

Specialty Retail and Department Stores

Conference Takeaways: enticing a careful consumer

Industry Overview

Meetings highlighted share shifts in stable market

The tone from most companies was positive, with a particular focus on company-specific sales and margin opportunities rather than conversations about macro. The consumer continues to hold up well overall but is careful about spending and has been allocating dollars outside of apparel. Most of the retailers that we hosted discussed plans to grow or defend market share. A more typical shipping, freight, and labor environment in addition to normalized inventories means that most of the F24 margin expansion will come from leverage.

URBN: different brands with different stories

Oona McCullough, Executive Director, IR, painted a picture of strength at its two biggest brands, Anthropologie and Free People. We think both brands have strong momentum and should drive sales growth in F25. We model an accelerating contribution from the opening of FP Movement stores in 2H25. All eyes are on the struggling Urban Outfitters brand, where new leadership and better inventory discipline position it for a potential sales and margin turn in F25 after two money-losing years. We model a stabilizing comp but little margin recovery given the uncertainty around the timing of a turn. Management sees the opportunity for rental service Nuuly to achieve low-single-digit profitability this year, mid-single-digit next, with a longer-term potential for double digit margins.

RVLV: working to stabilize, then grow

Erik Randerson, VP, Investor Relations, focused on the potential for stabilizing sales at Revolve and FWRD (RVLV's higher end brand). Return rates, which remain elevated versus pre-Covid, remain a key investor focus given the associated higher Selling & Distribution costs. Newer categories like Men's and Beauty are good entries to the brand and the company continues to learn as it builds out these businesses. We are encouraged by the recent improvement in inventory levels but have some concern that the customers acquired during heavy clearance periods will be slow to switch to full price buying.

EWCZ: Plenty of new initiatives to drive sales

David Berg, CEO and Andrea Wasserman, Chief Commercial Officer discussed a variety of strategies to improve sales growth. New marketing initiatives, a 3+1 Wax Pass, and programs to promote appointment booking and more dollars per visit have all tested well. The company is also deploying new strategies to help franchisees open stores at a target revenue level and ramp quickly to breakeven by ensuring centers open with the right staffing, pre/post opening marketing spend, and a sufficient customer file. The pipeline remains robust, with 75-80 new center openings this year and 370 licenses. Laser represents a good growth avenue and the test continues to build. Brow tinting is currently rolling out after strong test results.

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Retailing

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FP: Free People

EWCZ: European Wax Center

RVLV: Revolve

URBN: Urban Outfitters

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Price objective basis & risk

European Wax Center (EWCZ; C-1-9; \$12.66)

Our \$19 PO for European Wax Center is based on 17x EV/EBITDA multiple on our F25 estimates. This is a premium to the 12x EV/EBITDA average for a group of similar franchisors. We see this as warranted as its margins, sales growth and cash flow are superior.

Downside risks are any potential COVID-related shutdowns, a slowdown in the pace of franchisee openings, and share shift to other hair removal methods.

Revolve (RVLV; C-3-9; \$21.64)

Our \$12.50 price objective is based on 8x F25E EV/EBITDA, in line with a group of digitally native peers.

Upside risks: Results could hold up better in the near term than other retailers given its primarily fashion offering (versus casual) and higher-end demographic focus, estimate cuts could be greeted with a surge in the stock as the worst is behind, or the macro climate could fare better than we expect, paving the way for better sales growth than we are modeling.

Downside risks: the consumer could pull back faster than we expect due to inflation, pandemic-recovery margin gains may unwind through higher promotional activity, execution on the ramp of owned brand penetration, and shifts in the broader consumer trends away from products in categories Revolve offers.

Urban Outfitters (URBN; C-1-9; \$41.92)

Our \$52 price objective is based on 7x our F26 (C25) EV/EBITDA estimate. This is in line with the peer average and reflects its strategic positives (small store base, high ecommerce penetration, strong customer loyalty, clean balance sheet).

Downside risks to achieving our price objective are if comps decelerate, preventing gains in productivity and operating margins. The stock could surpass our price objective if comps rebound more quickly than expected in coming quarters.

Analyst Certification

We, Lorraine Hutchinson, CFA and Alice Xiao, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EWZ	EWZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Skechers USA Inc	SKX	SKX US	Christopher Nardone
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA

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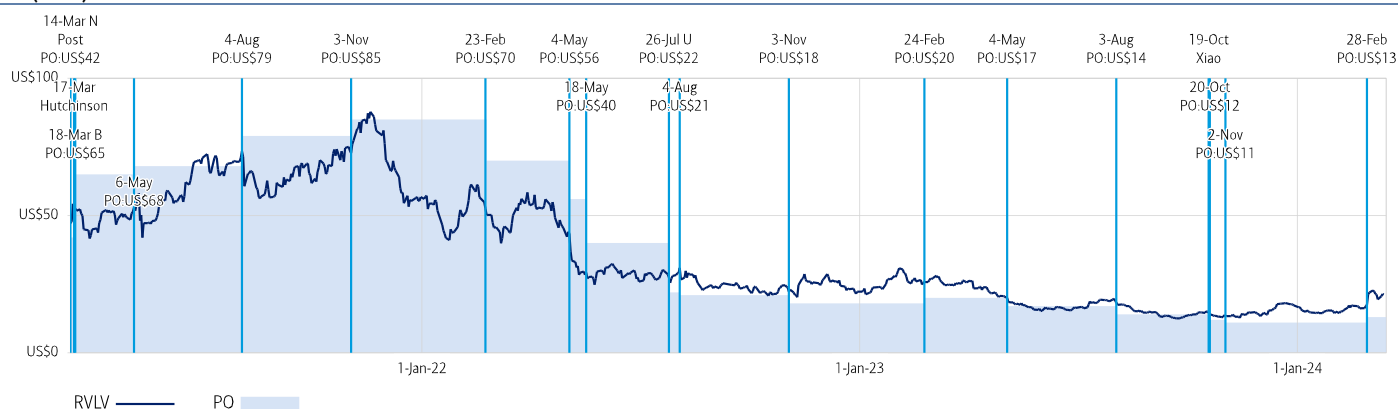
European Wax Center (EWCZ) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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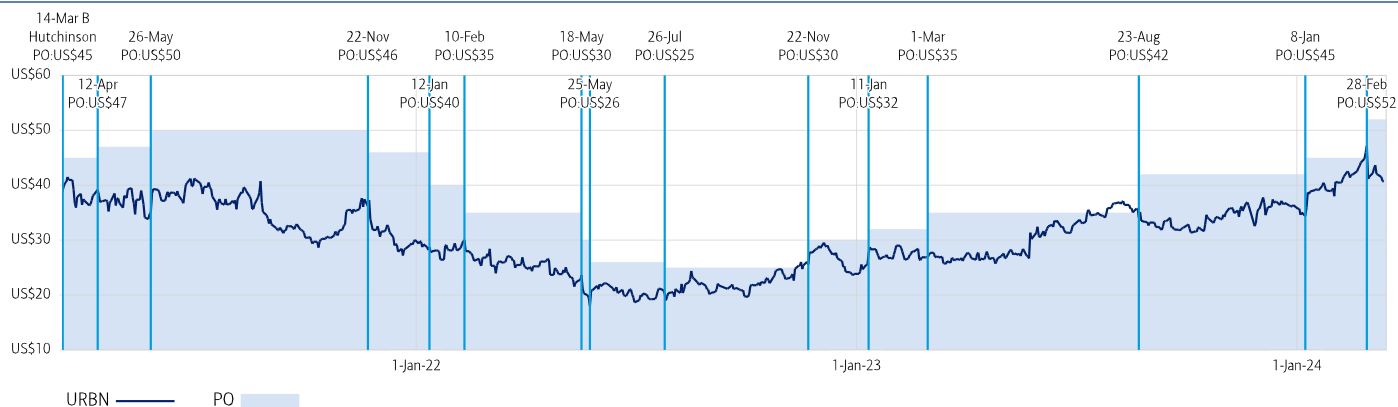
Revolve (RVLV) Price Chart



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Urban Outfitters (URBN) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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