

The TJX Companies (TJX)

\$52.08 (As of 07/27/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 07/27/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: F

Momentum: D

Summary

TJX Companies' shares have underperformed the industry year to date. The company posted dismal first-quarter fiscal 2021 results, with the top and bottom lines declining year over year. Despite a solid sales trend in February on strong comps growth, temporary store closures due to the coronavirus outbreak and expenses related to inventory write-down as well as payroll hurt results. Apart from these, unfavorable currency rate is a concern. Nevertheless, the company has been undertaking a number of measures to fight the novel coronavirus. These measures include cutting down on capital spending and reducing operating costs. Also, TJX Companies is on track with reopening stores and online operations with many countries easing coronavirus induced restrictions. In fact, management envisions reopening majority of its stores by the end of June.

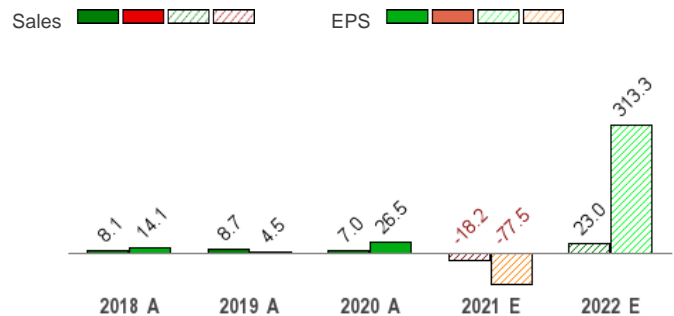
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$64.95 - \$32.72
20 Day Average Volume (sh)	5,667,556
Market Cap	\$62.4 B
YTD Price Change	-14.7%
Beta	0.72
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 25% (63 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-289.5%
Last Sales Surprise	-9.1%
EPS F1 Est- 4 week change	-7.5%
Expected Report Date	08/18/2020
Earnings ESP	-63.6%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	6,851 E	9,178 E	11,083 E	13,357 E	41,989 E
2021	4,409 A	6,822 E	10,487 E	12,509 E	34,136 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	\$0.24 E	\$0.60 E	\$0.83 E	\$0.93 E	\$2.48 E
2021	-\$0.74 A	-\$0.09 E	\$0.61 E	\$0.77 E	\$0.60 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.

P/E TTM	38.0
P/E F1	86.8
PEG F1	8.0
P/S TTM	1.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/27/2020. The reports text is as of 07/28/2020.

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.

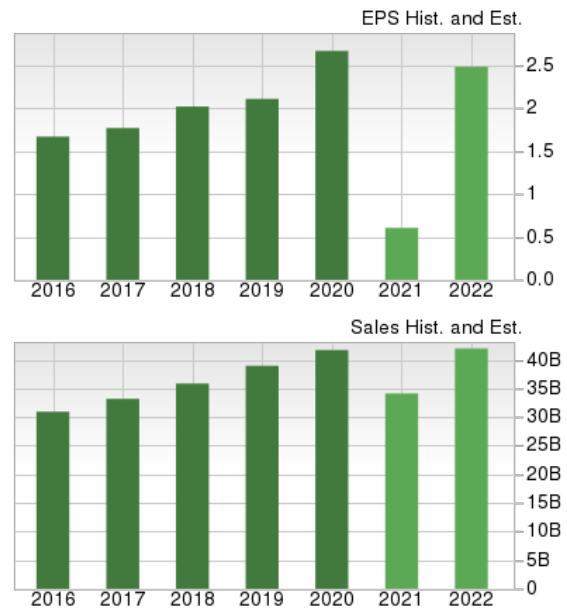
The TJX Companies operates through four business segments:

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 Q1 Performance:** The TJX Companies reported dismal first-quarter fiscal 2021 results. The company reported loss of 74 cents per share in the fiscal first quarter against earnings of 57 cents reported in the prior-year quarter. Also, net sales declined about 53% year over year and lagged the Zacks Consensus Estimate. Despite a solid sales trend in February on comps growth of 5% from robust traffic and strong performance across all major divisions, temporary store closures due to COVID-19 and expenses related to inventory write-down as well as payroll hurt results. TJX Companies' shares have lost 14.4% year to date against the industry's growth of 0.1%.

Coronavirus-Led store closures hurt TJX Companies' first-quarter fiscal 2021 performance.

▼ **Debt Analysis:** TJX Companies' long-term debt (including long-term operating lease liabilities) totaled \$15,107 million as on May 2, 2020, up 50.3% sequentially. Further, the company's debt-to-capitalization ratio deteriorated sequentially from 0.66 to 0.78 at the end of the first quarter of fiscal 2021. Apart from this, the company's times interest earned ratio stands at 66.3, significantly lower than the preceding quarter's figure. The times-interest-earned ratio is very important for some companies, as it measures the company's ability to meet its debt obligations based on its current income. We note that the company has recently withdrawn \$1 billion from the current revolving credit facility as it battles several challenges amid the coronavirus outbreak.

▼ **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.

Risks

- **Measures to Stay Afloat Amid COVID-19:** In an attempt to strengthen its financial position amid the coronavirus crisis, TJX Companies has cut down on capital spending to the tune of \$400-\$600 million compared with the previous projection of \$1.4 billion for fiscal 2021. Additionally, the company has reduced new store openings to nearly 50 in fiscal 2021 and suspended store-remodeling plans. Moreover, it has lowered operating expenses and other costs related to distribution center, home office, ongoing variable and discretionary costs as well as IT.

Apart from these, with restrictions to check the coronavirus outbreak being lifted, TJX Companies is on track with reopening closed stores as well as online operations. In this regard, the company envisions reopening majority of its stores by the end of June.

- **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 16 new stores in first-quarter fiscal 2021, taking the total count to 4,545 as of May 2. Although, TJX Companies has made certain adjustments to its new store opening strategy amid COVID-19 it is an integral part of its growth story in the long term.

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. Although, the company had temporarily shut down online businesses via tjmaxx.com, marshalls.com, and sierra.com amid the coronavirus outbreak, it has now resumed four e-commerce websites in the United States and the U.K. 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. Its 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 also been helping to improve customer engagement.
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Last Earnings Report

TJX Companies' Loss Widens in Q1, Sales Miss Estimate

The TJX Companies has posted dismal first-quarter fiscal 2021 results, wherein the top and bottom lines declined year over year. Despite a solid sales trend in February on comps growth of 5% stemming from robust traffic and strong performance across all four major divisions, temporary store closures due to COVID-19 and expenses related to inventory write-down and payroll hurt results. This was somewhat offset by significant cost cutting efforts and government credits related to COVID-19.

Going ahead, management withheld first-quarter and fiscal guidance due to unprecedented COVID-19 impact, including consumer demand, store closures and a challenging retail environment.

Quarter Ending **04/2020**

Report Date	May 21, 2020
Sales Surprise	-9.13%
EPS Surprise	-289.47%
Quarterly EPS	-0.74
Annual EPS (TTM)	1.37

Quarterly Details

The company reported loss of 74 cents per share against earnings of 57 cents reported in the prior-year quarter. Further, the figure came in wider than the Zacks Consensus Estimate of a loss of 19 cents.

Net sales declined about 53% year over year to \$4,409 million and lagged the Zacks Consensus Estimate of \$4,852 million.

Selling, general and administrative costs, as a percentage of sales, rose to 29.8% as compared with the 18.3% reported in prior-year quarter.

Other Financial Updates

The company ended the quarter with cash and cash equivalents of \$4,287.8 million, long-term debt of \$7,192.4 million and total shareholders' equity of \$4,739.2 million. Cash used in operating activities for the 13-week period ended May 2, 2020, was \$3,160.5 million.

Consolidated inventories as of May 2, 2020 on a per-store basis (including distribution centers and excluding e-commerce, inventory in transit as well as Sierra stores) decreased 7% (down 6% on a constant-currency basis) year over year. Given its impressive inventory position, the company is well poised to take advantage of solid opportunities in the holiday season.

Earlier this March, the company suspended its share-repurchase program in wake of the coronavirus pandemic. Prior to this, it had bought back 3.2 million shares worth \$190 million. Previously in February, management approved a share-repurchase program of additional \$1.5 billion of common stock. As of May 2, 2020, the company has roughly \$3 billion under its existing share-repurchase program.

Moreover, it decided not to announce any dividend for the first quarter of fiscal 2021 and expects not to do so in the next quarter as well.

Apart from these, the company opened 16 stores in the reported quarter, taking the total count to 4,545. TJX Companies also noted that it has reopened few stores in May along with four e-commerce websites in the United States and the U.K., keeping in mind the local government guidelines. These stores have delivered strong sales following the re-openings. It plans to reopen more stores in a phased manner with many countries and governments easing restrictions in the days to come. Also, it envisions reopening majority of its stores by the end of June.

COVID-19 Update

Post temporary store closures starting from Mar 19, the company decided to furlough majority of its hourly associates working in store and distribution centers in the North America. However, they will be provided employee benefits during this time. Further, management has cut down on capital spending to the tune of \$400-\$600 million from the \$1.4 billion guided earlier. Additionally, it has reduced store openings to nearly 50 in fiscal 2021 and suspended store-remodeling plans. Moreover, it has lowered operating expenses and other costs related to distribution center, home office, ongoing variable and discretionary costs and IT. Apart from these, the company has withdrawn \$1 billion from the current revolving credit facility.

Valuation

TJX Companies shares are down 14.4% in the year-to-date period and 4.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 0.1% and the Zacks Retail-Wholesale sector gained 22.7% in the year-to-date period. Over the past year, the Zacks sub-industry went up 13.6% while the sector gained 28.7%.

The S&P 500 index is up 1% in the year-to-date period and 8.9% in the past year.

The stock is currently trading at 34.12X forward 12-month earnings, which compares to 28.26X for the Zacks sub-industry, 34.07X for the Zacks sector and 22.49X 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 19.95X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$44 price target reflects 28.83X 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	34.12	28.26	34.07	22.49
	5-Year High	44.17	29.98	34.07	22.49
	5-Year Low	13.01	17.93	19.07	15.25
	5-Year Median	19.95	20.11	23.42	17.52
P/S F12M	Current	1.64	1.44	1.21	3.55
	5-Year High	1.86	1.45	1.21	3.55
	5-Year Low	0.99	0.95	0.82	2.53
	5-Year Median	1.48	1.14	0.97	3.02
EV/EBITDA F12M	Current	22.08	22.58	13.01	13.21
	5-Year High	26.85	24.37	13.29	14.22
	5-Year Low	9.53	12.56	9.07	9.05
	5-Year Median	20.16	15.9	10.74	11

As of 07/27/2020

Industry Analysis Zacks Industry Rank: Top 25% (63 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Big Lots, Inc. (BIG)	Outperform	1
Dollar General Corporation (DG)	Outperform	2
Burlington Stores, Inc. (BURL)	Neutral	3
Costco Wholesale Corporation (COST)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	2
Kohls Corporation (KSS)	Neutral	4
Ross Stores, Inc. (ROST)	Neutral	3
Target Corporation (TGT)	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)	5	-	-	3	2	2
VGM Score	F	-	-	F	A	A
Market Cap	62.39 B	17.37 B	22.74 B	12.10 B	47.81 B	22.64 B
# of Analysts	13	11	14	10	16	9
Dividend Yield	0.00%	0.38%	1.8%	0.00%	0.76%	0.00%
Value Score	D	-	-	D	A	A
Cash/Price	0.07	0.08	0.07	0.12	0.06	0.08
EV/EBITDA	13.86	13.44	13.03	18.12	20.33	13.02
PEG Ratio	7.96	4.09	3.03	NA	1.71	2.11
Price/Book (P/B)	13.16	5.49	3.17	43.34	6.63	3.47
Price/Cash Flow (P/CF)	15.14	14.83	12.05	17.13	21.35	10.76
P/E (F1)	86.80	24.76	21.90	NA	21.39	20.52
Price/Sales (P/S)	1.69	0.90	2.38	1.87	1.62	0.94
Earnings Yield	1.15%	3.31%	4.30%	-0.71%	4.67%	4.87%
Debt/Equity	3.19	1.67	0.76	16.75	1.65	1.24
Cash Flow (\$/share)	3.44	6.38	7.01	10.73	8.90	8.87
Growth Score	F	-	-	F	A	A
Hist. EPS Growth (3-5 yrs)	8.07%	12.69%	10.85%	21.44%	14.79%	18.19%
Proj. EPS Growth (F1/F0)	-77.36%	-13.22%	-7.56%	-117.61%	31.93%	-2.31%
Curr. Cash Flow Growth	19.07%	9.68%	5.47%	7.36%	9.68%	-55.39%
Hist. Cash Flow Growth (3-5 yrs)	7.38%	8.54%	8.55%	18.02%	9.69%	19.78%
Current Ratio	2.20	1.34	1.31	1.65	1.44	1.15
Debt/Capital	76.12%	62.49%	44.41%	94.37%	62.32%	55.43%
Net Margin	4.57%	3.41%	10.45%	0.83%	6.69%	3.35%
Return on Equity	31.29%	23.39%	15.13%	26.65%	29.33%	18.69%
Sales/Assets	1.52	1.51	0.54	1.13	1.29	1.22
Proj. Sales Growth (F1/F0)	-18.17%	5.95%	-2.00%	-15.59%	15.11%	6.35%
Momentum Score	D	-	-	F	A	B
Daily Price Chg	-1.53%	-0.87%	0.48%	-1.71%	-0.91%	-0.19%
1 Week Price Chg	-0.04%	0.23%	0.37%	-2.95%	1.71%	0.15%
4 Week Price Chg	2.58%	0.93%	5.61%	-7.23%	-0.04%	1.87%
12 Week Price Chg	9.18%	7.08%	13.36%	3.01%	8.27%	22.62%
52 Week Price Chg	-6.06%	-2.63%	-3.30%	0.80%	39.88%	-8.11%
20 Day Average Volume	5,667,556	1,497,522	1,917,592	770,497	1,614,337	1,983,739
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-7.53%	0.06%	0.21%	-18.21%	0.36%	0.24%
(F1) EPS Est 12 week change	-63.25%	-6.19%	-2.00%	-133.14%	18.58%	-2.44%
(Q1) EPS Est Mthly Chg	-39.24%	0.12%	0.00%	-4.74%	1.33%	0.77%

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	D
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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