

Specialty Retail and Department Stores

Off-price: How will they guide?

Estimate Change

Reiterate Buys on strong value proposition

We expect off-price retailers' strong value proposition to attract customers and we reiterate our Buy ratings on BURL, ROST, and TJX. The US consumer has held up remarkably well, but the clothing category remains stubbornly negative for nearly two years. Clothing CPI is now close to flat following a nicely positive trend for three years. We conclude that consumers are extremely focused on value in apparel to preserve spending power on other categories; this bodes well for off-pricers' share gains.

BURL guidance well known

BURL gave an initial F24 algorithm on the 3Q call, and we expect management will maintain that. Our \$7.00 estimate is in line with this algorithm and consensus of \$7.05. We expect BURL to guide to a 2% comp, 9% total sales growth, and 50bp of operating margin expansion. The comp guide is below its long-term plan (+MSD) due to macro uncertainty and cannibalization from new stores, but BURL is ready to chase if demand picks up further. A point of comp above the sales plan should generate 10-15bp of operating margin leverage. We expect BURL to hit its 100 store openings target in F24, and according to our tracking, 42 will open in 1Q24 and 33 in 2Q24. We make minor estimate changes.

ROST likely to guide slightly below

ROST typically guides conservatively, and sticking to its normal algorithm results in earnings just below consensus for F24. We expect a comp guide of 2-3%; mgmt has noted that the leverage point is a 3-4% comp. This means SG&A will deleverage on a normalized basis, and the 20bp 53rd week benefit also reverses. We still see room for domestic freight recapture into F24 given it was 60-90bp above F19 levels through 3Q23. Using the typical algo, with a 3% comp resulting in 10bp of SG&A deleverage, taking out the 20bp 53rd week benefit, and including 40bp of GM expansion, our earnings estimate of \$5.81 is just light of consensus of \$5.89.

TJX margin recovery ahead, comp guide is the question

Our F25 \$4.01 est is just below consensus of \$4.11. We expect TJX to guide initial comps +2-3% and for 10bp of leverage for every point of comp above 3-4%. We model a flat SG&A ratio: 10bp of deleverage on a 2-3% comp, plus reversing the 10bp 53rd week benefit, offset by lapping the German receivable reversal (2Q) & HomeGoods.com closure costs (3Q) for a combined benefit of 20bp. The company has already recaptured two-thirds of freight, with domestic freight continuing to pose an opportunity. We see further MM opportunities from continued selective price increases (which have a 95% hit rate) and better buying. These factors combine for our 25bp GM expansion forecast.

Other topics of interest

Questions will be: 1) *Red Sea* – we expect companies to take a wait and see approach ahead of spring contract negotiations for rates beginning in the summer, 2) *Inventory availability* – our checks point to robust branded inventory opportunities, 3) *health of the consumer* – we think the lower income consumer has adapted to high inflation, but continues to search for value.

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Equity
United States
Retailing

Lorraine Hutchinson, CFA
Research Analyst
BofAS
+1 646 855 0951
lorraine.hutchinson@bofa.com

Melanie Nuñez
Research Analyst
BofAS
+1 646 855 2279
melanie.nunez@bofa.com

BURL: Burlington Stores
ROST: Ross Stores
TJX: TJX Companies

4Q Earnings Preview

BURL: comp should beat a low bar

We are raising our 4Q EPS estimate to \$3.30 to reflect a 0% comp (was -2% prior). We are also raising our F24 EPS estimate to \$7.00 (was \$6.85) to reflect a stronger new store opening cadence. If the 4Q comp comes in higher at +2%, earnings look more like \$3.50 and the F24 guidance algorithm could result in \$7.30 in EPS.

We see the most medium-term margin upside for BURL, which should end F23 with 6% operating margins (335bp below 2019 levels). The key will be leveraging SG&A and we think a more robust store opening cadence and stable comps will allow for better leverage on the merchandising and distribution investments made during COVID.

Exhibit 1: BURL 4Q23 Variance Table

The 4Q comp should beat a low bar; we are raising our 4Q EPS estimate to \$3.30 to reflect a 0% comp (was -2% prior)

	4Q 22	4Q 23E	Visible Alpha Consensus	BofA vs Consensus	BofA est y/y	Cons est y/y
Comps	-2%	0%	-1%	74 bp	200 bp	126 bp
Net Sales	\$2,739.1	\$3,082.0	3,006.6	3%	13%	10%
Other revenue	\$5.2	\$5.8	5.4	8%	13%	4%
Cost of Goods Sold	1,625.4	1,773.4	1,749.9	1%	9%	8%
Total Gross Profit	1,113.7	1,308.6	1,256.7	4%	18%	13%
SG&A	780.3	920.7	887.9	4%	18%	14%
Other expense (income)	(3.5)	(3.0)	(6.8)	-56%	15%	-92%
Depreciation & Amortization	68.5	88.4	84.8	4%	29%	24%
Impairment	0.0	0.0	0.0	na	na	na
Total Operating Profit	273.7	308.4	296.2	4%	13%	8%
Interest Income / (expense)	14.5	13.5	12.9	5%	-7%	-11%
Pretax Income	259.2	294.9	283.4	4%	14%	9%
Taxes	65.5	79.6	75.7	5%	22%	16%
Tax Rate	25.3%	27.0%	26.7%		174 bp	
Net Income	193.7	215.3	206.7	4%	11%	7%
Earnings Per Share	\$2.96	\$3.30	\$3.19	3%	11%	8%
Shares Outstanding	65.4	65.2	66.6	-2%	0%	2%
Margins						
Gross Margin	40.7%	42.5%	41.8%	66 bp	180 bp	114 bp
SG&A Margin	28.5%	29.9%	29.5%	34 bp	139 bp	104 bp
Operating Margin	10.0%	10.0%	9.9%	15 bp	1 bp	-14 bp
Net Margin	7.1%	7.0%	6.9%	11 bp	-9 bp	-20 bp

Source: Company filings and reports, BofA Global Research estimates

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ROST: guidance of 1-2% comp looked conservative as usual

We model 4Q comps of +2%, in line with consensus, and EPS of \$1.60. If the 4Q comp is 5%, it raises 4Q to \$1.70 and the guidance algorithm gets F24 earnings to consensus.

ROST's operating margin continues to sit 230bp below 2019 levels, with a 100bp GM headwind from distribution and freight expense, partly offset by higher merchandise margin and occupancy leverage. SG&A is 130bp above 2019 levels due to wage inflation and other costs. We think continued execution on comp growth could lead to SG&A leverage above its typical algorithm.

Exhibit 2: ROST 4Q23 Variance Table

4Q guidance looked conservative as usual; we model comps +2%, in line with consensus

	4Q 22	4Q 23E	Visible Alpha Consensus	BofA vs Consensus	BofA est y/y	Cons est Y/Y
Comps	1.0%	2.0%	2.0%	-5 bp	100 bp	105 bp
Net Sales	\$5,214.2	\$5,735.7	\$5,752.5	0%	10%	10%
Cost of Goods Sold	<u>3,926.2</u>	<u>4,227.1</u>	<u>4,258.0</u>	-1%	8%	8%
Total Gross Profit	1,288.0	1,508.6	1,494.5	1%	17%	16%
SG&A Expense	<u>729.3</u>	<u>853.3</u>	<u>816.4</u>	5%	17%	12%
Total Operating Profit	558.7	655.3	655.8	0%	17%	17%
Interest expense / (income)	<u>(22.7)</u>	<u>(45.0)</u>	<u>(45.0)</u>	0%	-98%	-98%
Pretax Income	581.4	700.3	700.8	0%	20%	21%
Taxes	134.4	165.3	162.2	2%	23%	21%
Tax Rate	23.1%	23.6%	24.8%	-123 bp	50 bp	173 bp
Net Income	447.0	535.0	540.7	-1%	20%	21%
Earnings Per Share	\$1.31	\$1.60	\$1.61	-1%	22%	24%
Shares Outstanding	342.0	334.8	335.1	0%	-2%	-2%
Margins						
Gross Margin	24.7%	26.3%	26.0%	32 bp	160 bp	128 bp
SG&A Margin	14.0%	14.9%	14.2%	68 bp	89 bp	21 bp
Operating Margin	10.7%	11.4%	11.4%	2 bp	71 bp	69 bp

Source: Company filings and reports, BofA Global Research estimates

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TJX: continued HomeGoods recovery stands out

TJX's 3-4% comp guidance was a step down from the 6%+ of the past two quarters and could leave some room for upside. Our expectation is that the 6% is on the table for the US comp but international (Canada, Europe and Australia) are more difficult to gauge.

TJX's operating margin of 10.5% is only 10bp below 2019 (pretax margin of 10.8%, which they guide to, is 20bp above but includes the benefit from interest income). We see upside opportunity from continued recovery in Canada, scaling the international business, and continuing to realize pricing power.

Exhibit 3: TJX 4Q24 Variance Table

TJX's 3-4% comp guidance was a step down from the 6%+ of the past two quarters and could leave some room for upside

	4Q23 Jan 23	4Q24 E Jan 24	Visible Alpha Consensus	BofA vs VA Consensus	BofA est Y/Y	Cons est Y/Y
Marmaxx	\$8,983.0	\$9,966.3	9,942.6	0%	11%	11%
Home Goods	2,424.0	2,827.9	2,751.1	3%	17%	13%
Canada	1,297.0	1,419.3	1,408.4	1%	9%	9%
International	<u>1,816.0</u>	<u>1,978.2</u>	<u>2,008.4</u>	-2%	9%	11%
Net Sales	\$14,520.0	\$16,191.7	\$16,110.5	1%	12%	11%
Cost of Goods Sold	<u>10,731.0</u>	<u>11,610.3</u>	<u>11,491.6</u>	1%	8%	7%
Total Gross Profit	3,789.0	4,581.5	4,618.9	-1%	21%	22%
SG&A Expense	<u>2,473.0</u>	<u>2,927.2</u>	<u>2,939.0</u>	0%	18%	19%
Total Operating Profit	1,316.0	1,654.3	1,679.9	-2%	26%	28%
Interest expense / (income)	<u>(23.0)</u>	<u>(49.0)</u>	<u>(47.4)</u>	-3%	-113%	-106%
Pretax Income	1,339.0	1,703.3	1,727.2	-1%	27%	29%
Taxes	301.0	442.9	450.6	-2%	47%	50%



Exhibit 3: TJX 4Q24 Variance Table

TJX's 3-4% comp guidance was a step down from the 6%+ of the past two quarters and could leave some room for upside

	4Q23	4Q24 E	Visible Alpha	BofA vs VA	BofA est	Cons est
Tax Rate	22.5%	26.0%	26.1%	-9 bp	352 bp	
Net Income	1,038.0	1,260.4	1,277.7	-1%	21%	23%
Earnings Per Share	\$0.89	\$1.09	\$1.11	-2%	23%	25%
Shares Outstanding	1,171.0	1,152.5	1,151.1	0%	-2%	-2%
Margins						
Gross Margin	26.1%	28.3%	28.7%	-38 bp	220 bp	258 bp
SG&A Margin	17.0%	18.1%	18.2%	-16 bp	105 bp	121 bp
Operating Margin	9.1%	10.2%	10.4%	-21 bp	115 bp	136 bp
Pre-tax Margin	9.2%	10.5%	10.7%	-20 bp	130 bp	150 bp
Comp						
Marmaxx	7.0%	4.0%	4.3%	-30 bp	-300 bp	-270 bp
Canada	-2.0%	1.0%	2.5%	-153 bp	300 bp	453 bp
International	-2.0%	1.0%	2.3%	-125 bp	300 bp	425 bp
Homegoods	-7.0%	5.0%	4.5%	50 bp	1200 bp	1150 bp

Source: Company filings and reports, BofA Global Research estimates

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Exhibit 4: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BURL	BURL US	Burlington Stores	US\$ 197.82	C-1-9
ROST	ROST US	Ross Stores	US\$ 145.41	B-1-7
TJX	TJX US	TJX Companies	US\$ 98.08	B-1-7

Source: BofA Global Research

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Price objective basis & risk**Burlington Stores (BURL)**

Our price objective is \$245, based on 29x our F2025 earnings estimate. This is a premium to the off-price peer group (of 25x our F25) based on Burlington's potential for outsized margin growth.

Downside risks to our PO are weaker comps than we are modeling as the consumer is challenged with numerous pressures and lower gross margins on potentially higher markdowns.

Ross Stores Inc (ROST)

Our \$160 price objective is based on a P/E of 25x our F2025 estimate. We believe Ross deserves to trade at a premium to specialty retailers (average 19x) considering its ability to post outsized comps, its track record of being able to grow despite economic volatility, significant new store growth potential, and a history of returning excess cash to shareholders through buybacks and dividends.

Downside risks to our PO are: lower comps than we are estimating, gross margin contraction due to markdowns, and a pullback in spending by customers.

TJX Companies (TJX)

Our price objective of \$110 reflects a P/E of 25x our F2026 (C2025) estimates. We believe TJX deserves to trade at a premium to specialty retailers (average 19x) as it has outperformed the retail industry domestically, has a solid international growth opportunity, significant square footage growth potential, a strong track record of returning excess cash to shareholders in a normalized environment, and high returns on invested capital.

Downside risks to our PO are weaker comps than we model, margin pressure as TJX absorbs wage and supply chain expenses, macro pressures weighing on consumer demand, as well as potential weakness in Europe.

Analyst Certification

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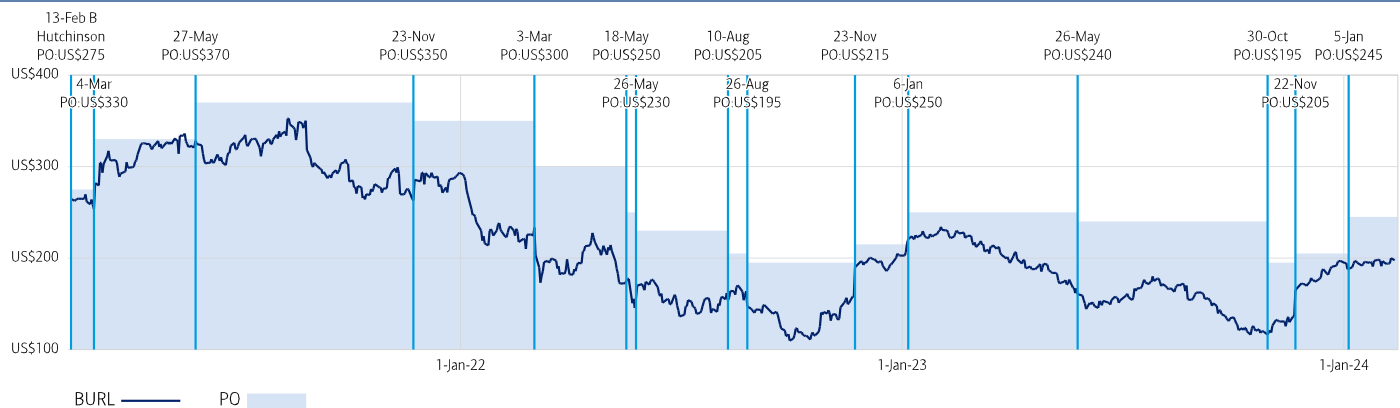
US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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	EW CZ	EW CZ 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
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
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
	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
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA

Disclosures

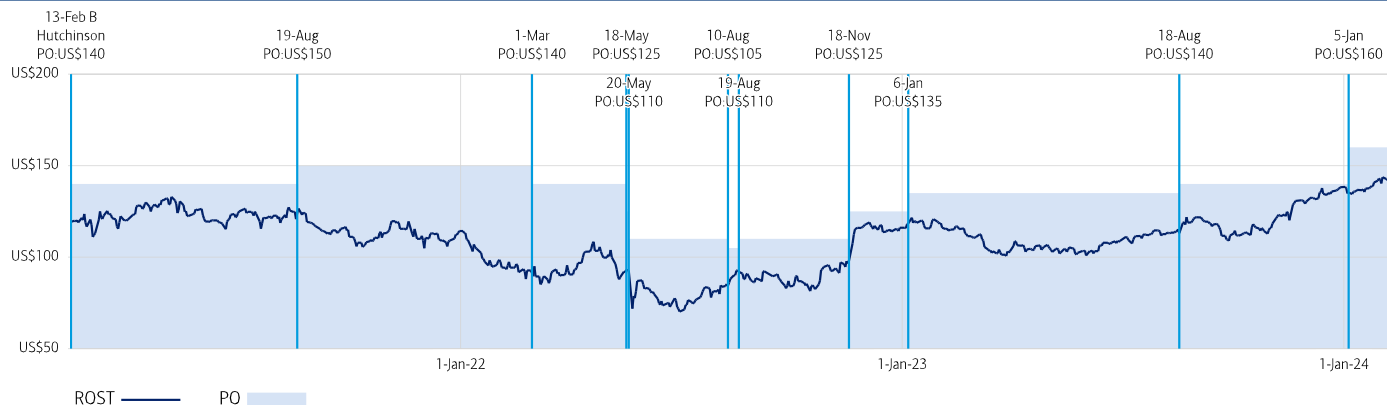
Important Disclosures

Burlington Stores (BURL) Price Chart



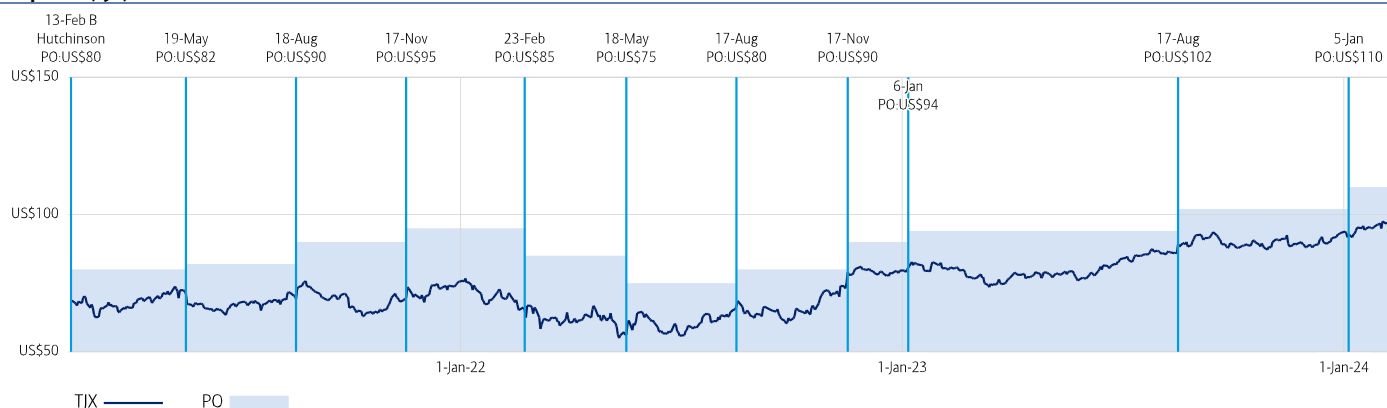
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Burlington Stores (BURL) Price Chart**Ross Stores (ROST) Price Chart**

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

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TJX Companies (TJX) 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: 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%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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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