

Burlington Stores

Conference Takeaways: sales & margin opportunities abound

Maintain Rating: BUY | PO: 250.00 USD | Price: 221.09 USD

Positioned to chase above plan

We hosted meetings with David Glick, SVP IR/Treasurer and Daniel Delrosario, VP IR, at our Conference in Miami. We continue to see outsized sales and margin recovery opportunities and maintain our Buy rating. BURL's LSD F24 comp guidance provides flexibility, allowing the company to plan costs conservatively and chase above plan. The company delivered 3-4% comps annually pre-Covid and has made significant progress since then on its buying organization and supply chain to become a more efficient off-pricer; this gives BURL confidence in its MSD LT comp target.

Trade-down customers are here

Trends among customers with average income of \$40k and below improved through 2023 but overall remained pressured. The \$75k+ cohort accelerated throughout the year, signaling trade-down. BURL will balance increasing its penetration of better brands this year (likely through a small increase in upfront buys) to attract and retain this trade-down consumer, while ensuring the availability of good brands is there for the lower-income core consumer. Markups on upfront buys are typically lower, but the better brands will ideally drive more units as an offset.

Opening 100 net new stores annually

BURL will open the remaining BBBY stores in 1H (most in 1Q) and is working on securing more leases from landlords. The company opened the vast majority of F23 stores in 2H, so there will be non-comp carryover throughout F24 (stores enter comp base after 15 months). The pipeline for 2025 is ramping and the company expects to open 100 net new stores annually over the next few years. While dept store closures are not necessarily a real estate oppty (too large), they do create market share and vendor opportunities.

Margin tailwinds through F24

F24 margins will benefit from: higher MM (lower markdowns, better buying), freight (still 90bp above pre-Covid, will get a portion back), supply chain (productivity initiatives bearing fruit), and leverage on buying costs (have completed major merch team buildout; didn't lever in 4Q because of incentives). These components will more than offset deleverage in payroll (as the company has stepped up hours) and D&A.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	4.19	6.24	7.29	8.67	10.28
GAAP EPS	3.49	5.27	7.11	8.49	10.10
EPS Change (YoY)	-49.4%	48.9%	16.8%	18.9%	18.6%
Consensus EPS (Bloomberg)			7.36	9.13	NA
DPS	0	0	0	0	0
Valuation (Jan)					
P/E	52.8x	35.4x	30.3x	25.5x	21.5x
GAAP P/E	63.3x	42.0x	31.1x	26.0x	21.9x
EV / EBITDA*	22.1x	17.1x	15.0x	12.7x	10.8x
Free Cash Flow Yield*	1.0%	2.6%	0.3%	1.0%	1.6%

* For full definitions of *IQmethod*SM measures, see page 5.

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12670361

Timestamp: 14 March 2024 12:01AM EDT

14 March 2024

Equity

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Stock Data

Price	221.09 USD
Price Objective	250.00 USD
Date Established	8-Mar-2024
Investment Opinion	C-1-9
52-Week Range	115.66 USD - 227.50 USD
Mkt Val (mn) / Shares Out (mn)	14,735 USD / 66.6
Free Float	99.5%
Average Daily Value (mn)	187.98 USD
BofA Ticker / Exchange	BURL / NYS
Bloomberg / Reuters	BURL US / BURLN
ROE (2025E)	41.5%
Net Dbt to Eqty (Jan-2024A)	48.2%
ESGMeter™	High

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D&A: depreciation & amortization

IR: Investor Relations

LSD: low single digit

LT: long term

MM: merchandise margin

MSD: mid single digit

iQprofileSM Burlington Stores

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	5.7%	7.5%	8.0%	9.2%	10.3%
Return on Equity	35.5%	45.1%	41.5%	38.8%	35.9%
Operating Margin	5.0%	6.1%	6.5%	7.0%	7.5%
Free Cash Flow	149	376	50	154	237

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	2.2x	2.1x	1.7x	1.7x	1.7x
Asset Replacement Ratio	1.7x	1.6x	2.2x	1.9x	1.8x
Tax Rate	24.7%	25.5%	26.5%	26.0%	26.0%
Net Debt-to-Equity Ratio	75.0%	48.2%	50.3%	42.4%	31.5%
Interest Cover	7.5x	11.5x	15.9x	15.6x	15.2x

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	8,685	9,709	10,471	11,542	12,686
% Change	-6.7%	11.8%	7.9%	10.2%	9.9%
Gross Profit	3,513	4,125	4,531	5,028	5,565
% Change	-9.2%	17.4%	9.8%	11.0%	10.7%
EBITDA	700	902	1,033	1,220	1,430
% Change	-33.1%	28.7%	14.6%	18.1%	17.2%
Net Interest & Other Income	(58)	(52)	(43)	(52)	(63)
Net Income (Adjusted)	276	405	470	556	656
% Change	-51.1%	46.7%	16.0%	18.4%	18.0%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	281	405	470	556	656
Depreciation & Amortization	270	307	352	417	481
Change in Working Capital	(10)	68	(23)	(31)	(32)
Deferred Taxation Charge	(25)	21	0	0	0
Other Adjustments, Net	80	68	20	20	20
Capital Expenditure	(447)	(493)	(768)	(808)	(888)
Free Cash Flow	149	376	50	154	237
% Change	-69.0%	152.4%	-86.8%	211.1%	53.2%
Share / Issue Repurchase	(317)	(243)	(200)	(200)	(200)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(78)	(99)	7	(159)	(3)

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	879	925	782	578	611
Trade Receivables	71	74	77	85	93
Other Current Assets	1,333	1,327	1,362	1,399	1,437
Property, Plant & Equipment	1,668	1,880	2,266	2,626	3,002
Other Non-Current Assets	3,318	3,499	3,516	3,532	3,548
Total Assets	7,270	7,707	8,003	8,220	8,693
Short-Term Debt	14	14	14	14	14
Other Current Liabilities	1,497	1,604	1,618	1,632	1,647
Long-Term Debt	1,462	1,395	1,403	1,245	1,243
Other Non-Current Liabilities	275	301	316	331	345
Total Liabilities	6,475	6,710	6,747	6,618	6,645
Total Equity	795	1,002	1,261	1,607	2,053
Total Equity & Liabilities	7,270	7,712	8,008	8,225	8,698

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Softline

Company Description

Burlington Stores is a national off-price retailer of high quality branded apparel with more than 500 locations in 44 states and Puerto Rico. Burlington also operates an ecommerce business. The company sources from over 5,000 vendors, with a focus on nationally recognized brands. Similar to other off-price retailers, the company employs an everyday low price model and offers discounts of 60-70% off department and specialty stores' regular prices.

Investment Rationale

Our rating on Burlington Stores (BURL) is Buy. Burlington has embarked on a large-scale transformation in recent years, grounded on better execution of off-price fundamentals in a smaller store format. We expect this to drive margin improvement. Given its turnaround momentum and ongoing favorable off-price retail fundamentals, Burlington is well positioned for outperformance, in our view.

Stock Data

Average Daily Volume 850,229

Quarterly Earnings Estimates

	2024	2025
Q1	0.84A	1.07E
Q2	0.60A	0.96E
Q3	1.10A	1.35E
Q4	3.72A	3.87E



Price objective basis & risk

Burlington Stores (BURL)

Our price objective is \$250, based on 29x our F2025 earnings estimate. This is a premium to the off-price peer group (of 26x 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.

Analyst Certification

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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	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
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

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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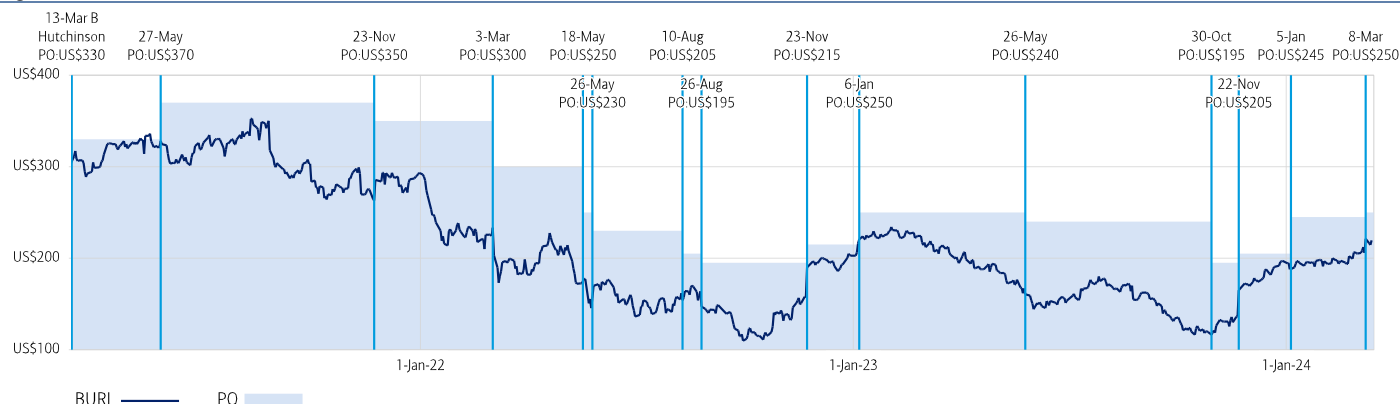
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Burlington Stores (BURL) Price Chart



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

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.

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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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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