

BJ's Wholesale Club Holdings, Inc.

Reconciliation of GAAP to Non-GAAP Financial Measures Discussed on August 28, 2018 Earnings Call

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.

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

(Amounts in thousands) (Unaudited)	Twenty-Six Weeks Ended	
	August 4, 2018	July 29, 2017
Net cash from operating activities	\$ 203,219	\$ 53,970
Less: Capital expenditures	75,666	46,253
Free cash flow	\$ 127,553	\$ 7,717

Net Debt and Net Debt Leverage Ratio

We present net debt and the net debt leverage ratio, which are not a recognized as financial measures under GAAP, because we use them to report to our board of directors and we believe they assist investors and analysts in evaluating our borrowing capacity. Net debt leverage ratio is a key financial measure that is used by management to assess the borrowing capacity of the company. The company has defined its net debt leverage ratio as net debt (total debt outstanding less cash and cash equivalents) at the balance sheet date divided by adjusted EBITDA for the trailing twelve-month period. We define adjusted EBITDA as income (loss) 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: compensatory payments related to options; stock-based compensation expense; preopening expenses; management fees; noncash rent; strategic consulting expenses, severance; costs associated with the Company's initial public offering (“IPO”) and other adjustments.

(Amounts in thousands)
(Unaudited)

	As of	
	August 4, 2018	
Total debt	\$	1,956,321
Less: cash and cash equivalents		31,305
Net Debt	\$	1,925,016

	Twelve Months Ended	
	August 4, 2018	
Income (loss) from continuing operations	\$	99,758
Interest expense, net		193,591
Provision (benefit) for income taxes		(16,832)

Depreciation and amortization	164,272
Compensatory payments related to options (1)	4,253
Stock-based compensation expense (2)	56,727
Preopening expenses (3)	2,829
Management fees (4)	7,303
Noncash rent (5)	4,835
Strategic consulting (6)	26,610
Severance (7)	10,025
IPO costs (8)	761
Other adjustments (9)	9,541
Adjusted EBITDA	\$ 563,673

Net debt to LTM adjusted EBITDA **3.4x**

- (1) Represents payments to holders of our stock options made pursuant to antidilution provisions in connection with dividends paid to our shareholders.
- (2) Represents non-cash stock-based compensation expense. Amount includes \$47.7 million in expense related to certain restricted stock awards and option awards issued in connection with the IPO.
- (3) Represents direct incremental costs of opening or relocating a facility that are charged to operations as incurred.
- (4) 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.
- (5) Consists of an adjustment to remove the non-cash portion of rent expense, which has been recorded on a straight-line basis in accordance with GAAP.
- (6) Represents fees paid to external consultants for strategic initiatives of limited duration.
- (7) Represents termination costs to a former executive.
- (8) Represents one-time costs related to the IPO.
- (9) Other non-cash or discrete items as determined by management, including amortization of a deferred gain from sale lease back transactions in 2013, non-cash accretion expense on asset retirement obligations, obligations associated with our post-retirement medical plan and incremental expense to former executives. The first quarter of fiscal year 2018 includes an impairment charge on a club that we relocated.