

Burlington Stores(BURL)

\$169.76 (As of 03/26/20)

Price Target (6-12 Months): **\$180.00**

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:C

Value: D

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.

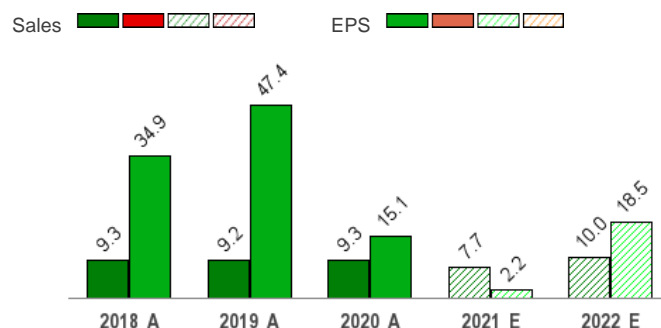
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$250.89 - \$105.67
20 Day Average Volume (sh)	1,525,177
Market Cap	\$11.2 B
YTD Price Change	-25.6%
Beta	0.26
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Bottom 36% (162 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	-7.8%
Expected Report Date	06/04/2020
Earnings ESP	0.0%
P/E TTM	22.9
P/E F1	22.4
PEG F1	1.3
P/S TTM	1.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					8,607 E
2021	1,669 E	1,785 E	1,950 E	2,403 E	7,822 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	\$1.46 E	\$1.68 E	\$1.90 E	\$4.10 E	\$8.97 E
2021	\$0.92 E	\$1.37 E	\$1.67 E	\$3.69 E	\$7.57 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 03/26/2020. The reports text is as of 03/27/2020.

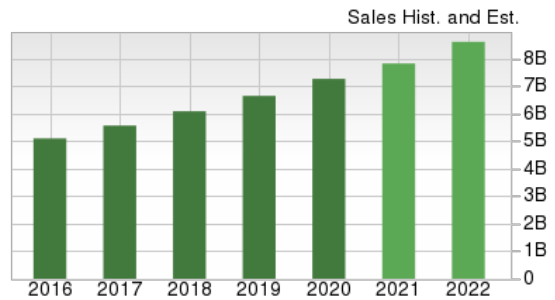
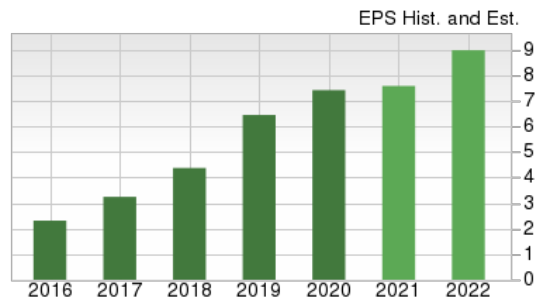
Overview

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.
- ▲ **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 26% and underperformed the industry that declined 14.8% 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 all its stores temporarily closed effective March 22. This will not only hurt sales and productivity but is also likely to escalate the cost burden as the company will continue to provide financial aid for a period of two weeks to its affected associates. The company has also withdrawn its first quarter and fiscal 2020 guidance as the same did not factor in the potential impact of the COVID-19 virus on business. It is very difficult on the part of the company to provide guidance because the financial implications of the pandemic cannot be gauged at this juncture.
- ▼ **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 22.88, which is below the median level of 28.65 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 21.60 and 16.39, 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 Close Stores Temporarily – March 20, 2020

Burlington Stores has closed stores effective March 22 considering the coronavirus pandemic. However, the company will provide two weeks of financial support to impacted associates. The company has also withdrawn its first quarter and fiscal 2020 projection in the wake of the pandemic.

Valuation

Burlington Stores shares are down 25.6% in the year-to-date period but up nearly 10.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and in the Zacks Retail-Wholesale sector are down 14.5% and 11%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is up 7.4% but the sector is down 2.6%, respectively.

The S&P 500 index is down 18.4% in the year-to-date period and 7.5% in the past year.

The stock is currently trading at 20.47X forward 12-month earnings, which compares to 20.48X for the Zacks sub-industry, 23.01X for the Zacks sector and 15.91X 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 22.89X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$180 price target reflects 21.70X 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	20.47	20.48	23.01	15.91
	5-Year High	31.53	23.75	26.19	19.34
	5-Year Low	14.59	17.95	19.06	15.18
	5-Year Median	22.89	20.07	23.01	17.42
P/S F12M	Current	1.4	1.19	0.91	2.85
	5-Year High	2.11	1.39	1.11	3.43
	5-Year Low	0.56	0.95	0.8	2.54
	5-Year Median	1.1	1.13	0.92	3
EV/EBITDA TTM	Current	16.5	16.51	13.79	9.74
	5-Year High	22.45	19.83	16.22	12.88
	5-Year Low	8.9	10.89	10.88	8.27
	5-Year Median	13.17	13.8	12.51	10.78

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Bottom 36% (162 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	11.25 B	14.88 B	18.50 B	524.73 M	18.50 B	48.13 B
# of Analysts	10	11	13	6	10	12
Dividend Yield	0.00%	0.90%	2.35%	8.93%	0.00%	2.75%
Value Score	D	-	-	A	B	B
Cash/Price	0.04	0.06	0.07	0.11	0.03	0.05
EV/EBITDA	16.79	12.92	11.16	5.38	11.89	8.14
PEG Ratio	1.24	1.72	1.74	0.66	1.44	1.77
Price/Book (P/B)	21.29	4.11	2.44	0.62	2.96	4.11
Price/Cash Flow (P/CF)	15.82	12.65	9.87	1.88	8.81	8.25
P/E (F1)	21.15	18.08	15.29	4.36	15.52	14.05
Price/Sales (P/S)	1.54	0.78	1.93	0.10	0.78	0.62
Earnings Yield	4.46%	5.34%	6.47%	22.99%	6.44%	7.12%
Debt/Equity	6.29	1.46	0.70	1.56	1.36	1.15
Cash Flow (\$/share)	10.73	6.37	7.01	7.16	8.87	11.64
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	34.46%	12.09%	10.85%	9.11%	18.69%	7.09%
Proj. EPS Growth (F1/F0)	2.21%	2.56%	2.89%	-15.94%	5.76%	7.03%
Curr. Cash Flow Growth	7.36%	9.68%	5.93%	-0.07%	-55.39%	10.26%
Hist. Cash Flow Growth (3-5 yrs)	18.02%	8.54%	8.55%	2.88%	19.78%	3.95%
Current Ratio	0.97	1.19	1.23	1.22	1.20	0.89
Debt/Capital	86.29%	59.24%	42.57%	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)	7.72%	4.09%	2.37%	0.05%	3.86%	3.50%
Momentum Score	F	-	-	C	A	A
Daily Price Chg	4.79%	3.14%	6.21%	-5.88%	2.32%	5.53%
1 Week Price Chg	-26.51%	-14.36%	-16.96%	-14.25%	1.70%	-3.58%
4 Week Price Chg	-23.27%	-21.75%	-15.70%	-40.11%	-8.39%	-9.04%
12 Week Price Chg	-25.93%	-25.53%	-23.67%	-51.45%	-16.68%	-23.80%
52 Week Price Chg	10.45%	-10.97%	-13.99%	-64.27%	-24.48%	19.61%
20 Day Average Volume	1,525,177	3,278,192	4,286,768	2,859,115	4,591,614	8,137,971
(F1) EPS Est 1 week change	-3.79%	0.00%	-0.15%	-1.33%	0.42%	0.00%
(F1) EPS Est 4 week change	-7.78%	-3.21%	-2.28%	-23.73%	-3.21%	0.01%
(F1) EPS Est 12 week change	-7.23%	-5.95%	-3.22%	-23.98%	-3.54%	-0.38%
(Q1) EPS Est Mthly Chg	-35.19%	-8.87%	-1.60%	-61.11%	-13.67%	-0.27%

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	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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.