

Specialty Retail and Department Stores

Off-Price expert call: it was a nailbiter but holiday was strong

Industry Overview

Holiday beat expectations, raising POs across the sector

We hosted a post-holiday call on off-price retailing with the Senior Vice President of Planning and Allocation for Bealls, an off-price retailer with over 600 stores. The expert is pleased with holiday results, exceeding his expectations of MSD comps. He noted this season came down to the wire, with sales accelerating the Friday/Saturday/Sunday ahead of Christmas. This year had an extra weekend day ahead of Christmas vs last year and we expected these would be the big holiday shopping days. Gifting and holiday motifs were standout categories, and ladies apparel was stronger than men's apparel. Post-Christmas, activewear is doing well. Weather caused some volatility in outerwear but Beall's southern locations made that less of a factor than for retail overall. We are raising POs for the off-price retailers we cover (see Exhibit 1) to reflect our increased confidence in 4Q results and 2024 momentum driven by a strong holiday and the longevity of favorable inventory availability.

Inventory remains abundant in high quality brands

Last year's inventory glut has sparked some concern around the quality of products available but our expert disagreed, saying that there is a greater amount of higher profile brands than usual within the last 120 days. Ladies footwear is the only area that is somewhat lacking in availability, but this is starting to turn around. The expert noted that Bealls picked up less product from the Bed Bath & Beyond bankruptcy than he had anticipated; he expects HomeGoods benefited from product availability.

Unfavorable 2024 retail calendar creates some caution

The off-price category should remain steady through back-to-school, according to the expert, but he expects a challenging holiday due to the unfavorable retail calendar. Bealls is planning conservatively as a result. 2023 was very favorable, with 31 days in between Thanksgiving and Christmas. In 2024, this changes to only 26 days; the last time there were this few days was in 2019.

TJX pricing is working; trade-down has moderated

The expert noted there is still some trade-down, but it has moderated compared to six months ago. Marmaxx's price increases and associated better branded content is resonating well with consumers, according to the expert who conducts checks on competitor stores. He noted the price increases are quite noticeable at Marmaxx. At ROST and BURL, the prices remain sharp and they do not appear to be raising prices. Bealls low end consumer has shown strength over the past 90-120 days, particularly in kids. This is aligned with what ROST and BURL saw in 3Q and is encouraging that the trend continued through holiday.

Supply chain costs close to 2019 levels

Supply chain costs are considerably below levels seen over the past three years, which is helping margins, and now sit close to 2019 levels. The expert is not yet hearing of any impact from the Red Sea attacks. He noted spot rates are up recently but it is not much of a concern at this point.

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Refer to important disclosures on page 3 to 7. Analyst Certification on page 2. Price Objective Basis/Risk on page 2.

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Timestamp: 05 January 2024 12:01AM EST

05 January 2024

Equity
United States
Retailing

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Exhibit 1: Off-Price PO Changes

PO and multiple assumption changes

	Old PO	Old Basis*	New PO	New Basis**
BURL	\$205	30x	\$245	29x
ROST	\$140	24x	\$160	25x
TJX	\$102	25x	\$110	25x

Source: BofA Global Research Estimates

*P/E on F24 (F25 for TJX)

**P/E on F25 (F26 for TJX)

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MSD: mid single digit

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\$ 188.15	C-1-9
ROST	ROST US	Ross Stores	US\$ 135.27	B-1-7
TJX	TJX US	TJX Companies	US\$ 92.78	B-1-7

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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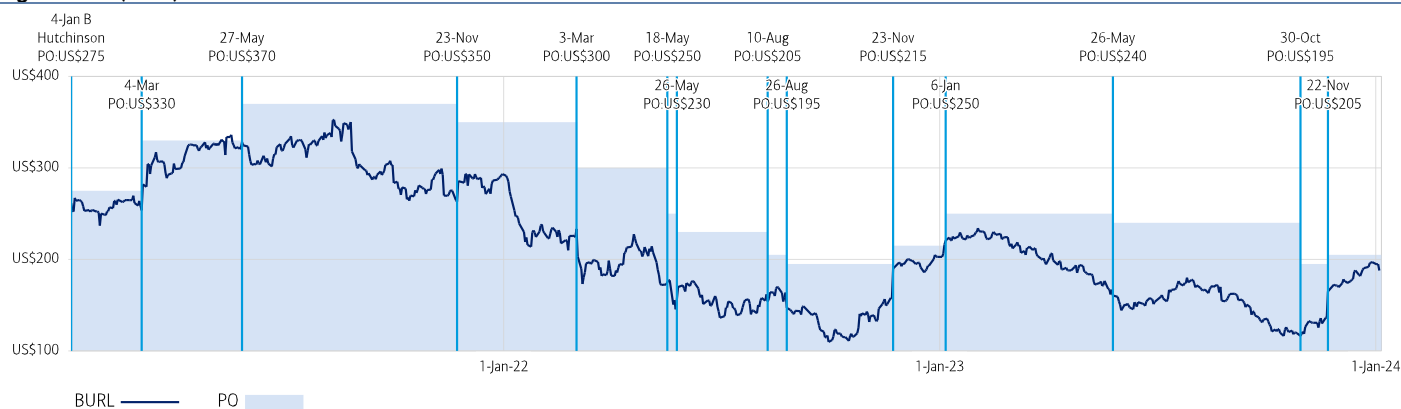
US - Softline Retailing and Dept Stores Coverage Cluster

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

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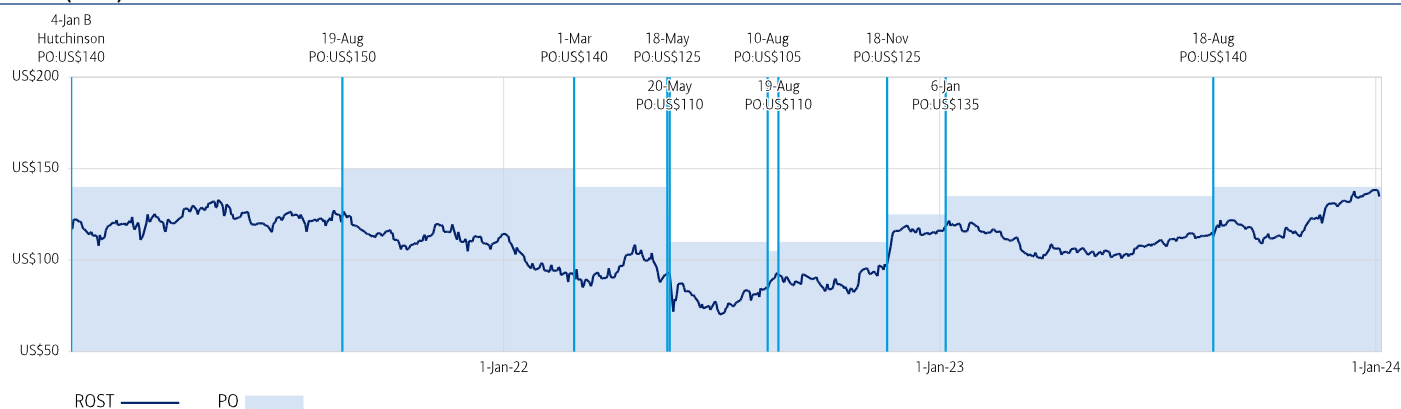
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Burlington Stores (BURL) Price Chart

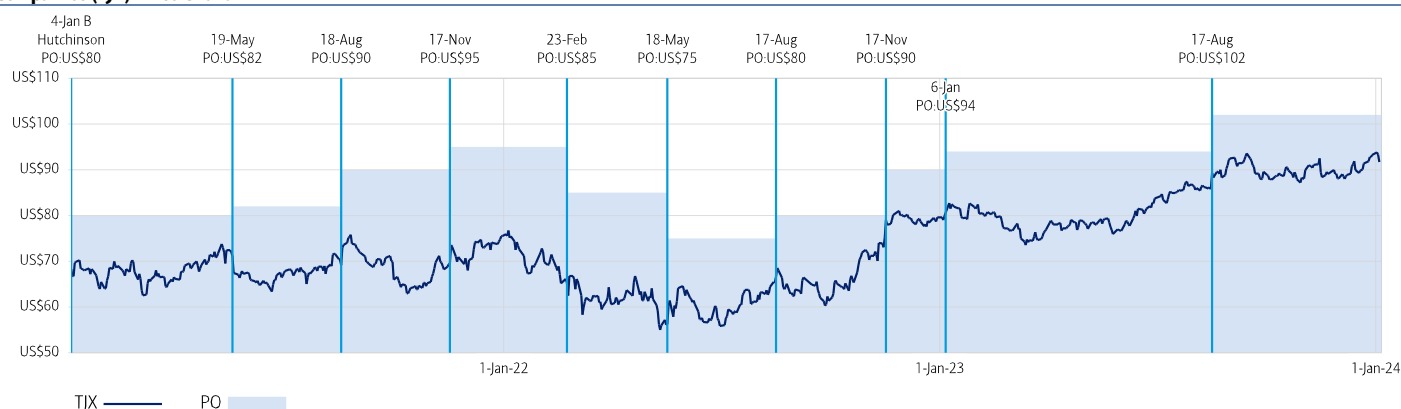


B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Ross Stores (ROST) Price Chart

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TJX Companies (TJX) Price Chart

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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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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