

Burlington Stores(BURL)

\$178.90 (As of 07/09/20)

Price Target (6-12 Months): **\$187.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/02/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: D

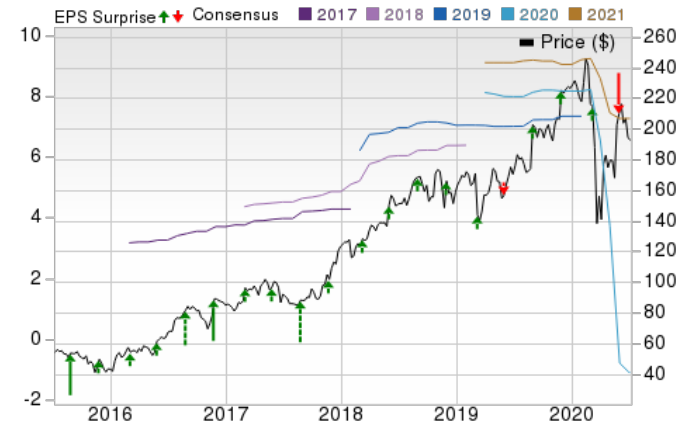
Growth: F

Momentum: B

Summary

Shares of Burlington Stores have slid and underperformed the industry year to date. Much of the downside is caused by a dismal first-quarter fiscal 2020, wherein the company reported wider-than-expected loss per share. While the company delivered a loss after three straight quarters of earnings beat, sales marked a third consecutive miss. Both top and bottom line fell year over year. Results were mainly hurt by COVID-19-related store closures. Significant sales decline and \$272-million inventory charge due to extended store closures hurt bottom line. Margins were also dismal in the quarter. However, management has begun the process of reopening stores and has been seeing higher traffic and sales across such stores due to inventory clearance strategy. Also, the company remains on track with its store-expansion efforts.

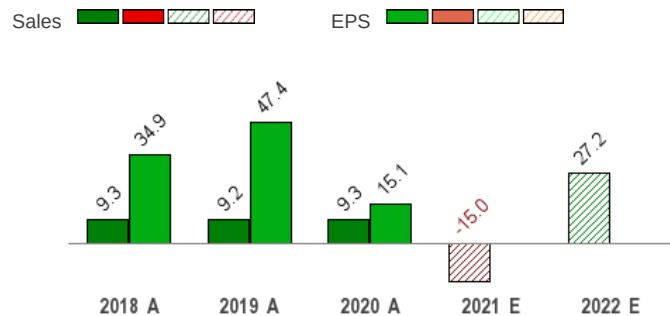
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$250.89 - \$105.67
20 Day Average Volume (sh)	812,595
Market Cap	\$11.8 B
YTD Price Change	-21.6%
Beta	0.72
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 9% (23 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-199.4%
Last Sales Surprise	-13.3%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	09/03/2020
Earnings ESP	0.0%
P/E TTM	127.8
P/E F1	NA
PEG F1	NA
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					7,846 E
2021	802 A	1,216 E	1,836 E	2,337 E	6,170 E
2020	1,629 A	1,656 A	1,775 A	2,201 A	7,261 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	-\$0.53 E	\$1.53 E	\$1.67 E	\$4.20 E	\$7.26 E
2021	-\$4.76 A	-\$1.01 E	\$1.29 E	\$3.46 E	-\$1.10 E
2020	\$1.26 A	\$1.36 A	\$1.55 A	\$3.25 A	\$7.41 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 07/09/2020. The reports text is as of 07/10/2020.

Overview

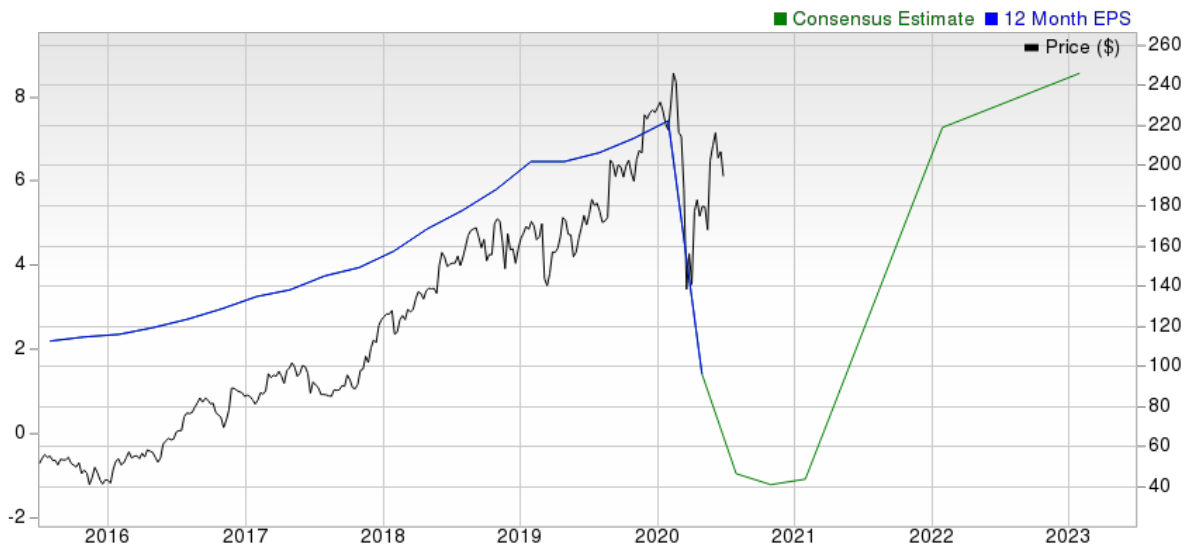
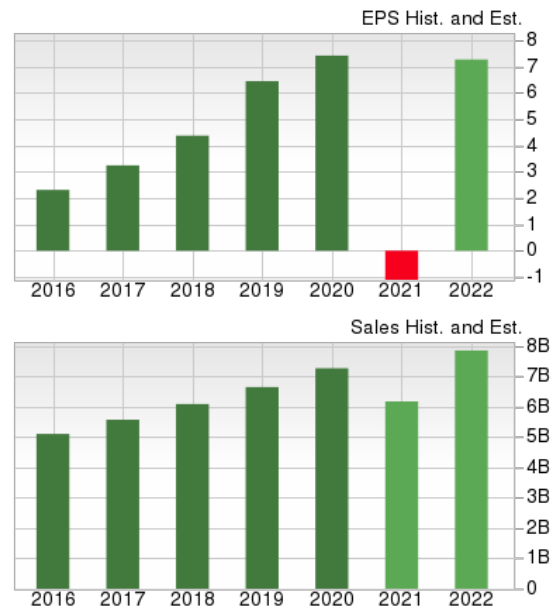
Founded in 1972, and headquartered in New Jersey, Burlington Stores, Inc. functions as a retailer of branded apparel products and is also a Fortune 500 company. It operates in the United States and Puerto Rico. The company offers products such as ladies sportswear, menswear, youth apparel, baby furniture,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

The company's wider selection provides a broad range of apparel, accessories and furnishings for all age groups. 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.

In addition, the company purchases both the pre-season and in-season merchandise in order to respond quickly to evolving market conditions and consumer fashion preference. Moreover, Burlington Stores' continues to emphasize rich heritage of coats and outerwear, and are known as the destination for coat shoppers.

Furthermore, Burlington Stores' selection of staple and destination products lures customers from beyond the local trade areas. These products drive higher store traffic and differentiate the company from its competitors.

As of May 2, 2020, the company had 736 stores across 45 States as well as Puerto Rico.



Reasons To Buy:

▲ **Q1 Highlights:** Management has begun the process of reopening stores on May 11, 2020, and as of now, 332 outlets have been re-opened. Moving ahead, it anticipates opening 402 stores as of May 29, 2020, while majority of the remaining outlets will be opened by mid-June. It has been seeing higher traffic levels and sales in such stores, as customers are responding favorably to the company's clearance strategy. Further, merchandise inventories were \$625.9 million, down 30% from last year. The decline was mainly due to strict actions to reduce inventory receipts during the extended store-closure period and the \$272-million inventory charge against aged inventory.

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 home, beauty and gifts categories, in order to make the business less weather sensitive. With regards to the company's marketing endeavors, it is experiencing favorable 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 focusing on SG&A expenses. In the wake of the coronavirus outbreak, management informed that the company has been cutting down on capital spending and operating costs as well as reducing inventory receipts and managing working capital effectively.

▲ **Store-Expansion Strategy:** In order to drive top-line growth, Burlington Stores is focused on store expansion. The company's store count has increased from 13 in 1980 to 727 stores in fiscal 2019. In fiscal 2015, 2016, 2017, 2018 and 2019, the company opened 24, 28, 30, 68 and 76 stores, respectively. It plans to open 54 net new stores in fiscal 2020. This comprises 80 new stores and 26 store relocations and closures. It also believes that there is room to increase the store count to 1,000.

During the first quarter of fiscal 2020, the company inaugurated 12 stores, relocated 10 and shuttered three. For fiscal second quarter, management anticipates opening three outlets. For fiscal 2020, the company expects to introduce 64 stores and relocate or shutter 26, with total 38 net new outlets. Nearly 16 new outlets have been shifted from fall 2020 to spring 2021. Previously, management estimated opening 80 stores with 54 net new outlets.

Reasons To Sell:

- ▼ **Q1 Loss, Sales Miss:** Shares of Burlington Stores have lost 21.6% year to date wider than the industry's 2.3% decline. The company reported a dismal first-quarter fiscal 2020, wherein it posted wider-than-expected loss per share with a sales miss. Both the top and the bottom line declined year over year. Results were mainly hurt by COVID-19 that compelled the company to shut all stores effective Mar 22, till the end of the first quarter. While significant sales decline and \$272-million inventory charge against aged inventory due to extended store closures with respect to COVID-19 hurt the bottom line, sales plunged 51% solely due to adverse impacts of COVID-19. Margins were also dismal in the quarter.
- ▼ **Soft Margins:** During the first quarter of fiscal 2020, gross margin contracted significantly from 41% to 2% due to the inventory charge for aged inventory. Further, this charge is anticipated to cover entire cost of markdowns to clear inventory in the fiscal second quarter. Although adjusted SG&A expenses, which exclude management transition costs of \$3 million, declined 8.9%, the company reported adjusted operating loss of \$499.2 million during the reported quarter. Burlington Stores had delivered operating income of \$117.4 million in the year-ago quarter.
- ▼ **Debt Analysis:** At the end of first-quarter fiscal 2020 (May 2, 2020), Burlington Stores had a long-term debt including operating lease liabilities of \$4,675 million. This shows an increase of 40.7% sequentially and 47.1% year over year. Although cash and cash equivalents of \$1,488.5 million increased substantially from \$403.1 million recorded in the previous quarter, the same remains well below the company's debt. On Apr 16, 2020, the company concluded \$1.1-billion debt offerings. These included high-yield senior secured notes of \$300 million and convertible senior unsecured notes of \$805 million, both maturing in April 2025.

Burlington Stores posted wider-than-expected loss per share and sales miss during the first quarter of fiscal 2020. Moreover, the company is exposed to stiff competition.

Last Earnings Report

Burlington Stores Posts Wider-Than-Expected Q1 Loss

Burlington Stores delivered soft results in first-quarter fiscal 2020, wherein it reported wider-than-expected loss per share with a sales miss. Both the top and the bottom line also declined year over year. Results were mainly hurt by COVID-19 that compelled the company to shut all stores effective Mar 22, till the end of the first quarter.

Nevertheless, management has begun the process of reopening stores on May 11, 2020, and as of now, 332 outlets have been re-opened. Moving ahead, it anticipates opening 402 stores as of May 29, 2020, while majority of the remaining outlets will be opened by mid-June. It has been seeing higher traffic levels and sales in such stores, as customers are responding favorably to the company's clearance strategy.

Quarter Ending 04/2020

Report Date	May 28, 2020
Sales Surprise	-13.31%
EPS Surprise	-199.37%
Quarterly EPS	-4.76
Annual EPS (TTM)	1.40

Let's Introspect

The company delivered first-quarter adjusted loss (exclusive of management transition costs) of \$4.76 per share, wider than the Zacks Consensus Estimate of a loss of \$1.59. Also, the bottom line compared unfavorably with earnings of \$1.26 recorded in the prior-year quarter. Significant sales decline and \$272-million inventory charge against aged inventory due to extended store closures with respect to COVID-19 hurt the bottom line.

Total revenues came in at \$801.5 million, down 50.9% year over year. Moreover, net sales plunged 51% year over year to \$798 million, mainly owing to COVID-19. The Zacks Consensus Estimate is pegged at \$925 million. Other revenues came in at \$3.5 million, down 37.5% year over year.

Gross margin contracted significantly from 41% to 2% in the fiscal first quarter due to the aforesaid inventory charge for aged inventory. Further, this charge is anticipated to cover entire cost of markdowns to clear inventory in the fiscal second quarter.

Adjusted SG&A expenses, which excludes management transition costs of \$3 million made in the quarter under review, was \$390 million, down 8.9% year over year. However, SG&A includes product sourcing costs of \$76 million.

Furthermore, adjusted operating loss (exclusive of management transition costs) was \$499.2 million during the reported quarter, compared with operating income of \$117.4 million recorded in the year-ago quarter.

Other Financial Aspects

Burlington Stores ended the reported quarter with cash and cash equivalents of \$1,488.5 million, long-term debt of \$2,304.1 million and shareholders' equity of \$279.1 million. Also, it had \$151 million cash on its ABL facility.

Further, merchandise inventories were \$625.9 million, down 30% from last year. The decline was mainly due to strict actions to reduce inventory receipts during the extended store-closure period and the aforesaid inventory charge. Meanwhile, pack and hold inventory constituted 22% of the total inventory by fiscal first-quarter end.

On Apr 16, 2020, the company concluded \$1.1-billion debt offerings. These included high-yield senior secured notes of \$300 million and convertible senior unsecured notes of \$805 million, both maturing in April 2025.

During the quarter, the company bought back 243,573 shares for \$50 million before the suspension of the share repurchase program announced on Mar 19. At the end of the reported quarter, the company had \$348 million remaining under its share buyback program. It had fully diluted outstanding shares of 65.6 million at the end of fiscal first quarter. Notably, it bought back roughly 1.1 million shares from the end of the first quarter of fiscal 2019 till the suspension of its share repurchase program.

Outlook

Management did not issue sales and earnings view for fiscal 2020 due to volatility regarding the recovery of consumer demand. However, it now expects depreciation & amortization, exclusive of favorable lease costs, of nearly \$230 million compared to the prior anticipation of \$235 million. Interest expense, net of non-cash interest of \$24 million on convertible notes, is now projected to be \$80 million versus \$45 million expected earlier.

For fiscal 2020, the company expects to introduce 64 new stores and relocate or shutter 26, with total 38 net new outlets. Nearly 16 new outlets have been shifted from fall 2020 to spring 2021. Previously, management estimated opening 80 stores with 54 net new outlets.

Furthermore, capital expenditures, net of landlord allowances, are envisioned to come at nearly \$260 million versus a prior outlook of \$400 million.

Recent News

Burlington Stores to Keep Shut Due to Coronavirus – April 13, 2020

Burlington issued updates in light of the rising concerns over the coronavirus pandemic. It said that the company's stores and distribution centers will continue to remain shut for now. Management has temporarily furloughed majority of associates, however, the impacted workers are entitled to benefits including payment of 100% of the existing health benefit premiums. Also, the company has created a hotline to support furloughed associates to gain access to government programs. In addition, the company's CEO will forgo salary and the board will forfeit cash compensation whereas its executive leadership team has voluntarily chosen to reduce their salary by 50%. Moreover, finalization of yearly incentive bonus payments with respect to fiscal 2019 and merit pay raises for fiscal 2020 have been deferred to later in the fiscal.

The company had also withdrawn first quarter and fiscal 2020 outlook on increasing volatility stemming from the pandemic. Moreover, it has put its share buy-back program on hold for the time being. Management also informed that the company has been cutting down on capital spending and operating costs as well as reducing inventory receipts and managing working capital effectively. We note that the company began fiscal 2020 with roughly \$400 million in cash. It had also borrowed \$400 million under its \$600-million ABL facility to raise liquidity.

Valuation

Burlington Stores shares are down 21.6% in the year-to-date period but up 0.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 2.3% but those in the Zacks Retail-Wholesale sector is up 22.5% in the year-to-date period. Over the past year, the sub-industry and the sector are up 11% and 28.7%, respectively.

The S&P 500 index is down 0.4% in the year-to-date period but up 8.2% in the past year.

The stock is currently trading at 69.19X forward 12-month earnings, which compares to 28.07X for the Zacks sub-industry, 35.5X for the Zacks sector and 22.52X for the S&P 500 index.

Over the past five years, the stock has traded as high as 121.1X and as low as 14.59X, with a 5-year median of 23.07X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$187 price target reflects 72.32X 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	69.19	28.07	35.5	22.52
	5-Year High	121.1	29.98	35.5	22.52
	5-Year Low	14.59	17.93	19.14	15.27
	5-Year Median	23.07	20.11	23.28	17.59
P/S F12M	Current	1.71	1.41	1.23	3.51
	5-Year High	2.11	1.46	1.23	3.51
	5-Year Low	0.56	0.95	0.82	2.52
	5-Year Median	1.25	1.14	0.96	3.04
EV/EBITDA TTM	Current	57.96	24.05	19.96	12.04
	5-Year High	67.5	24.76	19.96	12.45
	5-Year Low	8.9	11.04	10.72	8.04
	5-Year Median	13.64	13.95	12.78	10.76

As of 07/09/2020

Industry Analysis Zacks Industry Rank: Top 9% (23 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. (BIG)	Outperform	1
Dollar General Corporation (DG)	Outperform	1
Ollies Bargain Outlet Holdings, Inc. (OLLI)	Outperform	1
Best Buy Co., Inc. (BBY)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Five Below, Inc. (FIVE)	Neutral	3
Target Corporation (TGT)	Neutral	3

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	BURL	X Industry	S&P 500	BIG	DLTR	TGT
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	1	3	3
VGM Score	F	-	-	A	A	B
Market Cap	11.78 B	16.72 B	21.19 B	1.61 B	21.67 B	58.95 B
# of Analysts	10	11	14	6	9	12
Dividend Yield	0.00%	0.38%	1.96%	2.93%	0.00%	2.24%
Value Score	D	-	-	B	A	B
Cash/Price	0.12	0.09	0.07	0.20	0.08	0.08
EV/EBITDA	17.74	13.18	12.56	5.91	12.59	9.72
PEG Ratio	NA	3.93	2.85	0.95	2.02	3.93
Price/Book (P/B)	42.21	5.28	3.00	1.82	3.32	5.28
Price/Cash Flow (P/CF)	16.67	13.86	11.41	5.71	10.30	10.13
P/E (F1)	NA	23.79	20.79	6.71	19.67	23.79
Price/Sales (P/S)	1.83	0.89	2.19	0.29	0.90	0.74
Earnings Yield	-0.61%	3.40%	4.52%	14.89%	5.08%	4.21%
Debt/Equity	16.75	1.67	0.76	1.68	1.24	1.46
Cash Flow (\$/share)	10.73	6.38	6.94	7.18	8.87	11.64
Growth Score	F	-	-	A	A	B
Hist. EPS Growth (3-5 yrs)	21.44%	12.69%	10.90%	7.48%	18.19%	5.85%
Proj. EPS Growth (F1/F0)	-114.90%	-13.27%	-9.99%	66.21%	-2.43%	-22.44%
Curr. Cash Flow Growth	7.36%	9.68%	5.51%	0.18%	-55.39%	10.26%
Hist. Cash Flow Growth (3-5 yrs)	18.02%	8.54%	8.55%	2.93%	19.78%	3.95%
Current Ratio	1.65	1.35	1.30	1.48	1.15	1.01
Debt/Capital	94.37%	62.49%	44.46%	62.66%	55.43%	59.37%
Net Margin	0.83%	3.41%	10.62%	5.05%	3.35%	3.46%
Return on Equity	26.65%	23.39%	15.75%	19.99%	18.69%	24.17%
Sales/Assets	1.13	1.51	0.55	1.67	1.22	1.85
Proj. Sales Growth (F1/F0)	-15.03%	5.95%	-2.52%	10.94%	6.33%	5.95%
Momentum Score	B	-	-	B	A	C
Daily Price Chg	-2.53%	0.08%	-1.52%	-1.92%	1.16%	0.17%
1 Week Price Chg	-1.09%	1.23%	3.66%	-6.20%	1.07%	1.79%
4 Week Price Chg	-11.99%	-2.58%	0.36%	18.48%	2.51%	-0.09%
12 Week Price Chg	1.93%	6.48%	10.41%	119.27%	13.56%	7.87%
52 Week Price Chg	0.08%	-5.21%	-8.70%	63.38%	-17.69%	36.35%
20 Day Average Volume	812,595	2,283,946	2,339,510	2,316,085	2,416,951	4,114,101
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.13%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	37.34%	0.13%	0.00%
(F1) EPS Est 12 week change	-122.06%	-14.20%	-7.77%	103.67%	-4.00%	-24.40%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	229.38%	0.11%	0.00%

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	F
Momentum Score	B
VGM Score	F

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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