

The TJX Companies (TJX)

\$53.26 (As of 08/26/20)

Price Target (6-12 Months): **\$45.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: A

Momentum: F

Summary

Shares of TJX Companies have underperformed the industry in the past six months. Temporary store closures amid the pandemic have been a concern for the company, as also reflected in its second-quarter fiscal 2021 results. During the quarter, top and bottom lines deteriorated year over year and lagged the consensus mark. Also, the company's open-only comp sales declined and are expected to fall in the third quarter. Apart from this, TJX Companies saw high COVID-19 costs, including payroll employee PPE costs. These costs are likely to remain high in the third and fourth quarters. Additionally, high freight costs and interest expense are a concern. Nonetheless, the company has reopened more than 4,500 stores worldwide, along with each of its online shopping sites. Further, the company's HomeGoods and Homesense chains have been doing well.

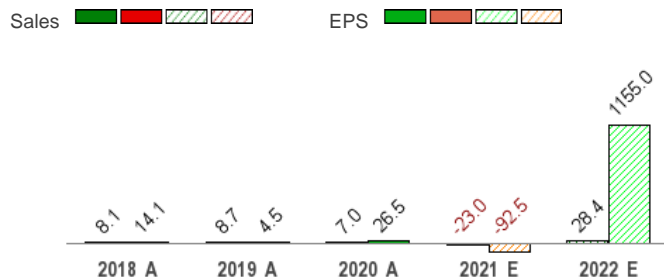
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.95 - \$32.72
20 Day Average Volume (sh)	8,898,064
Market Cap	\$63.8 B
YTD Price Change	-12.8%
Beta	0.71
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 13% (33 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-125.0%
Last Sales Surprise	-4.8%
EPS F1 Est- 4 week change	-67.7%
Expected Report Date	11/17/2020
Earnings ESP	0.0%
P/E TTM	93.4
P/E F1	266.3
PEG F1	24.4
P/S TTM	1.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	8,249 E	9,342 E	10,444 E	12,605 E	41,280 E
2021	4,409 A	6,668 A	9,271 E	11,673 E	32,141 E
2020	9,278 A	9,782 A	10,451 A	12,206 A	41,717 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.44 E	\$0.63 E	\$0.64 E	\$0.79 E	\$2.51 E
2021	-\$0.74 A	-\$0.18 A	\$0.40 E	\$0.63 E	\$0.20 E
2020	\$0.57 A	\$0.62 A	\$0.68 A	\$0.81 A	\$2.67 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 08/26/2020. The reports text is as of 08/27/2020.

Overview

Based in Framingham, MA, The TJX Companies, Inc. is a leading off-price retailer of apparel and home fashions in the U.S. and worldwide. It has more than 4,300 stores across the globe, which are well known for their unique value proposition of brand, fashion, price and quality. The company's broad range of assortments at varying prices helps it to reach out to a broad range of consumers. In addition to these, TJX Companies tries to attract consumers through rapid turn of inventories.

The company has been able to distinguish itself from traditional retailers on the grounds of opportunistic buying strategies and flexible business model. In fact, TJX Companies' low-cost structure sets it apart from other traditional retailers. In order to maintain control on costs, the company engages in the promotion of retail banners, rather than specific brands. The company's distribution network is also designed in a manner such that helps curtailing costs. Moreover, the company emphasizes on creating strong relations with vendors across different countries, in order leverage buying power.

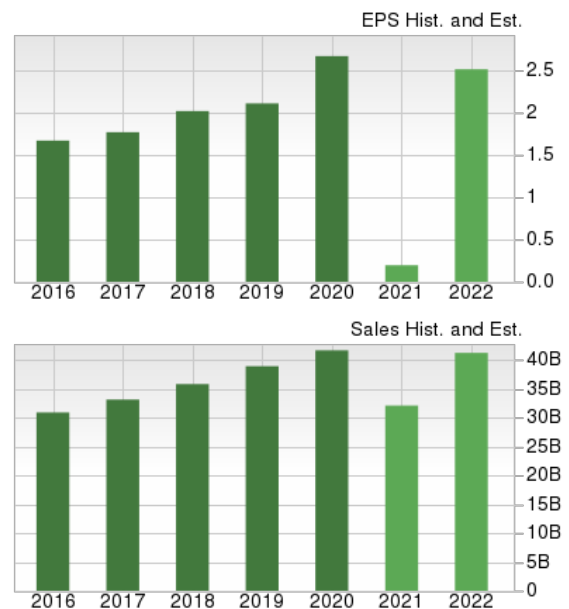
The TJX Companies operates through four business segments:

In the U.S., it operates through two segments, namely, Marmaxx (through stores under the names of T.J. Maxx and Marshalls) and HomeGoods.

Marmaxx divisions (62% of FY19 Sales) sell family apparel (including footwear and accessories), home fashions (including home basics, accent furniture, lamps, rugs, wall décor, decorative accessories and giftware) and other merchandise.

HomeGoods (15% of FY19 Sales) chain offers home basics, giftware, accent furniture, lamps, rugs, wall décor and decorative accessories from around the world, seasonal and other merchandise.

In Canada, it operates through TJX Canada (9% of FY19 Sales) through stores under the names of Winners, Marshalls and HomeSense and in Europe, it operates through TJX International (14% of FY19 Sales) through stores under the names of T.K. Maxx and HomeSense.



Reasons To Sell:

- ▼ **COVID-19 Hurts Q2 Performance:** Shares of TJX Companies have lost 11% in the past six months, against the industry's growth of 16.2%. The company has been bearing the brunt of concerns related to COVID-19, which was also reflected in its second-quarter fiscal 2021 results. Incidentally, TJX Companies came up with yet another quarter of drab results with its second-quarter fiscal 2021 numbers. Both top and bottom lines deteriorated year over year and lagged the Zacks Consensus Estimate. Results were marred by temporary store closures in one-third of the quarter due to COVID-19.

TJX Companies reported a loss of 18 cents per share, wider than the Zacks Consensus Estimate of a loss of 8 cents. The quarterly loss compares unfavorably with earnings of 62 cents reported in the year-ago period. Net sales slumped 31.8% year over year to \$6,667.6 million and lagged the Zacks Consensus Estimate of \$7,005.4 million.

Coronavirus-Led store closures hurt TJX Companies' second-quarter fiscal 2021 performance. In the third quarter, management expects to see overall open-only comp store sales decline of 10-20%.

- ▼ **Open-Only Comps Soft:** In its second-quarter earnings, management stated that owing to temporary store closures amid the pandemic, the comp store sales definition was not applicable in the quarter under review. Thus, to offer a performance indicator for the stores as they reopen, TJX Companies has come up with a temporary new sales measure — open-only comp store sales. This includes stores that were initially classified as comp stores (in the beginning of fiscal 2021), with sales reporting done for the number of days these stores were open in the quarter under review. During the second quarter, open-only comp store sales for the company fell 3% year over year. The metric declined 6%, 18% and 1% at the Marmaxx (U.S.), TJX Canada and TJX International divisions, respectively, whereas the same was up 20% in the HomeGoods (U.S.) segment.

In the third quarter of fiscal 2021, management expects to see overall open-only comp store sales decline of 10-20%. This goes in tandem with the sales trends witnessed since mid-July through August (to date). The outlook also reflects the uncertainty surrounding consumer behavior, traffic and demand amid the pandemic, including a sluggish back-to-school selling season.

- ▼ **Escalated Cost Concerns:** TJX Companies saw several additional costs related to COVID-19 in the second quarter of fiscal 2020. These included higher payroll investments in stores for better cleaning, payroll for store workers, additional expenses related to the appreciation bonus paid in the quarter and PPE for employees. These costs weighed on the company's bottom line, which was otherwise cushioned by the company's robust saving efforts undertaken in the first quarter due to the pandemic.

Management expects to incur additional COVID-19 net costs of about 250 basis points each in the third and fourth quarters of fiscal 2020 — excluding elevated interest expense. These costs include the ongoing payroll and employee PPE costs amid the pandemic. Apart from this, management now envisions incremental freight costs as well as expenses associated with increased third party providers, which will enable TJX Companies' North American distribution centers process goods.

- ▼ **Currency Headwinds:** TJX Companies' is exposed to unfavorable foreign currency translations owing to the company's significant exposure to international markets. The weakening of foreign currencies against the U.S. dollar may compel the company to either raise prices or lower profit margins in locations outside the country. Therefore, volatility in exchange rates pose formidable risks for the periods ahead.

- ▼ **Off Price Retail Nature May Put Pressure on Margins:** TJX Companies provides goods at discounted prices. For example, TJX has been selling coveted apparel brands such as Tommy Hilfiger and Marc Jacobs at prices 20%-60% prices than those offered by others. Despite rising product costs, TJX, being an off-price retailer, cannot increase the price of its products, which may lead to lower margins.
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Risks

- **Stores Reopening, Strength in Home Categories:** In its second-quarter fiscal 2020 earnings release, TJX Companies notified that it has reopened more than 4,500 stores worldwide, along with each of its online shopping sites. The company has implemented actions to ensure safety and well-being of its workers as well as customers. These include social-distancing norms, access to PPE and better cleaning and sanitization, among other efforts. Notably, the company saw robust initial sales at all its retail banners and countries when it reopened stores. However, after an initial demand spike, sales and traffic moderated as the second quarter progressed and also in the third quarter.

Management also remains impressed with its merchandise margins in the second quarter, which was backed by considerably lower markdowns owing to higher-than-expected demand in reopened stores. Further, the company's HomeGoods and Homesense chains saw robust sales. HomeGoods, especially remained robust – delivering double-digit open only comp sales growth in every month of the second quarter. Also, home departments in other company chains did well. The company expects to keep gaining market share again when more customers restart shopping in stores.

- **Store & E-commerce Efforts:** TJX Companies has an aggressive store-opening strategy. The company regularly opens stores and expands fast across the U.S., Europe, Canada and Australia. While many retailers are resorting to store closures, TJX Companies opened 12 new stores in the second quarter of fiscal 2020, taking the total count to 4,557.

Further, with increasing number of consumers resorting to online shopping, TJX Companies has undertaken several initiatives to boost online sales and strengthen its e-commerce business. In fact, the company has reopened each of its online shopping site. We believe that TJX Companies' off-price model, along with its strategic store locations, impressive brands and fashion products, are likely to aid its performance, both in stores and online.

- **Marketing Strategy & Loyalty Programs:** The company remains committed toward boosting growth, through effective marketing initiatives and loyalty programs. Incidentally, TJX Companies' aggressive marketing and advertising campaigns through multiple mediums (TV, radio and social media) have been adding growth. While the company had curtailed such investments to save costs amid the pandemic, it intends to restart its television and digital marketing campaigns in the third quarter. Apart from this, TJX Companies' gift-giving initiatives, unique among off-price retailers and loyalty card program (which offers consumers a non-credit card choice and soft benefits such as early shopping hours) have been helping the company to improve customer engagement.
- **Financial Analysis:** TJX Companies' long-term debt (including long-term operating lease liabilities) totaled \$13,320.5 million as of Aug 1, 2020, reflecting a quarter-over-quarter decline of 11.8%. During the second quarter, TJX Companies' generated solid flow and considerably raised its liquidity. Incidentally, the company generated \$3.4 billion of operating cash flow during the quarter, which enabled it to pay \$1 billion that was drawn under the revolving credit facilities in March. Also, the company boosted the borrowing capacity under its credit facilities with another facility of \$500 million in the third-quarter beginning, making \$1.5 billion available for the company.

Apart from this, the company has been focused on stringent expense control to enhance liquidity amid the pandemic. Such activities helped it realize considerable cost savings in the quarter under review. Notably, the company ended the second quarter with a robust liquidity status – with cash of about \$6.6 billion. All these factors lend the company sufficient flexibility to stay firm amid the crisis situation.

Last Earnings Report

TJX Companies' Q2 Loss Wider Than Expected, Sales Drop

TJX Companies came up with yet another quarter of drab results with its second-quarter fiscal 2021 numbers. The company reported a loss of 18 cents per share, wider than the Zacks Consensus Estimate of a loss of 8 cents. The quarterly loss compares unfavorably with earnings of 62 cents reported in the year-ago period. Net sales slumped 31.8% year over year to \$6,667.6 million and lagged the Zacks Consensus Estimate of \$7,005.4 million. Results were marred by temporary store closures in one-third of the quarter due to COVID-19.

Quarter Ending **07/2020**

Report Date	Aug 19, 2020
Sales Surprise	-4.82%
EPS Surprise	-125.00%
Quarterly EPS	-0.18
Annual EPS (TTM)	0.57

Management stated that owing to temporary store closures amid the pandemic, the comp store sales definition was not applicable in the quarter under review. Thus, to offer a performance indicator for the stores as they reopen, TJX Companies has come up with a temporary new sales measure — open-only comp store sales. This includes stores that were initially classified as comp stores (in the beginning of fiscal 2021), with sales reporting done for the number of days these stores were open in the quarter under review.

Markedly, open-only comp store sales for the company fell 3% year over year. The metric declined 6%, 18% and 1% at the Marmaxx (U.S.), TJX Canada and TJX International divisions, respectively, whereas the same was up 20% in the HomeGoods (U.S.) segment.

Other Financial Updates

The company ended the quarter with cash and cash equivalents of \$6,620.4 million, long-term debt of \$5,445.3 million and total shareholders' equity of \$4,660.6 million.

Management generated \$3.4 billion of operating cash flow during the second quarter, while it paid the \$1 billion, which was drawn under the revolving credit facilities in March. Also, the company boosted the borrowing capacity under its credit facilities with another facility of \$500 million in the third-quarter beginning, making \$1.5 billion available for the company. Dividend payments are not anticipated in the third quarter and the share buyback plan has been suspended.

Total inventories as of Aug 1, 2020, were \$3.7 billion, down from \$5.1 billion in the year-ago period. The company is focused on keeping inventory levels in line with its sales plans and has elevated its buying considerably since July beginning to facilitate inventory flow. The company is also concentrating its inventory purchases on categories that are witnessing higher demand since store reopening.

Store & More Updates

During the second quarter, the company opened 12 new stores in the reported quarter, taking the total count to 4,557.

TJX Companies has reopened more than 4,500 stores worldwide along with each of its online shopping sites. The company has implemented actions to ensure safety and well-being of its workers as well as customers. These include social-distancing norms, access to PPE and better cleaning and sanitization, among other efforts. Notably, the company saw robust initial sales at all its retail banners and countries when it reopened stores. After an initial demand spike, sales and traffic moderated as the second quarter progressed and also in the third quarter. This could be accountable to consumer behavior and lighter-than-planned store inventories. In Canada, the company's inventory flow was hurt by supply-chain hurdles and logistics-related headwinds. Nonetheless, the company has undertaken strategies to cut down on inventory delays.

Outlook

Management remains impressed with its merchandise margins in the second quarter. Further, the company's HomeGoods and Homesense chains saw robust sales. Also, home departments in other company chains did well. The company expects to keep gaining market share again when more customers restart shopping in stores.

In the third quarter of fiscal 2021, management expects to see overall open-only comp store sales decline of 10-20%. This goes in tandem with the sales trends witnessed since mid-July through August (to date). The outlook also reflects the uncertainty surrounding consumer behavior, traffic and demand amid the pandemic, including a sluggish back-to-school selling season. Management did not offer any guidance for fiscal 2021.

Valuation

TJX Companies shares are down 12.5% in the year-to-date period and 1.8% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7.9% and the Zacks Retail-Wholesale sector gained 35.8% in the year-to-date period. Over the past year, the Zacks sub-industry went up 17.4% while the sector gained 46.6%.

The S&P 500 index is up 8.2% in the year-to-date period and 21.8% in the past year.

The stock is currently trading at 34.07X forward 12-month earnings, which compares to 28.28X for the Zacks sub-industry, 33.67X for the Zacks sector and 23.11X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.17X and as low as 13.01X, with a 5-year median of 19.97X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$45 price target reflects 28.79X forward 12-month earnings.

The table below shows summary valuation data for TJX

Valuation Multiples - TJX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.07	28.28	33.67	23.11
	5-Year High	44.17	29.98	34.77	23.11
	5-Year Low	13.01	17.93	19.08	15.25
	5-Year Median	19.97	20.11	23.47	17.58
P/S F12M	Current	1.7	1.53	1.3	3.77
	5-Year High	1.86	1.53	1.3	3.77
	5-Year Low	0.99	0.96	0.82	2.53
	5-Year Median	1.48	1.15	0.97	3.05
EV/EBITDA TTM	Current	37.86	26.28	20.45	13.09
	5-Year High	41.69	26.32	20.45	13.09
	5-Year Low	8.9	11.02	10.68	8.25
	5-Year Median	11.46	14.17	12.97	10.92

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Top 13% (33 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. (BIG)	Outperform	1
Dollar General Corporation (DG)	Outperform	2
Target Corporation (TGT)	Outperform	1
Burlington Stores, Inc. (BURL)	Neutral	4
Costco Wholesale Corporation (COST)	Neutral	2
Dollar Tree, Inc. (DLTR)	Neutral	3
Kohls Corporation (KSS)	Neutral	3
Ross Stores, Inc. (ROST)	Neutral	3

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	TJX	X Industry	S&P 500	BURL	DG	DLTR
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Outperform	Neutral
Zacks Rank (Short Term)	4	-	-	4	2	3
VGM Score	B	-	-	F	A	A
Market Cap	63.80 B	18.83 B	23.69 B	12.93 B	51.37 B	24.73 B
# of Analysts	13	12	14	10	19	10
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.71%	0.00%
Value Score	B	-	-	D	B	B
Cash/Price	0.11	0.11	0.07	0.12	0.05	0.07
EV/EBITDA	13.34	13.65	13.37	19.11	21.60	13.96
PEG Ratio	24.43	2.95	3.04	NA	1.82	2.12
Price/Book (P/B)	13.69	6.07	3.17	46.34	7.13	3.79
Price/Cash Flow (P/CF)	15.48	14.76	12.78	18.31	22.94	11.75
P/E (F1)	266.30	22.78	21.63	NA	22.78	20.63
Price/Sales (P/S)	1.89	0.99	2.50	2.00	1.74	1.03
Earnings Yield	0.38%	3.44%	4.44%	-0.88%	4.39%	4.84%
Debt/Equity	2.86	1.67	0.75	16.75	1.65	1.24
Cash Flow (\$/share)	3.44	6.38	6.94	10.73	8.90	8.87
Growth Score	A	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	-0.49%	8.97%	10.41%	21.44%	14.79%	18.19%
Proj. EPS Growth (F1/F0)	-92.68%	4.51%	-4.92%	-123.21%	33.14%	6.16%
Curr. Cash Flow Growth	19.07%	9.68%	5.22%	7.36%	9.68%	-55.39%
Hist. Cash Flow Growth (3-5 yrs)	7.38%	8.54%	8.50%	18.02%	9.69%	19.78%
Current Ratio	1.51	1.34	1.34	1.65	1.44	1.15
Debt/Capital	74.08%	62.49%	44.18%	94.37%	62.32%	55.43%
Net Margin	2.11%	2.86%	10.25%	0.83%	6.69%	3.35%
Return on Equity	13.62%	21.04%	14.66%	26.65%	29.33%	18.69%
Sales/Assets	1.34	1.42	0.50	1.13	1.29	1.22
Proj. Sales Growth (F1/F0)	-22.96%	6.58%	-1.45%	-18.60%	16.42%	6.58%
Momentum Score	F	-	-	F	A	D
Daily Price Chg	0.19%	-0.05%	-0.18%	0.96%	2.73%	1.56%
1 Week Price Chg	-10.70%	0.22%	-1.45%	-0.54%	0.19%	1.48%
4 Week Price Chg	1.25%	6.10%	2.10%	5.30%	6.64%	9.70%
12 Week Price Chg	-3.58%	11.25%	3.61%	-9.48%	7.56%	10.23%
52 Week Price Chg	-2.47%	6.04%	3.61%	13.37%	44.71%	4.66%
20 Day Average Volume	8,898,064	1,439,451	1,883,291	1,012,588	1,737,774	1,716,656
(F1) EPS Est 1 week change	-59.68%	-0.02%	0.00%	-17.33%	0.47%	-0.04%
(F1) EPS Est 4 week change	-67.68%	0.12%	0.93%	-31.80%	0.83%	-0.59%
(F1) EPS Est 12 week change	-70.57%	1.75%	3.41%	-217.89%	10.14%	3.78%
(Q1) EPS Est Mthly Chg	-33.90%	0.04%	0.00%	-12.37%	0.38%	-0.29%

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	B
Growth Score	A
Momentum Score	F
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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