compensation expense	—	—	—	—	3,844	—	—	—	—	3,844
Net cash received on option exercises	—	—	—	—	6,319	—	—	—	—	6,319
Cumulative effect of change in Accounting principle	—	—	—	—	—	11,569	—	—	—	11,569
Balance, May 4, 2019	—	\$ —	139,836	\$ 1,398	\$ 752,218	\$ (867,746)	\$ (15,070)	(782)	\$(19,109)	\$ (148,309)
Net income	—	—	—	—	—	54,523	—	—	—	54,523
Unrealized loss on cash flow hedge, net of tax	—	—	—	—	—	—	(11,540)	—	—	(11,540)
Common stock issued under stock incentive plans	—	—	312	4	(4)	—	—	—	—	—
Common stock issued under Employee Stock Purchase Plan ("ESPP")	—	—	37	—	726	—	—	—	—	726
Stock compensation expense	—	—	—	—	4,952	—	—	—	—	4,952
Net cash received on option exercises	—	—	—	—	2,299	—	—	—	—	2,299
Treasury stock purchases	—	—	—	—	—	—	—	(2,641)	(67,237)	(67,237)
Balance, August 3, 2019	—	\$ —	140,185	\$ 1,402	\$ 760,191	\$ (813,223)	\$ (26,610)	(3,423)	\$(86,346)	\$ (164,586)
Net income	—	—	—	—	—	55,092	—	—	—	55,092
Unrealized loss on cash flow hedge, net of tax	—	—	—	—	—	—	(787)	—	—	(787)
Common stock issued under stock incentive plans	—	—	457	4	(4)	—	—	—	—	—
Stock compensation expense	—	—	—	—	5,188	—	—	—	—	5,188
Net cash received on option exercises	—	—	—	—	675	—	—	—	—	675
Treasury stock purchases	—	—	—	—	—	—	—	(2)	(68)	(68)
Balance, November 2, 2019	—	\$ —	140,642	\$ 1,406	\$ 766,050	\$ (758,131)	\$ (27,397)	(3,425)	\$(86,414)	\$ (104,486)

The accompanying notes are an integral part of the consolidated financial statements.

BJ'S WHOLESALE CLUB HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CONTINGENTLY REDEEMABLE COMMON STOCK AND
STOCKHOLDERS' DEFICIT
(Amounts in thousands)
(Unaudited)

	Contingently Redeemable Common Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Treasury Stock		Total Stockholders' Deficit
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance, February 3, 2018	1,456	\$ 10,438	87,073	\$ 871	\$ 2,883	\$ (1,036,012)	\$ 2,401	—	\$ —	\$ (1,029,857)
Net income	—	—	—	—	—	14,137	—	—	—	14,137
Stock compensation expense	—	—	—	—	970	—	—	—	—	970
Options exercised	280	2,792	—	—	(2,210)	—	—	—	—	(2,210)
Call of shares	—	(28)	—	—	(12)	—	—	—	—	(12)
Net shares used to pay tax withholdings upon option exercise	—	—	—	—	(1,271)	—	—	—	—	(1,271)
Cumulative effect of change in Accounting principle	—	—	—	—	—	(6,362)	—	—	—	(6,362)
Balance, May 5, 2018	1,736	\$ 13,202	87,073	\$ 871	\$ 360	\$ (1,028,237)	\$ 2,401	—	\$ —	\$ (1,024,605)
Net income	—	—	—	—	—	(5,614)	—	—	—	(5,614)
Stock compensation expense	—	—	—	—	51,156	—	—	—	—	51,156
Common stock issued for public offering, net of related fees	—	—	43,125	431	685,458	—	—	—	—	685,889
Common stock issued under stock incentive plans	—	—	4,261	43	(43)	—	—	—	—	—
Stock reclassification as a result of public offering	(1,736)	(13,202)	1,736	17	13,185	—	—	—	—	13,202
Common stock repurchased upon vesting of stock awards	—	—	—	—	—	—	—	(782)	(19,109)	(19,109)
Net shares used to pay tax withholdings upon option exercise	—	—	—	—	(18,792)	—	—	—	—	(18,792)
Balance, August 4, 2018	—	\$ —	136,195	\$ 1,362	\$ 731,324	\$ (1,033,851)	\$ 2,401	(782)	\$(19,109)	\$ (317,873)
Net income	—	—	—	—	—	54,431	—	—	—	54,431
Stock compensation expense	—	—	—	—	2,620	—	—	—	—	2,620
Common stock issued under stock incentive plans	—	—	135	1	(1)	—	—	—	—	—
Common stock issued related to follow-on offering	—	—	1,290	13	(13)	—	—	—	—	—
Net shares used to pay tax withholdings upon option exercise	—	—	—	—	(1,837)	—	—	—	—	(1,837)
Cash received on option exercises	—	—	—	—	6,041	—	—	—	—	6,041
Balance, November 3, 2018	—	\$ —	137,620	\$ 1,376	\$ 738,134	\$ (979,420)	\$ 2,401	(782)	\$(19,109)	\$ (256,618)

The accompanying notes are an integral part of the consolidated financial statements.

BJ'S WHOLESALE CLUB HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 145,413	\$ 62,954
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	116,920	122,434
Amortization of debt issuance costs and accretion of original issue discount	3,969	5,233
Debt extinguishment and refinancing charges	2,032	23,602
Impairment charges	—	3,962
Stock-based compensation expense	13,984	54,746
Deferred income tax provision (benefit)	14,846	(2,802)
Other non-cash items, net	2,539	1,826
Increase (decrease) in cash due to changes in:		
Accounts receivable	8,317	11,233
Merchandise inventories	(218,866)	(225,972)
Prepaid expenses and other current assets	14,051	11,613
Other assets	(1,400)	703
Accounts payable	162,111	231,687
Change in book overdrafts	(1,820)	(29,057)
Accrued expenses	(38,847)	(16,489)
Other non-current liabilities	(1,727)	(4,780)
Net cash provided by operating activities	<u>221,522</u>	<u>250,893</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment, net of disposals	(144,428)	(103,340)
Net cash used in investing activities	<u>(144,428)</u>	<u>(103,340)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long term debt	(11,533)	(32,323)
Paydown of First Lien Term Loan and extinguishment of Second Lien Term Loan	(200,000)	(975,633)
Proceeds from ABL Facility	1,114,000	1,302,000
Payments on ABL Facility	(919,000)	(1,095,000)
Debt issuance costs paid	—	(982)
Capital lease and financing obligations payments	(453)	(530)
Net cash received (paid) from stock option exercises	9,293	(15,277)
Net cash received from Employee Stock Purchase Program (ESPP)	726	—
Acquisition of treasury stock	(67,305)	(19,109)
Proceeds from Initial Public Offering, net of underwriters' discount and commission	—	690,970
Payment of Initial Public Offering costs	—	(5,081)
Other financing activities	—	(40)
Net cash used in financing activities	<u>(74,272)</u>	<u>(151,005)</u>
Net increase (decrease) in cash and cash equivalents	2,822	(3,452)
Cash and cash equivalents at beginning of period	27,146	34,954
Cash and cash equivalents at end of period	<u>\$ 29,968</u>	<u>\$ 31,502</u>
Supplemental cash flow information:		
Interest paid	\$ 75,354	\$ 127,253
Income taxes paid	33,424	14,992
Noncash financing and investing activities:		
Property additions included in accrued expenses	20,255	13,070
Conversion of contingently redeemable common stock into common stock	—	13,202

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

BJ's is a leading warehouse club operator on the east coast of the United States. As of November 2, 2019, the Company operated 218 warehouse clubs and 144 gas stations, in 17 states. The Company is a publicly traded entity and is listed on the New York Stock Exchange ("NYSE") under the ticker symbol "BJ."

The Company follows, and reports, based on the National Retail Federation's fiscal calendar. The thirteen-week periods ended November 2, 2019 and November 3, 2018 are referred to as the "third quarter of fiscal year 2019" and the "third quarter of fiscal year 2018," respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim financial statements of BJ's Wholesale Club Holdings, Inc. are unaudited and, in the opinion of management, reflect all normal recurring adjustments considered necessary for a fair statement of the Company's financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP").

The consolidated balance sheet as of February 2, 2019 is derived from the audited consolidated balance sheet as of that date. The unaudited results of operations for the third quarter of fiscal year 2019 are not necessarily indicative of future results or results to be expected for fiscal year 2019. The Company's business, in common with the business of retailers generally, is subject to seasonal influences. The Company's sales and operating income have typically been highest in the fourth quarter holiday season and lowest in the first quarter of each fiscal year.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in our Annual Report on Form 10-K for the fiscal year 2018, as filed with the Securities and Exchange Commission (the "SEC") on March 25, 2019.

Initial Public Offering and Secondary Offerings

On July 2, 2018, the Company completed its initial public offering ("IPO"), in which the Company issued and sold 43,125,000 shares of its common stock (including 5,625,000 shares of common stock that were subject to the underwriters' option to purchase additional shares) at a public offering price of \$17.00 per share. The Company received total aggregate proceeds of \$685.9 million net of underwriters' discounts, commissions and other transaction expenses, which totaled \$47.2 million.

On July 2, 2018, the Company used the net proceeds from the IPO to extinguish the total outstanding balance of \$623.2 million of its senior secured second lien term loan facility (the "Second Lien Term Loan"). See Note 6, Debt and Credit Arrangements, for further discussion regarding the Second Lien Term Loan extinguishment.

On October 1, 2018, certain selling stockholders completed a registered sale (the "October 2018 Secondary Offering") of 32,200,000 shares of the Company's common stock at a public offering price of \$26.00 per share. Of the 32,200,000 shares sold, 4,200,000 shares represented the underwriters' exercise of their overallotment option. The Company did not receive any proceeds from this offering or incur underwriters' discounts or commissions on the sale. The Company incurred transaction costs of \$2.4 million primarily for legal, accounting and printer services related to the offering.

On March 11, 2019, certain selling stockholders completed a registered sale (the "March 2019 Secondary Offering") of 19,550,000 shares of the Company's common stock at a public offering price of \$25.08 per share. Of the 19,550,000 shares sold, 2,550,000 shares represented the underwriters' exercise of their overallotment option. The Company did not receive any proceeds from the March 2019 Secondary Offering or incur underwriters' discounts or commissions on the sale. The Company incurred transaction costs of \$1.2 million primarily for legal, accounting and printer services related to the offering.

On June 6, 2019, certain selling stockholders completed a registered sale (the "June 2019 Secondary Offering") of 17,500,000 shares of the Company's common stock at a public offering price of \$24.65 per share. The Company did not receive any proceeds from the June 2019 Secondary Offering or incur underwriters' discounts or commissions on the sale. The Company incurred immaterial transaction costs related to the June 2019 Secondary Offering.

On June 27, 2019, certain selling stockholders completed a registered sale (the "CVC June 2019 Secondary Offering") of 9,977,024 shares of the Company's common stock at a price of \$25.41 per share. In connection with this offering, the Company repurchased 2,500,000 shares at \$25.41 per share. The Company did not receive any proceeds from the CVC June 2019 Secondary Offering or incur underwriters' discounts or commissions on the sale. The Company incurred immaterial transaction costs related to the CVC June 2019 Secondary Offering.

The Sponsors, CVC and Leonard Green Partners have both sold a significant portion of their existing shares. As of November 2, 2019 the Sponsors no longer held a significant portion of the Company's common stock.

Stock Split

On June 15, 2018, the Company effected a seven-to-one stock split of its issued and outstanding shares of common stock and proportional adjustment to the existing conversion ratios for each series of the Company's contingently redeemable common stock (see Note 9). Accordingly, all shares and per share amounts for all periods presented in the accompanying consolidated financial statements and notes thereto have been adjusted retroactively, where applicable, to reflect this stock split and adjustment of the contingently redeemable common stock conversion ratios.

Deferred Offering Costs

The Company capitalized certain legal, professional, accounting and other third-party fees that were directly associated with the IPO as deferred offering costs. Upon the consummation of the IPO, \$47.2 million was recorded in stockholders' deficit as a reduction of additional paid-in capital.

Reclassification

A reclassification has been made to the consolidated statements of cash flows for the thirty-nine weeks ended November 3, 2018 related to a tax windfall benefit from that period and the impact of recording the allowance for returns reserve on a gross basis in accordance with the adoption of Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, in order to conform with the current period presentation of these items. Specifically, the Other non-cash items, net line item decreased by \$17.5 million, the Deferred income tax provision (benefit) line item decreased by \$0.1 million, the Prepaid expenses and other current assets line item increased by \$7.8 million, and the Accrued expenses line item increased by \$9.8 million. The reclassification has no impact on net cash provided by operating activities.

Recent Accounting Pronouncements

The accounting policies the Company follows are set forth in its audited financial statements for fiscal year 2018. There have been no material changes to these accounting policies, except as noted below for new accounting pronouncements adopted at the beginning of fiscal year 2019.

Leases (ASU 2016-2)

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-2, Leases (FASB Accounting Standards Codification ("ASC") Topic 842, Leases) which requires recognition on the balance sheet for the rights and obligations created by leases with terms greater than twelve months. Consistent with prior GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend primarily on its classification as a finance or operating lease. However, unlike prior GAAP—which required only finance (formerly capital) leases to be recognized on the balance sheet—the new ASU requires both types of leases to be recognized on the balance sheet.

The Company adopted ASC 842 using the modified retrospective method at the beginning of fiscal year 2019. In accordance with ASC 842, the Company did not recast comparative periods in transition to ASC 842 and instead reported comparative periods under ASC 840. Adoption of the standard resulted in the initial recognition of \$2.040 billion of operating lease right-of-use ("ROU") assets and \$2.071 billion of operating lease liabilities as of February 3, 2019. The difference between the assets and liabilities is attributable to the reclassification of certain existing lease-related assets and liabilities as an adjustment to the ROU assets. Finance leases were not impacted by the adoption of the new guidance as finance lease liabilities and the corresponding assets were recorded on the consolidated balance sheet under the previous guidance. The adoption of this standard did not have a material impact on the Company's interim unaudited consolidated statements of operations and comprehensive income, statements of contingently redeemable common stock and stockholders' deficit or cash flows, and had a \$11.6 million impact on beginning retained earnings in fiscal year 2019 primarily associated with the impact of the Company's deferred gain on prior years' sale leaseback transactions, net of tax. The Company elected the transition package of practical expedients permitted within the new standard which, among other things, allowed it to carry-forward the historical lease classification. The Company did not elect the practical expedient to use hindsight in determining the lease term and in assessing impairment of ROU assets and therefore continued to utilize lease terms determined under previous lease guidance.

Please refer to Note 4 – Leases for further discussion on the Company's leases.

NonEmployee Share-Based Compensation (ASU 2018-07)

In June 2018, the FASB issued ASU 2018-07 *Improvements to Nonemployee Share-Based Payment Accounting* which updates the guidance to Compensation—Stock Compensation (Topic 718). The updated guidance aligns the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees, with certain exceptions. The Company adopted ASU 2018-07 at the beginning of fiscal year 2019 and the adoption of this standard did not have a material impact on its consolidated financial statements.

Recently Issued Accounting Pronouncements

Fair Value Measurement (ASU 2018-13)

In August 2018, the FASB issued ASU 2018-13 *Changes to the Disclosure Requirements for Fair Value Measurement* which updates the guidance to Fair Value Measurement (Topic 820). The updated guidance modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. The updated guidance is effective for fiscal periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company does not anticipate the updated guidance will have a material impact on its consolidated financial statements.

Intangibles—Goodwill and Other—Internal-Use Software (ASU 2018-15)

In August 2018, the FASB issued ASU 2018-15 *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*. The update related to accounting for implementation costs incurred in a cloud computing arrangement that is a service contract. The update allows entities who are customers in hosting arrangements that are service contracts to apply the existing internal-use software guidance to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The update specifies classification for capitalizing implementation costs and related amortization expense within the financial statements and requires additional disclosures. The updated guidance is effective for fiscal reporting periods, including interim reporting within those periods, beginning after December 15, 2019. Early adoption is permitted and can be applied either retrospectively or prospectively. The Company will adopt this ASU on for fiscal year 2020 on a prospective basis and does not anticipate that it will have a material impact on its consolidated financial statements.

Goodwill Impairment (ASU 2017-04)

In January 2017, the FASB issued ASU 2017-04, which provides amendments to ASC 350, "Intangibles - Goodwill and Other", to eliminate Step 2 from the goodwill impairment test. Entities should perform their goodwill impairment tests by comparing the fair value of a reporting unit with its carrying amount and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. The amendments in this update are effective prospectively during interim and annual periods beginning after December 15, 2019, with early adoption permitted. The Company does not believe adoption of this standard will have a material impact on its consolidated financial statements.

Credit Losses (ASU 2016-13)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). This new guidance will change how entities account for credit impairment for trade and other receivables, as well as for certain financial assets and other instruments. ASU 2016-13 will replace the current "incurred loss" model with an "expected loss" model. Under the "incurred loss" model, a loss (or allowance) is recognized only when an event has occurred (such as a payment delinquency) that causes the entity to believe that a loss is probable (i.e., that it has been "incurred"). Under the "expected loss" model, an entity will recognize a loss (or allowance) upon initial recognition of the asset that reflects all future events that will lead to a loss being realized, regardless of whether it is probable that the future event will occur. The "incurred loss" model considers past events and current conditions, while the "expected loss" model includes expectations for the future which have yet to occur. ASU 2016-13 is effective for public companies for fiscal years beginning after December 15, 2019 with early adoption permitted for fiscal years beginning after December 15, 2018, including interim periods therein. The standard will require entities to record a cumulative-effect adjustment to the balance sheet as of the beginning of the first reporting period in which the guidance is effective. The Company does not believe adoption of this standard will have a material impact on its consolidated financial statements.

3. Revenue Recognition

Performance Obligations

The Company identifies each distinct performance obligation to transfer goods (or bundle of goods) or services. The Company recognizes revenue as it satisfies a performance obligation by transferring control of the goods or services to the customer.

Merchandise sales—The Company recognizes sales of merchandise at clubs and gas stations when the customer takes possession of the goods and tenders payment. Sales of merchandise at the Company's clubs and gas stations, excluding sales taxes, represented approximately 96% of the Company's net sales and approximately 94% of the Company's total revenues for the thirty-nine weeks ended November 2, 2019. Sales taxes are recorded as a liability at the point of sale. Revenue is recorded at the point of sale based on the transaction price on the shelf sign, net of any applicable discounts, sales taxes and expected refunds. For e-commerce sales, the Company recognizes sales when control of the merchandise is transferred to the customer, which is typically at the shipping point.

BJ's Perks Rewards and My BJ's Perks programs— The Company's BJ's Perks Rewards® membership program allows participating members to earn 2% cash back, up to a maximum of \$500 per year, on qualified purchases made at BJ's. The Company also offers a co-branded credit card program, the My BJ's Perks® program, which allows My BJ's Perks® Mastercard credit card holders to earn 3% or 5% cash back on eligible purchases made at BJ's and 1% or 2% cash back on purchases made with the card outside of BJ's. Cash back is in the form of electronic awards issued in \$20 increments that may be used online or in-club at the register and expire six months from the date issued.

Earned awards may be redeemed on future purchases made at the Company. The Company recognizes revenue for earned awards when customers redeem such awards as part of a purchase at one of the Company's clubs or the Company's website. The Company accounts for these transactions as multiple element arrangements and allocates the transaction price to separate performance obligations using their relative fair values. The Company includes the fair value of award dollars earned in deferred revenue at the time the award dollars are earned. This liability was \$27.8 million at November 2, 2019, \$25.8 million at February 2, 2019 and \$26.1 million at November 3, 2018.

Royalty revenue received in connection with the My BJ's Perks co-brand credit card program is variable consideration and is considered deferred until the card holder makes a purchase. The Company's total deferred royalty revenue related to the outstanding My BJ's Perks Rewards was \$14.0 million, \$13.4 million and \$13.6 million at November 2, 2019, February 2, 2019 and November 3, 2018, respectively. The timing of revenue recognition of these awards dollars is driven by actual customer activities, such as redemptions and expirations. As of November 2, 2019, the Company expects to recognize \$11.0 million of the deferred revenue in fiscal year 2019, and expects the remainder will be recognized in the years thereafter.

Membership—The Company charges a membership fee to its customers. That fee allows customers to shop in the Company's clubs, shop on the Company's website and purchase gasoline at the Company's gas stations for the duration of the membership, which is generally 12 months. Because the Company has the obligation to provide access to its clubs, website and gas stations for the duration of the membership term, the Company recognizes membership fees on a straight-line basis over the life of the membership. The Company's deferred revenue related to membership fees was \$135.8 million, \$134.4 million and \$127.1 million at November 2, 2019, February 2, 2019 and November 3, 2018, respectively.

Gift Card Program—The Company sells BJ’s gift cards that allow customers to redeem the card for future purchases equal to the amount of the original purchase price of the gift card. Revenue from gift card sales is recognized upon redemption of the gift card because the Company’s performance obligation to redeem the gift card for merchandise is satisfied when the gift card is redeemed. Historically, the Company recognized breakage under the remote model, which recognizes breakage income when the likelihood of the customer exercising its remaining rights becomes remote. Under the current guidance, the Company recognizes breakage in proportion to its rate of gift card redemptions. This change in breakage recognition model had an immaterial impact on the Company’s results of operations for the third quarter of fiscal year 2019 and third quarter of fiscal year 2018. Deferred revenue related to gift cards was \$9.1 million, \$9.1 million and \$8.8 million at November 2, 2019, February 2, 2019 and November 3, 2018, respectively. The Company recognized \$10.5 million and \$9.4 million of revenue from gift card redemptions in the third quarter of fiscal year 2019 and third quarter of fiscal year 2018, respectively. The Company recognized \$33.0 million and \$30.8 million of revenue from gift card redemptions in the thirty-nine weeks ended November 2, 2019 and the thirty-nine weeks ended November 3, 2018, respectively.

Disaggregation of Revenue

The Company’s club retail operations, which represent substantially all the consolidated total revenues, are the Company’s only reportable segment. All the Company’s identifiable assets are in the United States. The Company does not have significant sales outside the United States, nor does any customer represent more than 10% of total revenues for any period presented. The following table summarizes the Company’s percentage of net sales disaggregated by category for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively.

	Thirteen Weeks Ended	
	November 2, 2019	November 3, 2018
Edible Grocery	25%	25%
Perishables	28%	27%
Non-Edible Grocery	21%	22%
General Merchandise	13%	12%
Gasoline and Other Ancillary Services	13%	14%

The following table summarizes the Company’s percentage of net sales disaggregated by category for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively.

	Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018
Edible Grocery	24%	24%
Perishables	28%	28%
Non-Edible Grocery	21%	21%
General Merchandise	13%	13%
Gasoline and Other Ancillary Services	14%	14%

4. Leases

The Company adopted ASC 842 as of February 3, 2019, using the modified retrospective method and applying transitional relief allowing entities to initially apply the requirements at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, results and disclosures for the reporting periods beginning on February 3, 2019 are reported and presented under ASC 842, while prior period amounts and disclosures are not adjusted and continue to be reported and presented under ASC 840.

As part of the adoption, the Company elected the following practical expedients:

1. A package of practical expedients allowing the Company to: a) carry forward its historical lease classification; b) avoid reassessing whether any expired or existing contracts are or contain leases; and c) avoid reassessing initial direct costs for any existing leases.
2. A practical expedient related to land easements, allowing the Company to carry forward the accounting treatment for land easements on existing agreements and eliminating the need to reassess existing lease contracts to determine if land easements are separate leases under ASC 842.

The Company did not elect the following practical expedients:

1. A practical expedient that would allow the Company to use hindsight in determining the lease term and to assess impairment of the entity's ROU assets, since election of this expedient could make adoption more complex given that re-evaluation of the lease term.
2. A practical expedient allowing the Company to not separate lease components from non-lease components (e.g., common area maintenance costs) since currently the Company does not combine lease and non-lease components for any of its real estate leases.

In accordance with ASC 842, the Company determines if an arrangement is a lease at inception or modification of a contract and classifies each lease as either operating or finance lease at commencement. The Company only reassesses lease classification subsequent to commencement upon a change to the expected lease term or the contract being modified. The Company has operating and finance leases for the Company's clubs, and operating leases for the Company's distribution centers, corporate office, and stand-alone gas stations. Operating leases, net of accumulated amortization, are included in operating lease ROU assets, and current and non-current operating lease liabilities, on the interim unaudited consolidated balance sheet. Finance leases are included in property and equipment, accrued expenses and other current liabilities, and other non-current liabilities on the interim unaudited consolidated balance sheets. Lease liabilities are calculated using the effective interest method, regardless of classification, while the amortization of the ROU assets varies depending upon classification. Finance lease classification results in a front-loaded expense recognition pattern over the lease term, which amortizes the ROU asset by recognizing interest expense and amortization expense as separate components of lease expense and calculates the amortization expense component on a straight-line basis. Conversely, operating lease classification results in a straight-line expense recognition pattern over the lease term and recognizes lease expense as a single expense component, which results in amortization of the ROU asset that equals the difference between lease expense and interest expense. Lease expense for finance and operating leases are included in selling, general and administrative expense on the interim unaudited consolidated statement of operations and comprehensive income. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

The Company is generally obligated for the cost of property taxes, insurance, and maintenance relating to its leases, which are often variable lease payments. Such costs are presented as occupancy costs for finance and operating leases included in selling, general and administrative expense on the interim unaudited consolidated statement of operations and comprehensive income.

Certain of the Company's lease agreements provide for lease payments based on future sales volumes at the leased location, or include rental payments adjusted periodically for inflation or based on an index, which are not measurable at the inception of the lease. The Company expenses such variable amounts in the period incurred, which is the period in which it becomes probable that the specified target that triggers the variable lease payments will be achieved. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over the reasonably certain lease term. The operating lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option.

Where the Company's leases do not provide an implicit rate, the Company uses a collateralized incremental borrowing rate ("IBR") to determine the present value of lease payments. The collateralized IBR is based on a synthetic credit rating that is externally prepared on an annual basis at the measurement date, and that the Company adjusts quarterly with a yield curve that approximates the Company's market risk profile.

In calculating the present value of the lease payments, the Company has elected to utilize its estimated IBR based on the original lease term and not the remaining lease term. The initial primary term of the Company's operating leases ranges from 5 to 44 years, with most of these leases having an initial term of 20 years. The initial primary term of the Company's two finance leases are 20 years.

The adoption of ASC 842 resulted in the initial recognition of \$2.040 billion of operating lease ROU assets and \$2.071 billion of operating lease liabilities as of February 3, 2019. The difference between the assets and liabilities is attributable to the reclassification of certain existing lease-related assets and liabilities as an adjustment to the right-of-use assets. The Company derecognized assets and liabilities of \$94.7 million and \$125.8 million, respectively, in connection with the non-cash transitional adjustment. As a result of adopting ASC 842, the Company also recorded a benefit to retained earnings of \$11.6 million, primarily associated with the net of tax impact of the Company's deferred gain on prior years' sale leaseback transactions. Finance leases were not impacted by the adoption of the new guidance, as finance lease liabilities and the corresponding assets were recorded on the consolidated balance sheet under the previous guidance. The adoption of this standard did not materially impact the Company's consolidated statements of operations and comprehensive income, or the Company's consolidated statements of cash flows.

As of November 2, 2019, assets recorded under finance leases were \$19.3 million and accumulated amortization associated with finance leases was \$9.2 million, while ROU assets recorded as operating leases were \$2.178 billion and accumulated amortization associated with operating leases was \$110.7 million. As of November 2, 2019, the Company also recorded non-cash increases of \$136.2 million to ROU assets and liabilities resulting from new leases and lease reassessments.

The following table is a summary of the Company's components of total lease costs for the thirteen and thirty-nine weeks ended November 2, 2019, respectively (in thousands):

	Thirteen Weeks Ended November 2, 2019	Thirty-Nine Weeks Ended November 2, 2019
Operating lease cost	\$ 80,966	\$ 240,727
Finance lease cost:		
Amortization of right-of-use assets	282	846
Interest on lease liabilities	624	1,883
Total finance lease costs	906	2,729
Variable lease costs	—	93
Net lease costs	\$ 81,872	\$ 243,549

The weighted average remaining lease term and weighted average discount rate for operating and finance leases as of November 2, 2019 were as follows:

	Operating Leases	Finance Leases
Weighted average remaining lease term in years	9.1	9.6
Weighted average discount rate percentage	8.2%	8.3%

Cash paid for amounts included in the measurement of lease liabilities were as follows (in thousands):

Operating cash flows paid for operating leases	\$ 232,892
Operating cash flows paid for interest portion of finance leases	1,883
Financing cash flows paid for principal portion of finance leases	453

Future lease commitments to be paid by the Company as of November 2, 2019 were as follows (in thousands):

Fiscal year	Operating Leases	Finance Leases
2019 ^(a)	\$ 54,017	\$ 519
2020	316,376	3,412
2021	310,582	3,439
2022	296,416	3,439
2023	278,809	3,439
Thereafter	1,902,834	20,281
Total future minimum operating lease payments	3,159,034	34,529
Less: imputed interest	(1,056,626)	(18,155)
Present value of operating lease liabilities	\$ 2,102,408	\$ 16,374

(a) Represents the remainder of fiscal year 2019 which excludes the thirty-nine weeks ended November 2, 2019.

As of November 2, 2019, the Company had certain executed real estate and gas station leases that have not yet commenced and therefore are not reflected in the tables above. These leases are expected to commence during the remainder of fiscal year 2019 through fiscal year ending January 30, 2021 with lease terms ranging from 10 years to 25 years.

The following table represents the Company's lease commitments under its previous presentation of its operating and finance lease agreements as of February 2, 2019 (in thousands):

Fiscal Year	Operating Leases	Finance Leases
2019	\$ 309,785	\$ 4,510
2020	310,956	4,807
2021	299,410	4,833
2022	282,841	4,894
2023	264,363	4,956
Thereafter	1,778,207	34,377
Total	\$ 3,245,562	\$ 58,377

5. Related Party Transactions

Management Agreement

The Company had a management services agreement with the Sponsors for ongoing consulting and advisory services that terminated upon the consummation of the Company's IPO. The management services agreement provided for the aggregate payment of management fees to the Sponsors (or advisory affiliates thereof) of \$8.0 million per year, plus out of pocket expenses. The Company incurred no management fees for the thirteen and thirty-nine weeks ended November 2, 2019, respectively. The Company incurred no management fees and \$3.3 million of management fees for the thirteen and thirty-nine weeks ended November 3, 2018, respectively. Management fees and expenses are reported in selling, general and administrative expenses ("SG&A") in the consolidated statements of operations and comprehensive income.

One of the Company's suppliers, Advantage Solutions Inc., is controlled by affiliates of the Sponsors. Advantage Solutions Inc. is principally a provider of in-club product demonstration and sampling services, and the Company also engages them from time to time to provide ancillary support services, including for example, seasonal gift wrapping, on-floor sales assistance and display maintenance. The Company incurred approximately \$10.2 million and \$11.6 million of costs payable to Advantage Solutions Inc. for services rendered during the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively. The Company incurred approximately \$32.6 million and \$33.0 million costs payable to Advantage Solutions Inc. for services rendered during the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively. The demonstration and sampling service fees are fully funded by merchandise vendors who participate in the program.

The Company believes the terms obtained or consideration paid or received, as applicable, in connection with the transactions were comparable to terms available or amounts that would be paid or received, as applicable, in arms'-length transactions with unrelated parties.

6. Debt and Credit Arrangements

Debt consisted of the following at November 2, 2019, February 2, 2019 and November 3, 2018 (in thousands):

	November 2, 2019	February 2, 2019	November 3, 2018
ABL Facility	\$ 484,000	\$ 289,000	\$ 424,000
First Lien Term Loan	1,318,512	1,530,045	1,533,890
Unamortized debt discount and debt issuance cost	(13,435)	(18,197)	(19,107)
Less: current portion	(449,377)	(254,377)	(389,377)
Long-term debt	<u>\$ 1,339,700</u>	<u>\$ 1,546,471</u>	<u>\$ 1,549,406</u>

ABL Facility

On August 17, 2018, the Company amended and restated the senior secured asset based revolving credit and term facility (the "ABL Facility") to extend the maturity date from February 3, 2022 to August 17, 2023 and reduce the applicable interest rates and letter of credit fees on the facility. Total fees associated with the refinancing were approximately \$1.0 million. The Company capitalized approximately \$0.9 million of new debt issuance costs and had immaterial write-offs for previously capitalized debt issuance costs and third-party fees.

The ABL Facility is comprised of a \$950.0 million revolving credit facility and a \$50.0 million term loan. The ABL Facility is secured on a senior basis by certain "liquid assets" of the Company and secured on a junior basis by certain "fixed assets" of the Company. The \$50.0 million term loan payment terms are restricted in that the term loan cannot be repaid unless all loans outstanding under the revolving credit facility are repaid, and once repaid, cannot be re-borrowed. The availability under the \$950.0 million revolving credit facility is restricted based on eligible monthly merchandise inventories and receivables as defined in the facility agreement. As amended, interest on the revolving credit facility is calculated either at LIBOR plus a range of 125 to 175 basis points or a base rate plus a range of 25 to 75 basis points; and interest on the term loan is calculated at LIBOR plus a range of 200 to 250 basis points or a base rate plus a range of 100 to 150 basis points, in all cases based on excess availability. The applicable spread of LIBOR and base rate loans at all levels of excess availability steps down by 12.5 basis points upon achieving total net leverage of 3.00 to 1.00. The ABL Facility also provides a sub-facility for issuances of letters of credit subject to certain fees defined in the ABL Facility agreement. The ABL Facility is subject to various commitment fees during the term of the facility based on utilization of the revolving credit facility.

At November 2, 2019, there was \$484.0 million outstanding in loans under the ABL Facility and \$27.3 million in outstanding letters of credit. At February 2, 2019, there was \$289.0 million outstanding in loans under the ABL Facility and \$41.2 million in outstanding letters of credit. At November 3, 2018, there was \$424.0 million outstanding in loans under the ABL Facility and \$45.1 million in outstanding letters of credit.

As of November 2, 2019, the interest rate on the revolving credit facility was 2.91%, and borrowing availability was \$488.7 million. As of February 2, 2019, the interest rate on the revolving credit facility was 3.76%, and borrowing availability was \$545.6 million. As of November 3, 2018, the interest rate on the revolving credit facility was 3.56%, and borrowing availability was \$521.6 million.

First Lien Term Loan

On August 13, 2018, the Company amended its senior secured first lien term loan facility (the "First Lien Term Loan") to reduce the applicable interest rates and reduce the principal on the loan. The Company drew \$350.0 million under its ABL Facility to fund the transaction. As amended, the First Lien Term Loan has an initial principal amount of \$1,537.7 million and interest is calculated either at LIBOR plus 275 to 300 basis points or a base rate plus 175 to 200 basis points based on the Company achieving a net leverage ratio of 3.00 to 1.00. Total fees associated with the refinancing were approximately \$1.8 million. The Company wrote-off \$4.4 million of previously capitalized deferred debt issuance costs and original issue discount and expensed \$1.8 million of new third-party fees.

At November 2, 2019, the Company's net leverage ratio was less than 3.00 and the interest rate for the First Lien Term Loan was 4.67%. At February 2, 2019, the interest rate for the First Lien Term Loan was 5.51%. At November 3, 2018, the interest rate for the First Lien Term Loan was 5.28%.

Principal payments on the First Lien Term Loan are required in quarterly installments of 0.25% of the original principal amount with the balance due upon maturity on February 3, 2024. Voluntary prepayments are permitted. Principal payments must be made on the First Lien Term Loan pursuant to an annual excess cash flow calculation. The First Lien Term Loan is subject to certain affirmative and negative covenants but no financial covenants. It is secured on a senior basis by certain "fixed assets" of the Company and on a junior basis by certain "liquid" assets of the Company.

On November 1, 2019, the Company borrowed \$200.0 million from the ABL Facility. The proceeds from the Company's borrowing were used to pay a portion of the principal amount due on the First Lien Term Loan. In connection with the payment, the Company expensed \$2.0 million of previously capitalized deferred debt issuance costs and original issue discount.

At November 2, 2019, there was \$1,318.5 million outstanding on the First Lien Term Loan. At February 2, 2019, there was \$1,530.0 million outstanding on the First Lien Term Loan. At November 3, 2018, there was \$1,533.9 million outstanding on the First Lien Term Loan.

Second Lien Term Loan

On July 2, 2018, the Company paid off the Second Lien Term Loan by extinguishing the entire outstanding amount of \$623.2 million. In connection with the debt extinguishment, the Company paid a \$6.2 million prepayment premium. The Company recorded debt extinguishment charges of \$19.2 million in conjunction with the pay down, of which \$13.0 million represents the write-off of previously capitalized deferred debt issuance costs associated with the Second Lien Term Loan.

7. Interest Expense, net

The following details the components of interest expense for the periods presented (in thousands):

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Interest on debt	\$ 23,741	\$ 24,411	\$ 74,439	\$ 104,173
Interest on capital lease and financing obligations	624	1,037	1,883	3,122
Debt issuance costs amortization	696	696	2,087	2,626
Original issue discount amortization	627	627	1,882	2,606
Loss on debt extinguishment	2,032	6,246	2,032	25,405
Capitalized interest	(18)	12	(49)	(145)
Interest expense, net	\$ 27,702	\$ 33,029	\$ 82,274	\$ 137,787

8. Commitments and Contingencies

The Company is subject to various claims and pending or threatened lawsuits in the ordinary course of business. The Company is not currently a party to any legal proceedings that it believes would have a material adverse impact on its financial position, results of operations, or cash flows.

9. Contingently Redeemable Common Stock

The Company and certain current and former management employees were party to a Management Stockholders Agreement (the "MSA"). All grants of equity by the Company to the employees were governed by the terms of individual equity award agreements and the MSA through the date of the IPO. The MSA specified certain transfer restrictions, tag-along and drag-along rights, put and call rights and various other rights and restrictions applicable to any equity held by employees. The call right permitted the Company to repurchase common stock held by an employee stockholder following a minimum holding period and prior to the expiration of a specified time period following the later of the employee's termination of employment with the Company or acquisition of the common stock. If the employee's employment was terminated for cause, the repurchase price was the least of (a) the fair market value as of the repurchase date, (b) the fair market value at issuance or (c) the price paid by the employee stockholder for such shares. If the employee's employment was terminated other than for cause, the repurchase price was the fair market value as of the repurchase date.

The MSA also gave the employees the ability to put any shares back to the Company at fair market value upon death or disability while actively employed. As neither death nor disability while actively employed was a certainty, the shares of common stock held by the employee stockholders were considered to be contingently redeemable common stock and were accounted for outside of stockholders' equity until the shares of common stock were either repurchased by the Company or the put right terminated. The contingently redeemable common stock was recorded at fair value of the common stock as of the date of issuance. Both the Company's repurchase right, and the employee stockholder's put right terminated upon the consummation of the IPO and reclassified all contingently redeemable common stock to common stock on the Company's consolidated balance sheet. As of November 2, 2019, February 2, 2019 and November 3, 2018, there was no contingently redeemable common stock outstanding on the Company's balance sheet.

Prior to the IPO, when the Company exercised its call option to repurchase shares classified outside of stockholders' equity, it was deemed to be a constructive retirement of the contingently redeemable share for accounting purposes. The Company recorded the excess of the fair value paid to repurchase the share over the carrying value of the contingently redeemable share within additional paid-in capital, as the Company had an accumulated deficit.

10. Stock Incentive Plans

On June 13, 2018, the Company's board of directors adopted, and its stockholders approved, the 2018 Incentive Award Plan (the "2018 Plan"). The 2018 Plan provides for the grant of stock options, restricted stock, dividend equivalents, stock payments, restricted stock units, performance shares, other incentive awards, stock appreciation rights, and cash awards. Prior to the adoption of the 2018 Plan, the Company granted stock-based compensation to employees and non-employee directors, respectively, under the Fourth Amended and Restated 2011 Stock Option Plan of BJ's Wholesale Club, Inc. ("2011 Plan") and the 2012 Stock Option Plan of BJ's Wholesale Club Holdings, Inc. ("2012 Director Plan"). No further grants will be made under 2011 Plan or the 2012 Director Plan.

The 2018 Plan authorizes the issuance of 13,148,058 shares, including 985,369 shares that were reserved but not issued under the 2011 Plan and the 2012 Director Plan. If an award under the 2018 Plan, 2011 Plan or 2012 Director Plan is forfeited, expires or is settled for cash, any shares subject to such award may, to the extent of such forfeiture, expiration or cash settlement, be used again for new grants under the 2018 Plan. Additionally, shares tendered or withheld to satisfy grant or exercise price, or tax withholding obligations associated with an award under the 2018 Plan, the 2011 Plan or the 2012 Director Plan will be added to the shares authorized for grant under the 2018 Plan. The following shares may not be used again for grants under the 2018 Plan: (1) shares subject to a stock appreciation right ("SAR"), that are not issued in connection with the stock settlement of the SAR on its exercise and (2) shares purchased on the open market with the cash proceeds from the exercise of options under the 2018 Plan, 2011 Plan or 2012 Director Plan.

The following table summarizes the Company's stock award activity during the thirty-nine weeks ended November 2, 2019 (shares in thousands):

	Stock Options		Restricted Stock		Restricted Stock Units	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding, February 2, 2019	6,252	\$ 10.09	973	\$ 22.14	16	\$ 27.59
Granted	726	27.59	853	27.54	30	25.83
Forfeited/canceled	(4)	5.72	(6)	25.63	—	—
Exercised/vested	(1,643)	5.38	(324)	26.40	(16)	25.64
Outstanding, November 2, 2019	5,331	\$ 13.92	1,496	\$ 25.03	30	\$ 25.83

Stock-based compensation expense was \$5.2 million and \$2.6 million for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively. Stock-based compensation expense was \$14.0 million and \$54.7 million for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively.

In connection with the IPO, the Company's board of directors granted the following new awards to certain employees under the 2018 Plan, subject to vesting: stock options to purchase 2,510,263 shares of common stock, with an exercise price of \$17.00 and restricted stock in the amount of 2,942,695 shares with a grant date fair value of \$22.00, equivalent to the closing price of the first day of trading.

Treasury Shares Acquired

On June 27, 2019, the Company completed the CVC June 2019 Secondary Offering of 9,977,024 shares of the Company's common stock and, in connection with the offering, the Company repurchased 2,500,000 shares of common stock at a price of \$25.41 per share. These repurchased shares are being held in treasury.

In addition, 143,205 shares and 781,866 shares were reacquired to satisfy employees' tax withholding obligations upon the vesting of restricted stock awards in the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively. These reacquired shares were recorded as \$3.8 million and \$19.1 million of treasury stock for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively.

11. Income Taxes

The Company projects the estimated annual effective tax rate for the fiscal year to be 27.0%, excluding the tax effect of discrete events. Potential discrete adjustments include tax charges or benefits related to stock-based compensation, changes in tax legislation, settlements of tax audits and changes in uncertain tax positions, among others.

The Company's effective income tax rate from continuing operations was 24.6% and 4.8% for the thirteen weeks ended November 2, 2019 and November 3, 2018, respectively; and 22.6% and (13.6)% for the thirty-nine weeks ended November 2, 2019 and November 3, 2018, respectively. The effective tax rates for the third quarter of fiscal year 2019 and the third quarter of fiscal year 2018 were impacted by excess tax benefits from stock-based compensation.

We are subject to taxation in the U.S. federal and various state taxing jurisdictions. In general, the Company's tax years from 2014 forward remain open and subject to examination by the Internal Revenue Service and various state taxing authorities; however, certain ongoing state audits and appeals relate to earlier periods.

12. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date or "exit price." The inputs used to measure fair value are generally classified into the following hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, or unadjusted quoted prices for identical or similar assets or liabilities in markets that are not observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability.

The fair value of the Company's debt was determined based on comparable quoted market prices and on borrowing rates available to the Company at November 2, 2019, February 2, 2019 and November 3, 2018. These inputs are considered to be Level 2. At November 2, 2019, the fair value of total debt was \$1,802.3 million compared to a carrying value of \$1,802.5 million. At February 2, 2019, the fair value of total debt was \$1,805.9 million compared to a carrying value of \$1,819.0 million. At November 3, 2018, the fair value of total debt was \$1,959.3 million compared to a carrying value of \$1,957.9 million.

13. Earnings Per Share

The following table summarizes the computation of basic and diluted net income per share attributable to common stockholders:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Weighted-average common shares outstanding, used for basic computation	135,520,854	135,018,238	136,300,591	110,162,167
Plus: Incremental shares of potentially dilutive securities	2,671,014	4,349,499	3,089,663	4,781,572
Weighted-average number of common and dilutive potential common shares outstanding	138,191,868	139,367,737	139,390,254	114,943,739

Stock options and restricted shares of 740,655 and 553,986, respectively, were excluded from the computation of diluted earnings for the thirteen weeks ended November 2, 2019, because their inclusion would have been anti-dilutive. Stock options and restricted shares of 589,145 and 434,375, respectively, were excluded from the computation of diluted earnings for the thirty-nine weeks ended November 2, 2019 because their inclusion would have been anti-dilutive. Similarly, stock options of 652,743 and 1,569,949 were excluded from the computation of diluted earnings for the thirteen and thirty-nine weeks ended November 3, 2018, respectively.

14. Derivative Financial Instruments

Interest Rate Swaps

On November 13, 2018, the Company entered into three forward starting interest rate swaps (the "Interest Rate Swaps"), which became effective on February 13, 2019. The Company has fixed the LIBOR component of \$1.2 billion of its floating rate debt at a rate of approximately 3.0%. At November 2, 2019 and February 2, 2019, the Interest Rate Swaps were recorded as a liability of \$42.4 million and \$19.4 million, respectively, with the net of tax amount recorded in other comprehensive income.

The Company elected hedge accounting for the interest rate swap agreements, and as such, the effective portion of the gains and losses was recorded as a component of other comprehensive income. There were \$1.1 million and \$22.3 million of losses recorded in the thirteen and thirty-nine weeks ended November 2, 2019, respectively, in other comprehensive income. There were no unrealized losses recorded in the thirteen and thirty-nine weeks ended November 3, 2018.

The fair values of derivative instruments included on the consolidated balance sheets are as follows (in thousands):

Accounting for cash flow hedges	Notional Amount	Fixed Rate	Balance Sheet Classification	Fair Value at	
				November 2, 2019	February 2, 2019
Interest rate swap	\$ 600,000	3.00%	Other non-current liabilities	\$ (21,200)	\$ (9,730)
Interest rate swap	360,000	3.00%	Other non-current liabilities	(12,694)	(5,804)
Interest rate swap	240,000	3.00%	Other non-current liabilities	(8,468)	(3,876)
Net carrying amount	\$ 1,200,000		Total liabilities	\$ (42,362)	\$ (19,410)

15. Subsequent Events

On November 20, 2019, the Company's board of directors approved a stock repurchase program. The authorization allows the Company to repurchase up to \$250.0 million of its outstanding common stock. The stock repurchase program expires in January 2022 and gives management the flexibility to determine the terms and conditions under which shares may be purchased. The amount and timing of any repurchases made under the stock repurchase program will depend on a variety of factors, including available liquidity, cash flow and market conditions. The stock repurchase program does not obligate the Company to repurchase any dollar amount or number of shares of common stock, and the program may be suspended or discontinued at any time.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes thereto included elsewhere in this Quarterly Report on Form 10-Q, as well as the audited consolidated financial statements and the related notes thereto in our Annual Report on Form 10-K for the fiscal year 2018. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause such differences are discussed in the section of this Quarterly Report on Form 10-Q titled "Cautionary Note Regarding Forward-Looking Statements" and under "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year 2018.

We report on the basis of a 52- or 53-week fiscal year, which ends on the Saturday closest to the last day of January. Accordingly, references herein to "fiscal year 2019" relate to the 52 weeks ending February 1, 2020, and references herein to "fiscal year 2018" relate to the 52 weeks ended February 2, 2019. The third quarter of fiscal year 2019 ended on November 2, 2019, and the third quarter of fiscal year 2018 ended on November 3, 2018, and both include thirteen weeks.

Overview

BJ's is a leading warehouse club operator on the east coast of the United States. 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. We provide a curated assortment focused on perishable products, continuously refreshed general merchandise, gasoline and other ancillary services to deliver a differentiated shopping experience, that is further enhanced by our omnichannel capabilities.

Since pioneering the warehouse club model in New England in 1984, we have grown our footprint to 218 large-format, high volume warehouse clubs spanning 17 states. In our core New England markets, which have high population density and generate a disproportionate part of U.S. gross domestic product, we operate almost three times the number of clubs compared to the next largest warehouse club competitor. In addition to shopping in our clubs, members are able to shop when and how they want through our website, www.bjs.com; our highly-rated mobile app and our integrated same-day delivery offering.

Our goal is to offer our members significant value and a meaningful return in savings on their annual membership fee. As of the end of fiscal year 2018, we had approximately 5.5 million members paying annual fees to gain access to savings on groceries, consumables, general merchandise, gasoline and other ancillary services. The annual membership fee for our Inner Circle[®] membership is \$55, and the annual membership fee for our BJ's Perks Rewards[®] membership, which offers additional value-enhancing features, is \$110. We believe that members can save over ten times their \$55 Inner Circle membership fee versus what they would otherwise pay at traditional supermarket competitors when they spend \$2,500 or more per year at BJ's on manufacturer-branded groceries. In addition to providing significant savings on a representative basket of manufacturer-branded groceries, we accept all manufacturer coupons and also carry our own exclusive brands that enable members to save on price without compromising on quality. Our two private label brands, Wellsley Farms[®] and Berkley Jensen[®], represented over \$2 billion in annual sales for fiscal year 2018, and are the largest brands we sell. Our customers recognize the relevance of our value proposition across economic environments, as demonstrated by over 20 consecutive years of membership fee income growth. Our membership fee income was \$282.9 million, representing approximately half of our Adjusted EBITDA, for fiscal year 2018.

Our business is moderately seasonal in nature. Historically, our business has realized a slightly higher portion of net sales, operating income and cash flows from operations in the second and fourth fiscal quarters, attributable primarily to the impact of the summer and year-end holiday season, respectively.

Factors Affecting Our Business

Overall economic trends. The overall economic environment and related changes in consumer behavior have a significant impact on our business. In general, positive conditions in the broader economy promote customer spending in our clubs, while economic weakness which generally results in a reduction of customer spending may have a different or more extreme effect on spending at our clubs. Macroeconomic factors that can affect customer spending patterns, and thereby our results of operations, include employment rates, business conditions, changes in the housing market, the availability of credit, interest rates, tax rates and fuel and energy costs. In addition, during periods of low unemployment, we may experience higher labor costs.

Size and loyalty of membership base. The membership model is a critical element of our business. Members drive our results of operations through their membership fee income and their purchases. The majority of members renew within nine months following their renewal date. Therefore, our renewal rate is a trailing calculation that captures renewals during the period seven to eighteen months prior to the reporting date. We have grown our membership fee income each year over the past two decades. Our membership fee income totaled \$282.9 million in fiscal year 2018. Our membership renewal rate, a key indicator of membership engagement, satisfaction and loyalty, reached an all-time high of 87% during fiscal year 2018.

Consumer preferences and demand. Our ability to maintain our appeal to existing customers and attract new customers depends on our ability to originate, develop and offer a compelling product assortment responsive to customer preferences. If we misjudge the market for our products, we may be faced with excess inventories for some products and may be required to become more promotional in our selling activities, which would impact our net sales and gross profit.

Infrastructure investment. Our historical operating results reflect the impact of our ongoing investments to support our growth. We have made significant investments in our business that we believe have laid the foundation for continued profitable growth. We believe that strengthening our management team and enhancing our information systems, including our distribution center management and point-of-sale systems, will enable us to replicate our profitable club format and provide a differentiated shopping experience. We expect these infrastructure investments to support our successful operating model across our club operations.

Product mix. Changes in our product mix affect our performance. For example, we have continued to add private label products to our assortment of product offerings at our clubs, which we generally price lower than the manufacturer branded products of comparable quality that we also offer. Accordingly, a shift in our sales mix in which we sell more units of our private label products and fewer units of our manufacturer branded products would generally have a positive impact on our profit margins but an adverse impact on our overall net sales. Changes in our revenues from gasoline sales may also negatively affect our performance. Since gasoline generates lower profit margins than the remainder of our business, we could expect to see our overall gross profit margin rates decline as sales of gasoline increase.

Effective sourcing and distribution of products. Our net sales and gross profit are affected by our ability to purchase our products in sufficient quantities at competitive prices. While we believe our vendors have adequate capacity to meet our current and anticipated demand, our level of net sales could be adversely affected in the event of constraints in our supply chain, including our inability to procure and stock sufficient quantities of some merchandise in a manner that is able to match market demand from our customers, leading to lost sales.

Gasoline prices. The market price of gasoline impacts our net sales and comparable club sales, and large fluctuations in the price of gasoline may produce a short-term impact on our margins. Retail gasoline prices are driven by daily crude oil and wholesale commodity market changes and are volatile, as they are influenced by factors that include changes in demand and supply of oil and refined products, global geopolitical events, regional market conditions and supply interruptions caused by severe weather conditions. Typically, the change in crude oil prices impacts the purchase price of wholesale petroleum fuel products, which in turn impacts retail gasoline prices at the pump. During times when prices are particularly volatile, differences in pricing and procurement strategies between the Company and its competitors may lead to temporary margin contraction or expansion depending on whether prices are rising or falling, and this impact could affect our overall results for a fiscal quarter.

In addition, the relative level of gasoline prices from period to period may lead to differences in our net sales between those periods. Further, because we generally attempt to maintain a fairly stable gross profit per gallon, this variance in net sales, which may be substantial, may or may not have a significant impact on our operating income.

Fluctuation in quarterly results. Our quarterly results have historically varied depending upon a variety of factors, including our product offerings, promotional events, club openings, weather related events and shifts in the timing of holidays, among other things. As a result of these factors, our working capital requirements and demands on our product distribution and delivery network may fluctuate during the year.

Inflation and deflation trends. Our financial results can be expected to be directly impacted by substantial increases in product costs due to commodity cost increases or general inflation, which could lead to a reduction in our sales as well as greater margin pressure as costs may not be able to be passed on to consumers. As of November 2, 2019, changes in commodity prices and general inflation had not materially impacted our business. In response to increasing commodity prices or general inflation, we seek to minimize the impact of such events by sourcing our merchandise from different vendors, changing our product mix or increasing our pricing when necessary.

Tariffs. We are implementing a variety of mitigation measures in order to reduce the risk associated with our direct exposure to tariffs. We have diversified our global supply chain to reduce reliance on China by sourcing high-quality products from other markets in both Asia and Africa. Chinese-sourced goods represent 3% of our cost of sales, which we expect to be slightly lower next year. We believe that this gives us a much smaller exposure to tariffs than many other retailers.

Refinancings. We used the proceeds of the initial public offering ("IPO") to repay indebtedness under our Second Lien Term Loan (as defined below) which reduced our cost of capital and debt service obligations. In addition, we amended our ABL Facility and First Lien Term Loan, resulting in a reduction to the applicable interest rates.

Adoption of Accounting Standards Codification 842, Leases ("ASC 842"). We adopted ASC 842 effective February 3, 2019 using the modified retrospective method and applying transitional relief allowing entities to initially apply the requirements at the adoption date by recognizing a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, results and disclosures for the reporting periods beginning on February 3, 2019 are reported and presented under ASC 842, while prior period amounts and disclosures are not adjusted and continue to be reported and presented under ASC 840, Leases. See Note 4 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding our adoption of ASC 842.

How We Assess the Performance of Our Business

In assessing our performance, we consider a variety of performance and financial measures. The key generally accepted accounting principles in the United States of America ("GAAP") measures include net sales, membership fee income, cost of sales, selling, general and administrative expenses ("SG&A") and net income. In addition, we also review other important metrics such as Adjusted EBITDA, comparable club sales and merchandise comparable club sales.

Net sales

Net sales are derived from direct retail sales to customers in our clubs and online, net of merchandise returns and discounts. Growth in net sales is impacted by opening new clubs and increases in comparable club sales.

Comparable club sales

Comparable club sales, also known as same store sales, is an important measure throughout the retail industry. In determining comparable club sales, we include all clubs that were open for at least thirteen months at the beginning of the period and were in operation during all of both periods being compared, including relocated clubs and expansions. There may be variations in the way in which some of our competitors and other retailers calculate comparable or same store sales. As a result, data in this Quarterly Report on Form 10-Q regarding our comparable club sales may not be comparable to similar data made available by other retailers.

Comparable club sales allow us to evaluate how our club base is performing by measuring the change in period-over-period net sales in clubs that have been open for the applicable period. Various factors affect comparable club sales, including consumer preferences and trends, product sourcing, promotional offerings and pricing, customer experience and purchase amounts, weather and holiday shopping period timing and length.

Merchandise comparable club sales

Merchandise comparable club sales is calculated by excluding sales from our gasoline operations from comparable club sales for the applicable period.

Membership fee income

Membership fee income reflects the amount collected from our customers to be a member of our clubs. Membership fee income is recognized in revenue on a straight-line basis over the life of the membership, which is typically twelve months.

Cost of sales

Cost of sales consists primarily of the direct cost of merchandise and gasoline sold at our clubs, including the following:

- costs associated with operating our distribution centers, including payroll, payroll benefits, occupancy costs and depreciation;
- freight expenses associated with moving merchandise from vendors to our distribution centers and from our distribution centers to our clubs; and
- vendor allowances, rebates and cash discounts.

Selling, general and administrative expenses

SG&A consists of various expenses related to supporting and facilitating the sale of merchandise in our clubs, including the following:

- payroll and payroll benefits for club and corporate employees;
- rent, depreciation and other occupancy costs for retail and corporate locations;
- advertising expenses;
- tender costs, including credit and debit card fees;
- amortization of intangible assets; and
- consulting, legal, insurance and other professional services expenses.

SG&A includes both fixed and variable components and, therefore, is not directly correlated with net sales. In addition, the components of our SG&A may not be comparable to those of other retailers. We expect that our SG&A will increase in future periods due to investments to spur comparable club sales growth, our continuing club growth and in part due to additional legal, accounting, insurance and other expenses that we expect to incur as a result of being a public company, including compliance with the Sarbanes-Oxley Act of 2002. In addition, any increase in future stock option or other stock-based grants or modifications will increase our stock-based compensation expense included in SG&A.

Net Income

Net income reflects the Company's net sales, less cost of sales, SG&A, interest, taxes and other expenses.

Adjusted EBITDA

Adjusted EBITDA is defined as income from continuing operations before interest expense, net, provision (benefit) for income taxes and depreciation and amortization, adjusted for the impact of certain other items, including, stock-based compensation expense, pre-opening expenses, management fees, non-cash rent, strategic consulting expenses, costs related to our IPO and the registered offerings by selling stockholders (such offering costs, collectively, "offering costs") and other adjustments. For a reconciliation of Adjusted EBITDA to income from continuing operations, the most directly comparable GAAP measure, see "—Non-GAAP Financial Measures."

Non-GAAP Financial Measures

Adjusted EBITDA

We present Adjusted EBITDA, which is not a recognized financial measure under GAAP, because we believe it assists investors and analysts in comparing our operating performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. We define Adjusted EBITDA as income from continuing operations before interest expense, net, provision (benefit) for income taxes and depreciation and amortization, adjusted for the impact of certain other items, including: stock-based compensation expense, preopening expenses, management fees, non-cash rent, strategic consulting, offering costs, and other adjustments. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating Adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in our presentation of Adjusted EBITDA. Our presentation of Adjusted EBITDA should not be considered an alternative to any other performance measure derived in accordance with GAAP and should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. There can be no assurance that we will not modify the presentation of Adjusted EBITDA in the future, and any such modification may be material. In addition, Adjusted EBITDA may not be comparable to similarly titled measures used by other companies in our industry or across different industries. Additionally, Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation or as a substitute for any analysis of our results as reported under GAAP.

Management believes Adjusted EBITDA is helpful in highlighting trends in our core operating performance compared to other measures, which can differ significantly depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. We use Adjusted EBITDA to supplement GAAP measures of performance in the evaluation of the effectiveness of our business strategies; to make budgeting decisions; and to compare our performance against that of other peer companies using similar measures. We also use Adjusted EBITDA in connection with establishing discretionary annual incentive compensation.

The following is a reconciliation of our income from continuing operations to Adjusted EBITDA for the periods presented:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
(dollars in thousands)				
Income from continuing operations	\$ 55,196	\$ 54,568	\$ 145,574	\$ 63,379
Interest expense, net	27,702	33,029	82,274	137,787
Provision (benefit) for income taxes	18,034	2,730	42,507	(7,595)
Depreciation and amortization	39,249	39,936	116,920	122,434
Stock-based compensation expense ⁽¹⁾	5,188	2,620	13,984	55,985
Preopening expenses ⁽²⁾	6,304	2,207	10,727	4,065
Management fees ⁽³⁾	—	—	—	3,333
Noncash rent ⁽⁴⁾	2,558	1,150	6,331	3,591
Strategic consulting ⁽⁵⁾	—	9,321	11,349	22,569
Offering costs ⁽⁶⁾	—	2,382	1,928	3,143
Other adjustments ⁽⁷⁾	(87)	521	(187)	4,366
Adjusted EBITDA	\$ 154,144	\$ 148,464	\$ 431,407	\$ 413,057
Adjusted EBITDA as a percentage of net sales	4.9%	4.7%	4.5%	4.4%

- (1) Represents total stock-based compensation expense and includes expense related to certain restricted stock and stock option awards issued in connection with our IPO.
- (2) Represents direct incremental costs of opening or relocating a facility that are charged to operations as incurred.
- (3) Represents management fees paid to our sponsors (or advisory affiliates thereof) in accordance with our management services agreement, which terminated upon closing of the IPO.
- (4) Consists of an adjustment to remove the non-cash portion of rent expense.
- (5) Represents fees paid to external consultants for strategic initiatives of limited duration.
- (6) Represents costs related to our IPO and the registered offerings by selling stockholders.
- (7) Other non-cash items, including non-cash accretion on asset retirement obligations, termination costs to former executives and obligations associated with our post-retirement medical plan. Fiscal year 2018 also includes amortization of a deferred gain from sale leaseback transactions in 2013, and impairment charges related to a club that was relocated in 2018.

Free cash flow

We present free cash flow, which is not a recognized financial measure under GAAP, because we use it to report to our board of directors and we believe it assists investors and analysts in evaluating our liquidity. Free cash flow should not be considered as an alternative to cash flows from operations as a liquidity measure. We define free cash flow as net cash provided by operating activities net of capital expenditures. Our presentation of free cash flow should not be considered an alternative to any other liquidity measure derived in accordance with GAAP. Free cash flow may not be comparable to a similarly titled measure used by other companies in our industry or across different industries. Additionally, free cash flow has limitations as an analytical tool, and should not be considered in isolation or as a substitute for any analysis of our results as reported under GAAP.

The following is a reconciliation of our net cash from operating activities to free cash flow for the periods presented:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
(in thousands)				
Net cash from operating activities	\$ 6,398	\$ 47,674	\$ 221,522	\$ 250,893
Less: Capital expenditures	56,130	27,674	144,428	103,340
Free cash flow ^(a)	\$ (49,732)	\$ 20,000	\$ 77,094	\$ 147,553

(a) Free cash flow for the thirteen weeks ended November 2, 2019 was impacted primarily by the timing of capital expenditures associated with land purchases and build out of the Company's new clubs in Michigan.

Results of Operations

The following tables summarize key components of our results of operations for the periods indicated:

<i>Statement of Operations Data</i> (dollars in thousands)	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018	November 2, 2019	November 3, 2018
Net sales	\$ 3,152,887	\$ 3,150,234	\$ 9,493,795	\$ 9,380,640
Membership fee income	76,517	71,429	224,587	209,825
Total revenues	3,229,404	3,221,663	9,718,382	9,590,465
Cost of sales	2,611,758	2,629,575	7,913,820	7,858,515
Selling, general and administrative expenses	510,410	499,554	1,523,480	1,534,314
Preopening expenses	6,304	2,207	10,727	4,065
Operating income	100,932	90,327	270,355	193,571
Interest expense, net	27,702	33,029	82,274	137,787
Income from continuing operations before income taxes	73,230	57,298	188,081	55,784
Provision (benefit) for income taxes	18,034	2,730	42,507	(7,595)
Income from continuing operations	55,196	54,568	145,574	63,379
Loss from discontinued operations, net of income taxes	(104)	(137)	(161)	(425)
Net income	\$ 55,092	\$ 54,431	\$ 145,413	\$ 62,954
Operational Data:				
Total clubs at end of period	218	216	218	216
Comparable club sales	(0.4)%	3.6%	0.7%	4.1%
Merchandise comparable club sales	1.1 %	1.9%	1.5%	2.0%
Adjusted EBITDA	\$ 154,144	\$ 148,464	\$ 431,407	\$ 413,057
Free cash flow	(49,732)	20,000	77,094	147,553

Thirteen Weeks Ended November 2, 2019 (Third Quarter of Fiscal Year 2019) Compared to Thirteen Weeks Ended November 3, 2018 (Third Quarter of Fiscal Year 2018)

Net Sales

Net sales for the third quarter of fiscal year 2019 were \$3,152.9 million, a 0.1% increase from net sales reported for the third quarter of fiscal year 2018 of \$3,150.2 million. The increase was due primarily to a 1.1% increase in merchandise comparable club sales, offset by a decrease in gasoline sales due to a decline in the retail price of gasoline versus the third quarter of fiscal year 2018.

Comparable club sales

	Thirteen Weeks Ended November 2, 2019
Comparable club sales	(0.4)%
Less: contribution from gasoline sales	(1.5)%
Merchandise comparable club sales	1.1 %

Merchandise comparable club sales increased by 1.1% in the third quarter of fiscal year 2019. The increase was driven by growth in sales of both edible and non-edible groceries of 1.0%. General merchandise sales and perishable sales were flat for the third quarter of fiscal year 2019.

Sales of edible groceries increased in the third quarter of fiscal year 2019 primarily due to growth in sales of active nutrition goods, water and other beverages. Sales of non-edible groceries were up for the third quarter of fiscal year 2019, due mainly to growth in sales of paper products. Our perishable and general merchandise comparable club sales remained flat in the third quarter of fiscal year 2019 due to changes we made in our television assortment ahead of the holidays as well as a shifting in the timing of promotions of seasonal apparel and other related items in response to unexpectedly warm weather.

Membership fee income

Membership fee income was \$76.5 million in the third quarter of fiscal year 2019, compared to \$71.4 million in the third quarter of fiscal year 2018, reflecting a 7.1% increase. The increase in membership fee income was primarily driven by growth in members and by our membership fee increase, which was implemented in fiscal year 2018.

Cost of sales

Cost of sales was \$2,611.8 million, or 82.8% of net sales, in the third quarter of fiscal year 2019, compared to \$2,629.6 million, or 83.5% of net sales, in the third quarter of fiscal year 2018. The decrease as a percentage of net sales of approximately 0.7% was driven primarily by merchandise margin gains of 0.5% from the continued progress in our category profitability improvement program ("CPI").

Selling, general and administrative expenses

SG&A increased by 2.2% to \$510.4 million in the third quarter of fiscal year 2019 from \$499.6 million in the third quarter of fiscal year 2018. Excluding prior year charges for offering costs related to the Company's IPO and a club asset impairment charge, SG&A for the third quarter of fiscal year 2018 was \$496.2 million. The increase in SG&A over the same period in fiscal year 2018 was driven by investments in our capabilities and talent in areas such as promotions, data analytics, CPI procurement and optical services.

Preopening expenses

Preopening expenses were \$6.3 million in the third quarter of fiscal year 2019, compared to \$2.2 million in the third quarter of fiscal year 2018. Preopening expenses for the third quarter of fiscal year 2019 include charges for one new club, which opened subsequent to the third quarter of fiscal year 2019 and two new gas stations that are expected to open later in fiscal year 2019, as well as two clubs and two gas stations that are expected to open in fiscal year 2020.

Interest expense

Interest expense was \$27.7 million for the third quarter of fiscal year 2019, compared to \$33.0 million for the third quarter of fiscal year 2018. Interest expense for the third quarter of fiscal year 2019 includes interest expense of \$23.8 million related to debt service on outstanding borrowings, \$1.3 million of amortization expense on deferred financing costs and original issue discounts on our outstanding borrowings, \$2.0 million in write-offs of deferred financing costs and original issue discounts associated with the 2019 partial prepayment of our First Lien Term Loan, and \$0.6 million of other interest charges. Interest expense decreased in the third quarter of fiscal year 2019 due to having paid the total outstanding balance under our Second Lien Term Loan in the second quarter of fiscal year 2018, the benefit of repricing our First Lien Term Loan (as defined below) and ABL Facility (as defined below) in the third quarter of fiscal year 2018 and the 25-basis point reduction in the margin rate of our First Lien Term Loan obligations, as we achieved the step down pursuant to the terms of our First Lien Term Loan agreement at the end of the first quarter of fiscal year 2019.

Interest expense for the third quarter of fiscal year 2018 includes interest expense of \$24.5 million related to debt service on outstanding borrowings, \$6.2 million of charges related to the repricing of our outstanding borrowings, \$1.3 million of amortization expense on deferred financing costs and original issue discounts on our outstanding borrowings, and \$1.0 million of other interest charges.

Provision for income taxes

The Company's effective income tax rate from continuing operations was 24.6% for the third quarter of fiscal year 2019, compared to 4.8% for the third quarter of fiscal year 2018. The increase in the effective tax rate for the third quarter of fiscal year 2019, compared to the third quarter of fiscal year 2018, was primarily due to higher excess tax benefits from stock-based compensation in the same period in fiscal year 2018.

Thirty-Nine Weeks Ended November 2, 2019 (First Nine Months of Fiscal Year 2019) Compared to Thirty-Nine Weeks Ended November 3, 2018 (First Nine Months of Fiscal Year 2018)

Net Sales

Net sales for the first nine months of fiscal year 2019 were \$9,493.8 million, a 1.2% increase from net sales reported for the first nine months of fiscal year 2018 of \$9,380.6 million. The increase was due primarily to a 0.7% increase in comparable club sales.

Comparable club sales

	Thirty-Nine Weeks Ended
	November 2, 2019
Comparable club sales	0.7 %
Less: contribution from gasoline sales	(0.8)%
Merchandise comparable club sales	1.5 %

Merchandise comparable club sales increased by 1.5% in the first nine months of fiscal year 2019. The increase was driven by growth in general merchandise sales of approximately 5.0%, and increases in both sales of edible and non-edible groceries of approximately 1.0%, while sales of perishables remained flat.

The increase in general merchandise sales for the first nine months of fiscal year 2019 was driven by strong sales of gift cards and seasonal goods. The sales of edible and non-edible groceries increased for the first nine months of fiscal year 2019, primarily due to higher sales of paper products, active nutrition, candy and beverages. Our perishable comparable club sales remained flat for the first nine months of fiscal year 2019 due to decreases in sales of dairy and frozen foods, which was offset by growth in sales of fresh vegetables and food prepared within the clubs.

Membership fee income

Membership fee income was \$224.6 million in the first nine months of fiscal year 2019, compared to \$209.8 million in the first nine months of fiscal year 2018, reflecting a 7.0% increase. The increase in membership fee income was primarily driven by growth in members and our membership fee increase, which was implemented in fiscal year 2018.

Cost of sales

Cost of sales was \$7,913.8 million, or 83.4% of net sales, in the first nine months of fiscal year 2019, compared to \$7,858.5 million, or 83.8% of net sales, in the first nine months of fiscal year 2018. The decrease as a percentage of net sales of 0.4% was driven primarily by merchandise margin gains of 0.4% from the continued progress in our category profitability improvement program.

Selling, general and administrative expenses

SG&A decreased by 0.7% to \$1,523.5 million in the first nine months of fiscal year 2019 from \$1,534.3 million in the first nine months of fiscal year 2018. Excluding charges associated with stock-based compensation related to the Company's IPO, offering costs, club asset impairment and management fees, SGA increased 3.2% to \$1,521.6 million from \$1,474.9 million in the third quarter of fiscal year 2018. The growth in SG&A over the same period in fiscal year 2018 was driven by investments in our capabilities and talent in areas such as promotions, data analytics, CPI procurement and optical services as well as higher rent and other occupancy costs due to new club openings.

Preopening expenses

Preopening expenses were \$10.7 million in the first nine months of fiscal year 2019, compared to \$4.1 million in the first nine months of fiscal year 2018. Preopening expenses for the first nine months of fiscal year 2019 include charges for two new clubs and six new gas stations that opened in fiscal year 2019 and one new club that opened subsequent to the third quarter of fiscal year 2019 and two gas stations that are expected to open later in fiscal year 2019 as well as two clubs and two gas stations that are expected to open in fiscal year 2020.

Interest expense

Interest expense was \$82.3 million for the first nine months of fiscal year 2019, compared to \$137.8 million for the first nine months of fiscal year 2018. Interest expense for the first nine months of fiscal year 2019 includes interest expense of \$74.5 million related to debt service on outstanding borrowings, \$4.0 million of amortization expense on deferred financing costs and original issue discounts on our outstanding borrowings, \$2.0 million in write-offs of deferred financing costs and original issue discounts associated with the 2019 partial prepayment of our First Lien Term Loan, and \$1.8 million of other interest charges.

Interest expense for the first nine months of fiscal year 2018 included interest of \$80.3 million related to debt service on outstanding borrowings, \$25.4 million of non-recurring charges related to the repricing of our outstanding borrowings in the third quarter and the extinguishment of the Second Lien Term Loan in the second quarter, \$24.3 million of interest on the Second Lien Term loan incurred prior to extinguishment, \$4.8 million of amortization expense on deferred financing costs and original issue discounts on our outstanding borrowings, and \$3.0 million of other interest charges.

Provision for income taxes

The Company's effective income tax rate from continuing operations was 22.6% for the first nine months of fiscal year 2019, compared to (13.6)% for the first nine months of fiscal year 2018. The change in effective tax rate for the first nine months of fiscal year 2019 was primarily due to higher excess tax benefits from stock-based compensation in the same period in fiscal year 2018.

Seasonality

Our business is moderately seasonal in nature. Historically, our business has realized a slightly higher portion of net sales, operating income and cash flows from operations in the second and fourth fiscal quarters, attributable primarily to the impact of the summer and year-end holiday season, respectively. Our quarterly results have been and will continue to be affected by the timing of new club openings and their associated preopening costs. As a result of these factors, our financial results for any single quarter or for periods of less than a year are not necessarily indicative of the results that may be achieved for a full fiscal year.

Liquidity and Capital Resources

Our primary sources of liquidity are cash flows generated from club operations and borrowings from our ABL Facility. As of November 2, 2019, cash and cash equivalents totaled \$30.0 million and we had \$488.7 million of borrowings available under our ABL facility. We believe that our resources as of November 2, 2019, together with anticipated cash flows from operations and borrowing capacity under our ABL Facility, will be sufficient to finance our operations, meet our current debt obligations, and fund anticipated capital expenditures for at least the next twelve months.

Summary of Cash Flows

A summary of our cash flows from operating, investing and financing activities is presented in the following table:

	Thirty-Nine Weeks Ended	
	November 2, 2019	November 3, 2018
(in thousands)		
Net cash provided by operating activities	\$ 221,522	\$ 250,893
Net cash used in investing activities	(144,428)	(103,340)
Net cash used in financing activities	(74,272)	(151,005)
Net increase (decrease) in cash and cash equivalents	\$ 2,822	\$ (3,452)

Net Cash from Operating Activities

Net cash provided by operating activities was \$221.5 million for the first nine months of fiscal year 2019, compared to \$250.9 million for the first nine months of fiscal year 2018. The decrease in operating cash flow was primarily due to timing of accounts payable and accrued expenses.

Net Cash from Investing Activities

Cash used for capital expenditures was \$144.4 million for the first nine months of fiscal year 2019, compared to \$103.3 million for the first nine months of fiscal year 2018. The increase is due primarily to land purchases and construction costs on new clubs and gas stations.

Net Cash from Financing Activities

Net cash used in financing activities for the first nine months of fiscal year 2019 was \$74.3 million, compared to \$151.0 million for the first nine months of fiscal year 2018. The decrease compared to the first nine months of fiscal year 2018 is due mainly to the extinguishment of the Second Lien Term Loan and the partial paydown of the First Lien Term Loan, in conjunction with its repricing, each during fiscal year 2018, partially offset by proceeds from the IPO.

Debt and Borrowing Capacity

On February 3, 2017, the Company entered into the ABL Facility, First Lien Term Loan and Second Lien Term Loan. On July 2, 2018, the Company's senior secured second lien term loan facility (the "Second Lien Term Loan") was fully repaid in connection with the closing of the IPO.

On August 13, 2018, the Company refinanced its senior secured first lien term loan facility (the "First Lien Term Loan") and reduced the applicable interest rates and the principal on the loan. The Company drew \$350.0 million under its ABL Facility to fund the transaction. As amended, the First Lien Term Loan has an initial principal amount of \$1,537.7 million and interest is calculated either at LIBOR plus 275 to 300 basis points or a base rate plus 175 to 200 basis points based on the Company achieving a net leverage ratio of 3.00 to 1.00. The Company paid debt costs of \$1.8 million and accrued interest of \$1.2 million at closing of the refinancing. At November 2, 2019, the interest rate for the First Lien Term Loan was 4.67% and there was \$1,318.5 million outstanding.

On August 17, 2018, the Company amended and restated the senior secured asset based revolving credit and term facility (the "ABL Facility") to extend the maturity date from February 3, 2022 to August 17, 2023 and reduce the applicable interest rates and letter of credit fees on the facility. As amended, interest on the revolving credit facility is calculated either at LIBOR plus a range of 125 to 175 basis points or a base rate plus a range of 25 to 75 basis points; and interest on the term loan is calculated at LIBOR plus a range of 200 to 250 basis points or a base rate plus a range of 100 to 150 basis points, in all cases based on excess availability. The applicable spread of LIBOR and base rate loans at all levels of excess availability steps down by 12.5 basis points upon achieving total net leverage of 3.00 to 1.00. At November 2, 2019, there was \$484.0 million outstanding in loans under the ABL Facility and \$27.3 million in outstanding letters of credit. As of November 2, 2019, the interest rate on the revolving credit facility was 2.91%, and borrowing availability was \$488.7 million.

On November 1, 2019, the Company borrowed \$200.0 million from the ABL Facility. The proceeds from the Company's borrowing were used to pay a portion of the principal amount due on the First Lien Term Loan. In connection with the payment, the Company expensed \$2.0 million of previously capitalized deferred debt issuance costs and original issue discount.

For additional information on our total indebtedness, refer to Note 6 to the unaudited financial statements included in this Quarterly Report on Form 10-Q.

Contractual Obligations

The Company's contractual obligations consist primarily of long-term debt obligations, interest payments, operating leases and purchase orders for merchandise inventory. These contractual obligations impact the Company's short-term and long-term liquidity and capital needs. As of November 2, 2019, other than those items related to the ordinary course of operations of our business such as inventory purchases, there were no material changes to our contractual obligations from those described in our Annual Report on Form 10-K for the fiscal year ended February 2, 2019.

Off-Balance Sheet Arrangements

We have not entered into off-balance sheet arrangements. We do enter into operating lease commitments, letters of credit and purchase obligations in the ordinary course of our operations.

Critical Accounting Policies and Use of Estimates

This discussion and analysis of our financial condition and results of operations is based on our consolidated financial statements, which we have prepared in accordance with GAAP. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses, and related disclosures. Our critical accounting policies are described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations— Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the fiscal year 2018. For a full discussion of our significant accounting policies, see Note 2 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Recent Accounting Pronouncements

For a full discussion of recently issued accounting pronouncements, see Note 2 to our unaudited consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to changes in market interest rates and these changes in rates will impact our net interest expense and our cash flow from operations. Substantially all of our borrowings carry variable interest rates. There have been no material changes in our market risk from the disclosure included under “Item 7A. Quantitative and Qualitative Disclosures of Market Risk” in the Annual Report on Form 10-K for the fiscal year 2018.

Item 4. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of November 2, 2019.

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the most recently completed fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject to various litigations, claims and other proceedings that arise from time to time in the ordinary course of business. We believe these actions are routine and incidental to the business. While the outcome of these actions cannot be predicted with certainty, we do not believe that any will have a material adverse impact on our business, financial condition or results of operations.

Item 1A. Risk Factors.

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

On November 20, 2019, the Board of Directors approved a total of \$250.0 million of common stock repurchases. The stock repurchase program expires in January 2022. The following table sets forth information regarding our purchases of shares of our common stock during the third quarter of fiscal year 2019.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
August 4, 2019 to August 31, 2019	—	\$ —	—	\$ —
September 1, 2019 to October 5, 2019	2,397	\$ 26.34	—	—
October 6, 2019 to November 2, 2019	178	27.15	—	—
Total	2,575	\$ 26.40	—	\$ —

(1) Represents shares reacquired by the Company to satisfy employees' tax withholding obligations upon the vesting of restricted stock awards.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None.

Item 6. Exhibits.

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certification of Incorporation	8-K	001-38559	3.1	July 2, 2018	
3.2	Amended and Restated By-laws	8-K	001-38559	3.2	July 2, 2018	
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	XBRL Instance Document					
101.SCH	XBRL Taxonomy Extension Schema Document					
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document					
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document					
101.LAB	XBRL Taxonomy Extension Label Linkbase Document					
101.PRE	XBRL Taxonomy Extension Linkbase Document					

The agreements and other documents filed as exhibits to this Quarterly Report on Form 10-Q are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

BJ'S WHOLESALE CLUB HOLDINGS, INC.

Date: November 27, 2019

By: /s/ Robert W. Eddy
Robert W. Eddy
Executive Vice President, Chief Financial &
Administrative Officer
(Principal Financial Officer and
Authorized Signatory)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Christopher J. Baldwin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BJ's Wholesale Club Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Intentionally omitted];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 27, 2019

By: /s/ Christopher J. Baldwin
Christopher J. Baldwin
Chairman and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Robert W. Eddy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of BJ's Wholesale Club Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. [Intentionally omitted];
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 27, 2019

By: /s/ Robert W. Eddy

Executive Vice President, Chief Financial and
Administrative Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of BJ's Wholesale Club Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended November 2, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christopher J. Baldwin, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 27, 2019

By: /s/ Christopher J. Baldwin

Christopher J. Baldwin
Chairman and Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of BJ's Wholesale Club Holdings, Inc. (the "Company") on Form 10-Q for the quarterly period ended November 2, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robert W. Eddy, Executive Vice President, Chief Financial and Administrative Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 27, 2019

By: /s/ Robert W. Eddy

Robert W. Eddy
Executive Vice President, Chief Financial and
Administrative Officer
(Principal Financial Officer)