

Burlington Stores(BURL)

\$182.61 (As of 04/17/20)

Price Target (6-12 Months): **\$194.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 11/29/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: F

Summary

Shares of Burlington Stores have slid and underperformed the industry in the past three months, in spite of the earnings beat streak that continued in fourth-quarter fiscal 2019. Even year-over-year increase in both top and bottom lines failed to arrest the decline. The stock's dismal performance can be attributed to the company's top-line miss in the last two reported quarters. Also, the company called off its first quarter and fiscal 2020 view due to difficulty on part of management to gauge the financial implications of the pandemic. Nonetheless, the company is on track with its strategic initiatives. It has increased vendor counts, made technological advancements, initiated better marketing approach and remains focused on inventory management and cost containment. The company's decent comps run is the testimony of the same.

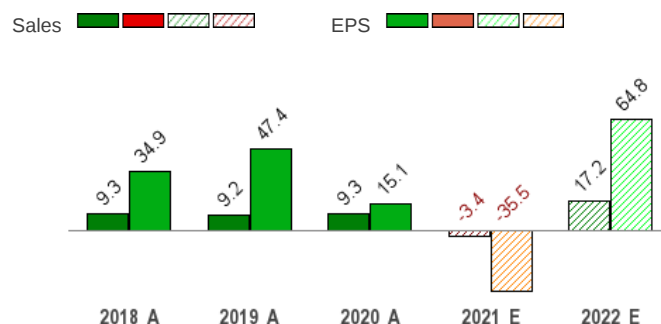
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$250.89 - \$105.67
20 Day Average Volume (sh)	1,184,926
Market Cap	\$12.1 B
YTD Price Change	-19.9%
Beta	0.64
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Bottom 32% (173 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.9%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	-40.4%
Expected Report Date	06/04/2020
Earnings ESP	-81.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					8,221 E
2021	1,235 E	1,584 E	1,862 E	2,339 E	7,014 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	\$0.87 E	\$1.44 E	\$1.73 E	\$3.87 E	\$7.88 E
2021	-\$0.62 E	\$0.76 E	\$1.43 E	\$3.52 E	\$4.78 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.

P/E TTM	24.6
P/E F1	38.2
PEG F1	2.3
P/S TTM	1.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/17/2020. The reports text is as of 04/20/2020.

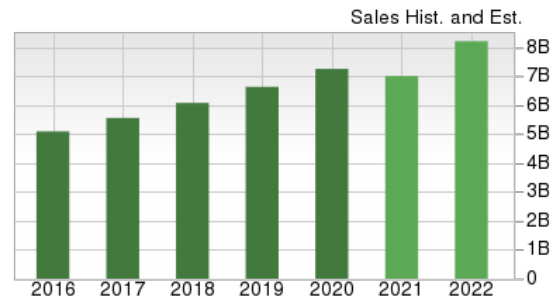
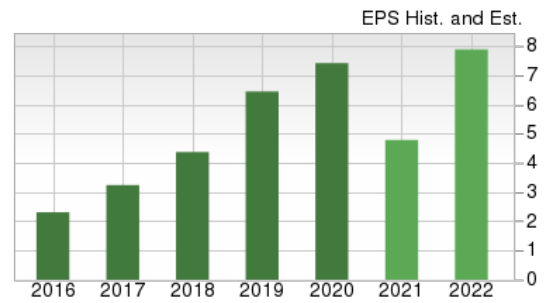
Overview

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 February 1, 2020, the company had 727 stores (inclusive of an internet store) in 45 States as well as Puerto Rico.



Reasons To Buy:

- ▲ **Positive Earnings Surprise Streak Continues:** Burlington Stores continued with its positive earnings surprise streak in the fourth quarter of fiscal 2019 as well. The quarter marked the third straight beat and year-over-year increase. Notably, the company delivered fourth-quarter adjusted earnings (exclusive of management transition costs) of \$3.25 per share that surpassed the Zacks Consensus Estimate of \$3.22. The quarterly earnings improved 14.8% from the prior-year quarter buoyed by higher net sales, merchandise margin improvement and SG&A leverage. Certainly, the company is on track with its strategic initiatives. Management will now focus on higher investment in merchandizing capabilities, operating with leaner inventories, enhancing operational flexibility and controlling costs. In addition, the company has decided to wind down e-commerce operations, which represented nearly 0.5% of total sales. The decision will enable the off-price retailer to focus more and deploy resources in the bricks-and-mortar platform.
- ▲ **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.
- ▲ **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 16 trailing quarters but have also shown constant improvement over the past few quarters. In the fourth quarter of fiscal 2019, the top line improved 10.5% to \$2,201.4 million. This follows an increase of 8.6%, 10.5%, 7.3% and 2.8% in the preceding four quarters. New and non-comparable stores contributed \$151 million to sales. We note comparable store sales rose 3.9% in the reported quarter, following an increase of 2.7%, 3.8%, 0.1% and 1.3% in the preceding four quarters. Meanwhile, comparable store sales have increased 2.7%, 3.2%, 3.4% and 4.5% in fiscal 2019, 2018, 2017 and 2016, respectively.
- ▲ **Margins Continue to Impress:** Gross margin, an important financial metric, which gives an indication about the company’s health, has shown improvement. Improvement in gross margin can be attributed to the company’s efforts toward managing inventory as well as effective cost management and merchandising margin. Gross margin grew 20 basis points (bps) to 42.1%, driven by an increase of 40 bps in merchandise margin. Adjusted operating income (exclusive of management transition costs) improved 13.6% to \$296.8 million, while adjusted operating margin, as a percentage of net sales, expanded 40 bps to 13.5%. Operating margin had expanded 100 bps in the preceding quarter.
- ▲ **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 727 stores in fiscal 2019. In fiscal 2015, 2016, 2017, 2018 and 2019, the company has opened 24, 28, 30, 68 and 76 stores, respectively. The company 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.

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.

Reasons To Sell:

- ▼ **Dismal Stock Performance:** Shares of Burlington Stores have plunged 21.7% and underperformed the industry that declined 5.6% in the past three months. The stock's dismal run on the bourses can be attributed to the company's top-line miss in the last two reported quarters. Certainly, the company remains concerned about the coronavirus outbreak that has jeopardized the global economy. In response to it, the company has decided to keep stores and distribution centers 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. In addition, 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.
- ▼ **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 24.61, which is below the median level of 28.71 and the high level of 33.44 scaled in the past one year. Meanwhile, the trailing 12-month P/E ratio for the industry and the S&P 500 is 24.14 and 17.9, respectively.
- ▼ **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 expenses, exclusive of management transition costs, have increased 9.5% in the fourth quarter of fiscal 2019, following a jump of 7.1%, 9.2% and 7.9% in the third, second and first quarter, respectively. Persistence of such a dismal trend may hurt the company's profitability in the future.
- ▼ **Competitive Pressure:** 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.
- ▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. 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 sentiment. For now, the novel coronavirus has wreaked havoc. The retail sector, in particular, remains under pressure due to major supply-chain bottlenecks, reduced traffic, an increasing number of store closures and limited hours of working. Again, analysts are expecting job losses as well as lower disposable income due to this catastrophe. This could compel consumers to avoid discretionary spending and focus on necessities for the time being. This may adversely impact the company's growth and profitability.

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

Last Earnings Report

Burlington Stores' Q4 Earnings Beat Estimates, Rise Y/Y

Burlington Stores, Inc. delivered robust bottom-line results in fourth-quarter fiscal 2019. Earnings not only grew year over year but also outshined the Zacks Consensus Estimate for the third straight time. Although the top line lagged the consensus mark, the same improved year over year on impressive comparable store sales and solid contributions from new and non-comparable stores.

Notably, Burlington Stores is on track with its strategic initiatives. Management will now focus on higher investment in merchandizing capabilities, operating with leaner inventories, enhancing operational flexibility and controlling costs. In addition, the company has decided to wind down e-commerce operations, which represented nearly 0.5% of total sales. The decision will enable the off-price retailer to focus more and deploy resources in the bricks-and-mortar platform.

Quarter Ending **01/2020**

Report Date	Mar 05, 2020
Sales Surprise	-0.23%
EPS Surprise	0.93%
Quarterly EPS	3.25
Annual EPS (TTM)	7.42

Let's Introspect

The company delivered fourth-quarter adjusted earnings (exclusive of management transition costs) of \$3.25 per share that surpassed the Zacks Consensus Estimate of \$3.22. Notably, earnings rose 14.8% from the prior-year quarter on higher net sales, merchandise margin improvement and leverage on SG&A.

Net sales advanced 10.5% year over year to \$2,201.4 million. However, the reported figure lagged the consensus mark of \$2,206 million, marking the second consecutive quarterly miss. New and non-comparable stores contributed \$151 million to sales. Other revenues came in at \$7.2 million, up 9.1% year over year.

Meanwhile, comparable store sales rose 3.9% in the reported quarter, up from an increase of 2.7% in the preceding quarter. Comps growth was mainly backed by rise in units per transactions with AUR and a marginal increase in conversions, somewhat offset by a slight fall in traffic. Notably, this was the 28th successive quarter of comparable store sales growth.

Gross margin grew 20 basis points (bps) to 42.1%, driven by an increase of 40 bps in merchandise margin, partly offset by higher freight costs.

Adjusted SG&A expenses, as a percentage of net sales, declined 20 basis points to 22.5% owing to sturdy sales growth that led to leveraged occupancy and marketing expenses, and corporate costs. This excludes management transition costs of \$2.9 million incurred during the reported quarter.

Adjusted operating income (exclusive of management transition costs) improved 13.6% to \$296.8 million, while adjusted operating margin, as a percentage of net sales, expanded 40 bps to 13.5%.

Store Update

During the quarter, the company added one net new store including one relocation and two store closures ending the period with 727 stores. During fiscal 2019, Burlington Stores opened 76 new stores and shuttered 24 stores. The company concluded the quarter with 727 stores. During fiscal 2020, it plans to open 80 new and close or relocate 26. This reaches the expected net new store opening count for fiscal 2020 to 54.

Other Financial Aspects

Burlington Stores ended the reported quarter with cash and cash equivalents of \$403.1 million, long-term debt of \$1,001.7 million and shareholders' equity of \$528.1 million. Net capital expenditures incurred during fiscal 2019 totaled \$269 million. For fiscal 2020, the company projects net capital expenditures of roughly \$400 million.

Further, merchandise inventories were \$777.2 million, down 18.6% from last year. The decline was mainly due to a 15% fall in comparable store inventory at the end of the fiscal coupled with decrease in pack and hold inventory that constituted 26% of total inventory by fiscal-end.

During the quarter, the company bought back 375,529 shares for \$83 million. At the end of the reported quarter, the company had \$399 million remaining under its share buyback program.

On Feb 26, management completed the repricing of the senior secured term loan facility. This lowered the applicable interest rate margin to 1.75% from 2%, with a 0.00% LIBOR floor. Further, the senior secured term loan facility includes a single tranche of loans, having a maturity date in November 2024.

Outlook

For fiscal 2020, management now projects total sales growth of 8-9%, compared to fiscal 2019 sales growth of 9%. Further, comparable store sales are forecasted to improve 1-2%. The company had witnessed comparable store sales growth of 3% in fiscal 2019.

Further, depreciation and amortization, exclusive of favorable lease expenses, are likely to come in at roughly \$235 million. Adjusted EBIT margin rate is likely to remain flat year over year. It estimates net interest expense of about \$45 million and an effective tax rate of 21% for the fiscal year.

Burlington Stores now envisions fiscal 2020 adjusted earnings per share in the range of \$7.97-\$8.12, suggesting an improvement from adjusted earnings of \$7.41 reported in fiscal 2019.

Additionally, the company expects first-quarter total sales growth of 8-9%. Comparable store sales are anticipated to improve 1-2% compared with flat comparable store sales reported in the year-ago period. It envisions adjusted earnings per share of \$1.29-\$1.34, suggesting a rise from

the prior-year adjusted figure of \$1.26.

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 19.9% in the year-to-date period but up nearly 14% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 5.1% but the Zacks Retail-Wholesale sector is up 1% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are up 16.2% and 7%, respectively.

The S&P 500 index is down 10.9% in the year-to-date period and 1.7% in the past year.

The stock is currently trading at 21.88X forward 12-month earnings, which compares to 24.76X for the Zacks sub-industry, 28.01X for the Zacks sector and 19.53X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.53X and as low as 14.59X, with a 5-year median of 22.87X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$194 price target reflects 23.19X 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	21.88	24.76	28.01	19.53
	5-Year High	31.53	24.76	28.01	19.53
	5-Year Low	14.59	17.95	19.06	15.19
	5-Year Median	22.87	20.07	23.16	17.45
P/S F12M	Current	1.49	1.35	0.93	3.2
	5-Year High	2.11	1.39	1.11	3.44
	5-Year Low	0.56	0.94	0.8	2.54
	5-Year Median	1.1	1.12	0.93	3.01
EV/EBITDA TTM	Current	17.47	18.2	15.5	10.51
	5-Year High	22.45	19.86	16.36	12.87
	5-Year Low	8.9	10.91	10.46	8.27
	5-Year Median	13.25	13.54	12.53	10.78

As of 04/17/2020

Industry Analysis Zacks Industry Rank: Bottom 32% (173 out of 253)



Top Peers

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

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	BURL Neutral	X Industry	S&P 500	BIG Underperform	DLTR Neutral	TGT Neutral
VGM Score	C	-	-	A	A	A
Market Cap	12.10 B	15.73 B	19.60 B	749.66 M	19.35 B	56.82 B
# of Analysts	10	11	14	6	10	12
Dividend Yield	0.00%	0.80%	2.17%	6.27%	0.00%	2.33%
Value Score	F	-	-	A	B	B
Cash/Price	0.03	0.05	0.06	0.07	0.03	0.05
EV/EBITDA	17.80	13.13	11.73	4.28	12.27	9.33
PEG Ratio	2.19	2.33	2.19	0.53	1.56	2.20
Price/Book (P/B)	22.91	5.86	2.67	0.88	3.09	4.86
Price/Cash Flow (P/CF)	17.02	13.99	10.55	2.67	9.21	9.74
P/E (F1)	37.31	24.86	18.18	6.39	16.79	17.30
Price/Sales (P/S)	1.66	0.82	2.08	0.14	0.82	0.73
Earnings Yield	2.62%	3.95%	5.38%	15.62%	5.96%	5.77%
Debt/Equity	6.29	1.46	0.70	1.56	1.36	1.15
Cash Flow (\$/share)	10.73	6.38	7.01	7.18	8.87	11.64
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	34.46%	12.09%	10.92%	9.11%	18.69%	7.09%
Proj. EPS Growth (F1/F0)	-35.45%	-20.89%	-3.36%	-18.39%	2.29%	2.58%
Curr. Cash Flow Growth	7.36%	9.68%	5.93%	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	0.97	1.19	1.24	1.22	1.20	0.89
Debt/Capital	86.29%	59.24%	42.78%	60.86%	57.61%	53.50%
Net Margin	6.38%	4.38%	11.64%	4.55%	3.50%	4.20%
Return on Equity	131.83%	24.73%	16.74%	19.91%	19.71%	28.46%
Sales/Assets	1.37	1.76	0.54	1.66	1.21	1.85
Proj. Sales Growth (F1/F0)	-3.40%	0.37%	-0.14%	0.74%	4.18%	4.42%
Momentum Score	F	-	-	C	C	C
Daily Price Chg	4.05%	4.56%	4.04%	2.46%	1.62%	3.77%
1 Week Price Chg	25.85%	18.94%	16.01%	33.63%	10.42%	12.56%
4 Week Price Chg	39.92%	23.37%	18.93%	47.46%	15.32%	12.86%
12 Week Price Chg	-18.90%	-19.63%	-19.39%	-28.45%	-7.06%	-1.83%
52 Week Price Chg	11.35%	-9.03%	-11.34%	-51.01%	-24.79%	36.22%
20 Day Average Volume	1,184,926	2,631,090	3,220,598	2,104,005	3,172,381	6,255,661
(F1) EPS Est 1 week change	-6.29%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-40.42%	-4.16%	-7.09%	-6.79%	-2.87%	-4.16%
(F1) EPS Est 12 week change	-42.56%	-26.20%	-9.32%	-26.20%	-6.79%	-3.96%
(Q1) EPS Est Mthly Chg	-159.98%	-9.39%	-10.68%	-27.20%	-9.39%	-6.37%

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	F
Growth Score	A
Momentum Score	F
VGM Score	C

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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