

Burlington Stores(BURL)

\$228.73 (As of 01/03/20)

Price Target (6-12 Months): **\$243.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 11/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: D

Growth: A

Momentum: D

Summary

Burlington Stores, whose shares have risen and outpaced the industry in the past six months, has made multiple changes to business model to adapt to the changing retail ecosystem. Strategic efforts helped the company post decent third-quarter fiscal 2019 results, wherein the bottom line outpaced the Zacks Consensus Estimate for the second quarter in row. However, the top line fell short of the same. Notably, both net sales and earnings continued to improve year over year. The company witnessed healthy comps performance. Cumulatively, these prompted management raised fiscal 2019 earnings view. The company has increased vendor counts, made technological advancements, initiated better marketing approach and remain focused on inventory management and cost containment. However, any deleverage in freight costs and SG&A expenses remain a concern.

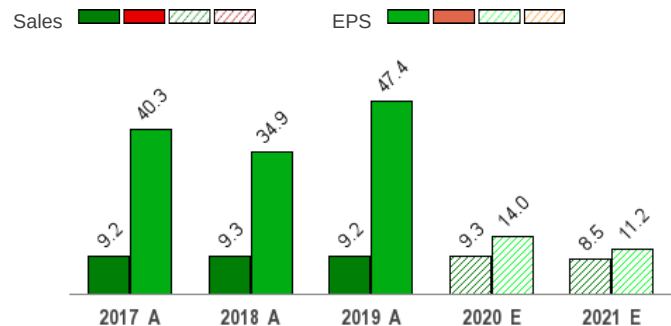
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$230.70 - \$136.30
20 Day Average Volume (sh)	552,529
Market Cap	\$15.2 B
YTD Price Change	0.3%
Beta	0.26
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 30% (75 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.9%
Last Sales Surprise	-1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	32.7
P/E F1	31.2
PEG F1	1.8
P/S TTM	2.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,777 E	1,810 E	1,927 E	2,351 E	7,879 E
2020	1,629 A	1,656 A	1,775 A	2,192 E	7,261 E
2019	1,518 A	1,499 A	1,634 A	1,991 A	6,643 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.46 E	\$1.48 E	\$1.63 E	\$3.68 E	\$8.16 E
2020	\$1.26 A	\$1.36 A	\$1.55 A	\$3.18 E	\$7.34 E
2019	\$1.26 A	\$1.15 A	\$1.21 A	\$2.83 A	\$6.44 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

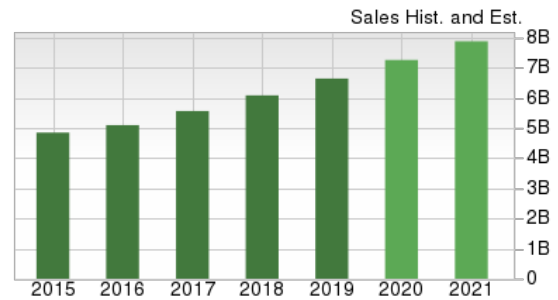
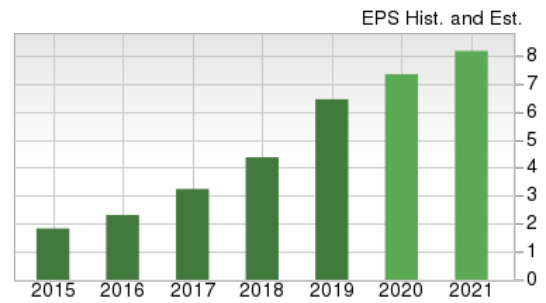
Overview

Founded in 1972, and headquartered in New Jersey, Burlington Stores, Inc. functions as a retailer of branded apparel products and is also a Fortune 500 company. It operates in the United States and Puerto Rico. The company offers products such as ladies sportswear, menswear, youth apparel, baby furniture, footwear, accessories, home décor and gifts, and coats.

Burlington Stores provide customers a full line of assortments, comprising - women's ready-to-wear apparel, accessories, footwear, menswear, youth apparel, baby, home, coats, beauty, toys and gifts. The company continue to emphasize rich heritage of coats and outerwear, and are known as the destination for coat shoppers.

The wider selection provides a broad range of apparel, accessories and furnishings for all age groups. The company purchase both pre-season and in-season merchandise, which allows it to respond in time to changing market conditions and consumer fashion preferences.

As of November 2, 2019, the company had 726 stores (inclusive of an internet store) in 45 States as well as Puerto Rico.



Reasons To Buy:

▲ **Impressive Stock Performance:** Shares of Burlington Stores have surged 29.5% and outpaced the industry that advanced 13.4% in the past six months. The stock got a boost following the company's third-quarter fiscal 2019 results, wherein the bottom line surpassed the Zacks Consensus Estimate and came ahead of management's expectations. Notably, both net sales and earnings per share continued to increase year over year. Further, the company witnessed decent comparable store sales performance. Cumulatively, these prompted management to raise fiscal 2019 earnings view. Burlington Stores now envisions fiscal 2019 adjusted earnings in the range of \$7.28-\$7.33 per share, suggesting an improvement over \$6.44 reported in the prior year. The company had earlier forecast earnings between \$7.14 and \$7.22 per share. The company projected adjusted earnings of \$3.12 to \$3.17 per share, which is up from the prior-year quarter reported figure of \$2.83.

In an era of competitive retail landscape, Burlington Stores has made multiple changes to its business model to adapt to the ongoing changes in the industry.

▲ **Strategic Initiatives Bode Well:** In an era of competitive retail landscape, Burlington Stores has made multiple changes to its business model to adapt to the ongoing changes in the industry. The company which started business as a coat-focused off-price retailer is now focusing on "open to buy" off-price model. The current model is helping customers to get nationally branded, fashionable, high quality as well as right priced products. Further, over the years the company has increased vendor counts, made technological advancements, initiated better marketing approach and focused on localized assortments.

Burlington Stores long-term strategies include enhancement of assortments with primary focus on underpenetrated categories, particularly home, beauty and gifts, in order to make business less weather sensitive. With regards to the company's marketing endeavors, it is experiencing favorably results from its multichannel engagement strategy. Moreover, it is gradually expanding its store fleet. Further, the company intends to improve operating margin and lower the gap of the same compared with its peers by augmenting sales, optimizing markdowns, effectively managing inventory and focus on SG&A expenses.

▲ **Top Line & Comparable Sales Growth:** Burlington Stores has been doing quite well on the revenue front. The company's revenues have not only outpaced the estimates in 11 out of the 15 trailing quarters but have also shown constant improvement over the past few quarters. In the third quarter of fiscal 2019, the top line improved 8.6%, following an increase of 10.5%, 7.3% and 2.8% in the preceding three quarters.

We note comparable store sales rose 2.7% in the reported quarter, following an increase of 3.8%, 0.1% and 1.3% in the preceding three quarters. Meanwhile, comparable store sales have increased 3.2%, 3.4%, 4.5% and 2.1% in fiscal 2018, 2017, 2016 and 2015, respectively. For fiscal 2019, management now expects total sales to increase in the band of 8.8-9.1% with comparable store sales projected to improve 2.1-2.4%. The company estimates fourth-quarter total sales to increase 9-10%. Comparable store sales are projected to improve 2-3% compared with 1.3% increase registered in the year-ago period.

▲ **Store Expansion Strategy:** In order to drive top-line growth, Burlington Stores has been focusing on store expansion. The company's store count has increased from 13 in 1980 to 675 stores in fiscal 2018. In fiscal 2014, 2015, 2016, 2017 and 2018, the company has opened 37, 24, 28, 30 and 68 stores, respectively. Burlington Stores now intends to focus more on categories such as home, beauty and ladies apparel. Further, it remodeled 39 stores in fiscal 2018.

The company plans to open 51 net new stores in fiscal 2019. This comprises 76 gross new stores and 25 store relocations and closures. The company plans to remodel 28 stores in fiscal 2019. It also believes that there is room to increase the store count to 1,000. During the reported quarter, Burlington Stores opened 35 net new stores, relocated eight stores and shuttered two stores. The company concluded the quarter with 726 stores.

Reasons To Sell:

- ▼ **Stock Looks Overvalued:** Considering price-to-earnings (P/E) ratio, Burlington Stores looks overvalued when compared with the industry and S&P 500. The stock has a trailing 12-month P/E ratio of 32.68, which is above the median level of 27.19 but below the high level of 32.80 scaled in the past one year. Meanwhile, the trailing 12-month P/E ratio for the industry and the S&P 500 is 26.04 and 20.20, respectively.
- ▼ **Freight Cost Likely to Remain High:** Gross margin remained flat at 42.4%. We note that an increase of 30 basis points in merchandise margin was offset by deleverage of 20 basis points in freight costs and 10 basis points owing to inventory write offs at the temporarily closed stores. Management expects freight costs to increase 20 basis points during fiscal 2019. Any, contraction in gross margin will have direct bearing on the operating margin and in turn may weigh on the bottom line.
- ▼ **Rising SG&A Expenses May Hurt Profit:** Burlington Stores has been witnessing higher SG&A expenses. Any deleverage in SG&A expenses has a direct bearing on the company's profitability. We note that Adjusted SG&A, exclusive of management transition costs, have increased 7.1% in third-quarter fiscal 2019, following a hike of 9.2% and 7.9% in the second and first quarter, respectively. Persistence of such a dismal trend may hurt the company's profitability in the future.
- ▼ **Competitive Pressure & Macroeconomic Factors:** Burlington Stores, which operates in a highly competitive discount retail business, faces stiff competition from other general merchandise, discount, food, dollar store and online retailers. This may result in loss of market share as well as fall in sales and operating margins. Competitors with larger number of stores, greater market presence and better financial resources will continue to weigh on the results.

Burlington Stores aggressive pricing strategy to counter stiff competition may hurt margins. Moreover, the company's customers remain sensitive to macroeconomic factors.

Again the company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their discretionary spending. Consequently, the company's growth and profitability will be affected as well.

Last Earnings Report

Burlington Stores Beats on Q3 Earnings

Burlington Stores, Inc. reported third-quarter fiscal 2019 results, wherein the bottom line surpassed the Zacks Consensus Estimate and came ahead of management's expectations. Notably, both net sales and earnings per share continued to increase year over year. Further, the company witnessed decent comparable store sales performance. Cumulatively, these prompted management to raise fiscal 2019 earnings view. We note that while the top line fell short of the Zacks Consensus Estimate, bottom line surpassed the same for the second quarter in row.

Quarter Ending **10/2019**

Report Date	Nov 26, 2019
Sales Surprise	-1.01%
EPS Surprise	9.93%
Quarterly EPS	1.55
Annual EPS (TTM)	7.00

Let's Introspect

The company delivered third-quarter adjusted earnings (exclusive of management transition costs) of \$1.55 per share that surpassed the Zacks Consensus Estimate of \$1.41. Notably, earnings surged 28% from the prior-year quarter reported figure driven by higher net sales, merchandise margin improvement, and leverage on product sourcing costs and SG&A.

Net sales advanced 8.6% year over year to \$1,774.9 million. However, the reported figure came below the consensus mark of \$1,781 million, after surpassing the same in the preceding two quarters. New and non-comparable stores contributed \$116 million to sales. Other revenues came in at \$6.6 million, up 2.6% year over year.

Meanwhile, comparable store sales rose 2.7% in the reported quarter compared with increase of 4.4% in the year-ago period and 3.8% in the preceding quarter. This was the 27th successive quarter of comparable store sales growth. Burlington Stores had projected comparable store sales growth of 2-3% for the quarter under review.

Gross margin remained flat at 42.4%. We note that an increase of 30 basis points in merchandise margin was offset by deleverage of 20 basis points in freight costs and 10 basis points owing to inventory write offs at the temporarily closed stores. Management expects freight costs to increase 20 basis points during fiscal 2019.

Adjusted SG&A expenses, as a percentage of net sales, declined 40 basis points to 27.3% due to sturdy sales growth and leverage on store related and corporate costs, as well as marketing expense.

Adjusted operating income (exclusive of management transition costs) improved 23.2% to \$141.2 million, while adjusted operating margin, as a percentage of net sales, expanded 100 basis points to 8%.

Store Update

During the reported quarter, Burlington Stores opened 35 net new stores, relocated eight stores and shuttered two stores. The company concluded the quarter with 726 stores. The company now plans to open 76 new stores with four store openings, one relocation, and three store closures in the final quarter. This brings expected net new store count for fiscal 2019 to 51.

Other Financial Aspects

Burlington Stores ended the reported quarter with cash and cash equivalents of \$140.5 million, long-term debt of \$982.3 million and shareholders' equity of \$391.6 million. Net capital expenditures incurred during first nine months of fiscal 2019 were \$220 million. For fiscal 2019, the company projects net capital expenditures of roughly \$310 million.

During the quarter, the company bought back 223,009 shares for \$43 million. At the end of the reported quarter, the company had \$482 million remaining under its share buyback program. The company's board of directors had approved an additional \$400 million share repurchase program to be executed through August 2021.

Outlook

Based on the quarterly performance, Burlington Stores now envisions fiscal 2019 adjusted earnings in the range of \$7.28-\$7.33 per share, suggesting an improvement over \$6.44 reported in the prior year. The company had earlier forecast earnings between \$7.14 and \$7.22 per share.

Management now expects total sales to increase in the band of 8.8-9.1% with comparable store sales projected to improve 2.1-2.4%. The company had witnessed comparable store sales growth of 3.2% in fiscal 2018.

Management anticipates adjusted operating margin to be up approximately 10-20 basis points year over year. Further, Burlington Stores projects interest expenses of about \$51 million for the fiscal year.

The company expects fourth-quarter total sales to increase 9-10%. Comparable store sales are anticipated to improve 2-3% compared with 1.3% increase registered in the year-ago period. The company envisions adjusted earnings of \$3.12 to \$3.17 per share, which is up from the prior-year quarter reported figure of \$2.83.

Valuation

Burlington Stores shares are up 37% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Retail-Warehouse sector are up 38.6% and 20.8%, respectively.

The S&P 500 index is up 25.7% in the past year.

The stock is currently trading at 28.21X forward 12-month earnings, which compares to 23.3X for the Zacks sub-industry, 25.58X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 30.03X and as low as 15.36X, with a 5-year median of 22.88X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$243 price target reflects 29.97X forward 12-month earnings.

The table below shows summary valuation data for BURL

Valuation Multiples - BURL					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.21	23.3	25.58	18.71
	5-Year High	30.03	23.75	26.13	19.34
	5-Year Low	15.36	17.95	18.99	15.17
	5-Year Median	22.88	20.04	22.91	17.44
P/S F12M	Current	1.93	1.37	1.07	3.47
	5-Year High	1.94	1.39	1.1	3.47
	5-Year Low	0.56	0.94	0.8	2.54
	5-Year Median	1.06	1.12	0.9	3
EV/EBITDA TTM	Current	22.03	18.93	15.28	11.99
	5-Year High	22.03	19.31	15.3	12.86
	5-Year Low	8.92	11.12	10.27	8.48
	5-Year Median	12.96	13.45	12.32	10.67

As of 01/03/2019

Industry Analysis Zacks Industry Rank: Top 30% (75 out of 252)



Top Peers

Target Corporation (TGT)	Outperform
Big Lots, Inc. (BIG)	Neutral
Costco Wholesale Corporation (COST)	Neutral
Dollar General Corporation (DG)	Neutral
Five Below, Inc. (FIVE)	Neutral
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Neutral
Tuesday Morning Corp. (TUES)	Neutral
Dollar Tree, Inc. (DLTR)	Underperform

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	BURL Neutral	X Industry	S&P 500	BIG Neutral	DLTR Underperform	TGT Outperform
VGM Score	B	-	-	C	B	A
Market Cap	15.15 B	18.59 B	23.66 B	1.07 B	22.02 B	63.22 B
# of Analysts	9	9	13	5	6	12
Dividend Yield	0.00%	0.85%	1.79%	4.40%	0.00%	2.12%
Value Score	D	-	-	B	B	B
Cash/Price	0.01	0.03	0.04	0.06	0.02	0.01
EV/EBITDA	23.30	16.33	13.88	7.75	12.06	11.34
PEG Ratio	1.84	2.12	1.99	1.00	1.97	2.59
Price/Book (P/B)	38.70	5.48	3.36	1.40	3.60	5.48
Price/Cash Flow (P/CF)	23.29	17.42	13.62	3.91	4.70	12.17
P/E (F1)	31.32	23.32	18.74	7.18	19.67	19.55
Price/Sales (P/S)	2.14	0.82	2.67	0.20	0.94	0.81
Earnings Yield	3.21%	4.28%	5.32%	13.92%	5.08%	5.11%
Debt/Equity	8.28	1.33	0.72	2.06	1.33	1.10
Cash Flow (\$/share)	9.82	6.08	6.94	6.98	19.78	10.25
Growth Score	A	-	-	D	A	B
Hist. EPS Growth (3-5 yrs)	34.96%	11.35%	10.56%	11.35%	18.83%	7.70%
Proj. EPS Growth (F1/F0)	13.91%	8.69%	7.41%	-5.94%	-13.21%	18.38%
Curr. Cash Flow Growth	29.71%	12.70%	14.83%	-6.31%	163.96%	5.59%
Hist. Cash Flow Growth (3-5 yrs)	22.30%	7.44%	9.00%	6.55%	43.00%	2.16%
Current Ratio	0.88	1.12	1.23	1.29	1.09	0.83
Debt/Capital	89.22%	57.13%	42.92%	67.30%	57.13%	52.42%
Net Margin	6.26%	4.18%	11.08%	4.83%	-6.82%	4.18%
Return on Equity	145.12%	24.22%	17.10%	23.10%	20.85%	28.22%
Sales/Assets	1.51	1.87	0.55	1.82	1.30	1.86
Proj. Sales Growth (F1/F0)	9.30%	4.36%	4.20%	2.07%	3.83%	4.36%
Momentum Score	D	-	-	B	D	A
Daily Price Chg	-0.20%	-0.47%	-0.61%	-1.37%	-0.80%	-1.04%
1 Week Price Chg	-0.51%	-0.24%	0.13%	-1.35%	-1.30%	0.05%
4 Week Price Chg	2.70%	2.58%	2.60%	42.48%	2.46%	0.06%
12 Week Price Chg	15.91%	3.20%	8.87%	30.25%	-18.33%	12.83%
52 Week Price Chg	42.78%	26.58%	29.34%	-6.28%	2.50%	90.39%
20 Day Average Volume	552,529	1,546,322	1,603,615	2,586,461	2,384,079	3,317,786
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	-0.21%	0.00%	0.03%
(F1) EPS Est 12 week change	1.57%	0.64%	-0.57%	-0.11%	-6.07%	3.78%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	-1.19%	0.00%	0.12%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	A
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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