

Specialty Retail and Department Stores

Baby, it's tough out there! Assessing the risk from PLCE's struggles

Industry Overview

The kid's business just got riskier

The Children's Place (PLCE, not covered) announced today that it has hired advisors to improve its liquidity position and obtain new financing necessary to support ongoing operations. It also reported a big holiday miss driven by excess promotional levels (operating margin of -9% to -8%). Further promotional activity, heavy store closures or other actions could damage the competitive landscape for the already price-sensitive children's clothing industry.

Near-term risk, long-term opportunity for CRI, GPS

In the near-term, we see risk to Carter's and Old Navy, two of the biggest competitors in the kid's and baby sector. Heavy promotions and liquidations could cause prices to drop, putting pressure on an already difficult environment (CRI has already reduced prices). PLCE's \$1.6bn of F23E sales is down from its 2019 peak of \$1.9bn. This is below our estimate for GPS's \$4bn kid's and baby exposure and CRI's \$2.5bn US business. Geographically, PLCE's mall stores have the most overlap with Gap Kid's and off-mall overlaps with Carter's and Old Navy. As PLCE becomes smaller, GPS and CRI have an opportunity to take that share, but will have to compete with off-price and others. If GPS and CRI can capture revenue in line with their current market shares of the kid's business, it would increase sales by 1.5% and 4.3%, respectively over the long-term.

Off-price has a big inventory opportunity

PLCE took inventory valuation adjustments as part of a strategy to end the year clean (down 16-20% y/y). Once the product is written down, it may be sold in the stores at a discount, or liquidated to the off-price channel. We see this as a good opportunity for BURL, ROST and TJX to build share in kid's and baby, particularly with a lower income consumer interested in branded goods. Once off-price displays this inventory, it creates a reason for parents to come back and shop, driving traffic over the medium-term.

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Equity
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Retailing

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BURL – Burlington Stores

CRI – Carter's Inc

GPS – Gap Inc

ROST – Ross Stores

TJX – TJX Companies

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Timestamp: 09 February 2024 11:09AM EST

Exhibit 1: 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\$ 199.95	C-1-9
CRI	CRI US	Carter's Inc	US\$ 80.86	B-3-7
GPS	GPS US	Gap Inc.	US\$ 20.04	C-3-7
ROST	ROST US	Ross Stores	US\$ 146.06	B-1-7
TJX	TJX US	TJX Companies	US\$ 98.36	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.

Carter's Inc (CRI)

Our \$65 price objective is based on a 7x EV/EBITDA ('24E) multiple, lower than its historical average given the ongoing macro uncertainty and downside EPS risks.

Upside risks to our price objective are better-than-expected children's apparel sales, successful market share gains through the company's Age Up strategy, and a more defensive business model during a potential recession.

Downside risks to our price objective are emphasis by wholesale partners on private label, exposure to weakening outlet centers, and a heightened competitive pricing environment.

Gap Inc. (GPS)

Our \$13 price objective for GPS is based on 5x 2024E EV/EBITDA, in line with peer multiples to reflect the risk of higher exposure to the low-income consumer and outsized freight expenses, offset by the turnaround potential at Gap and relatively better performance of Athleta among its brands.

A downside risk to our PO is if revenue growth decelerates or margins drop. Gap and Old Navy must generate brand excitement and loyalty in order to move margins higher from here. Upside risks to our PO are stronger sales at core brands, and stronger margins from corporate actions.

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

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

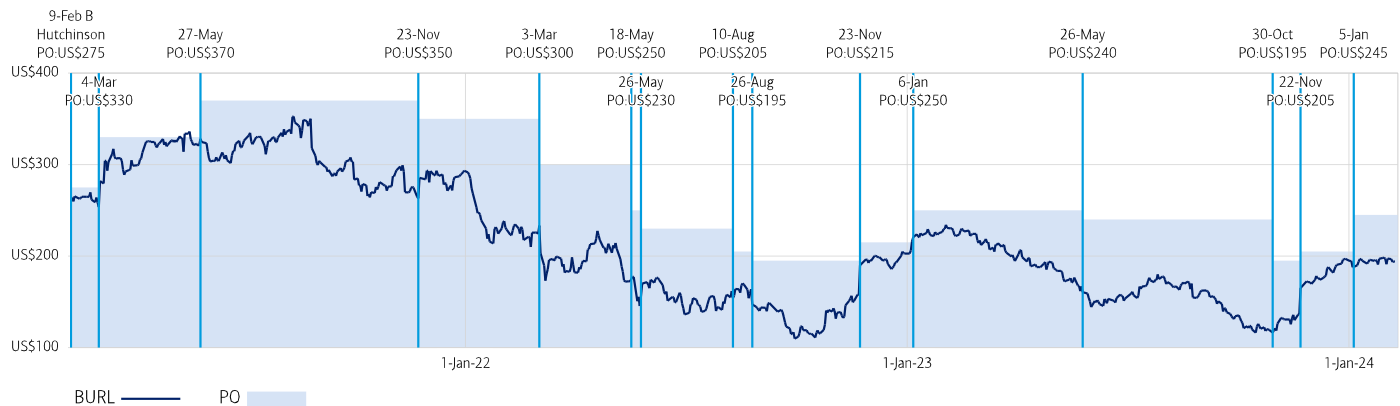
US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	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

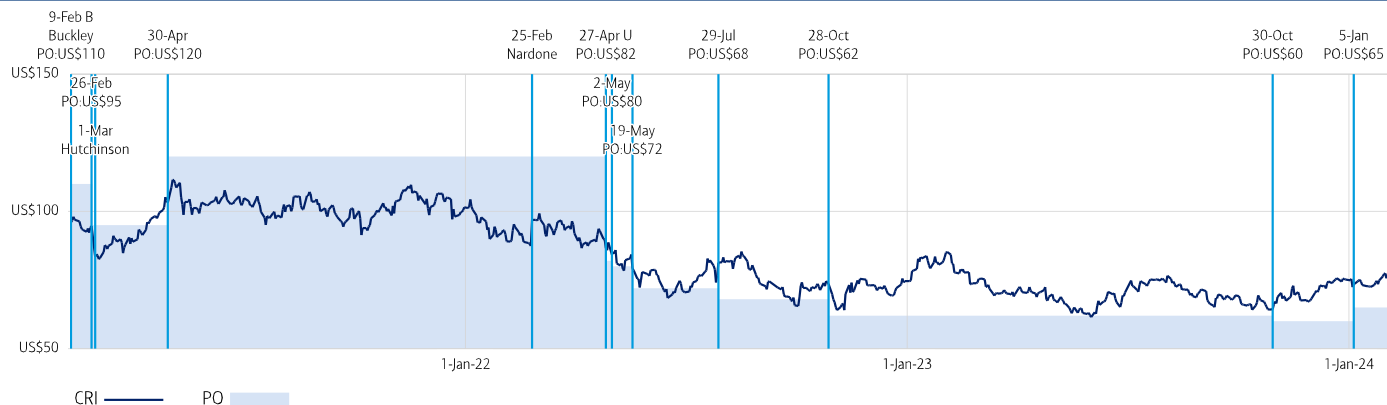
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Burlington Stores (BURL) Price Chart



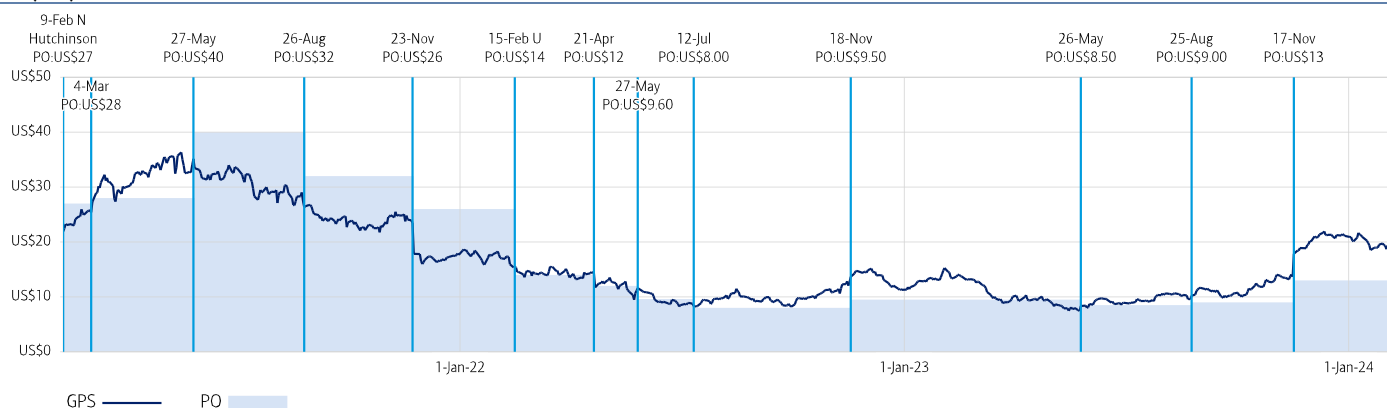
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

Burlington Stores (BURL) Price Chart**Carter's Inc (CRI) Price Chart**

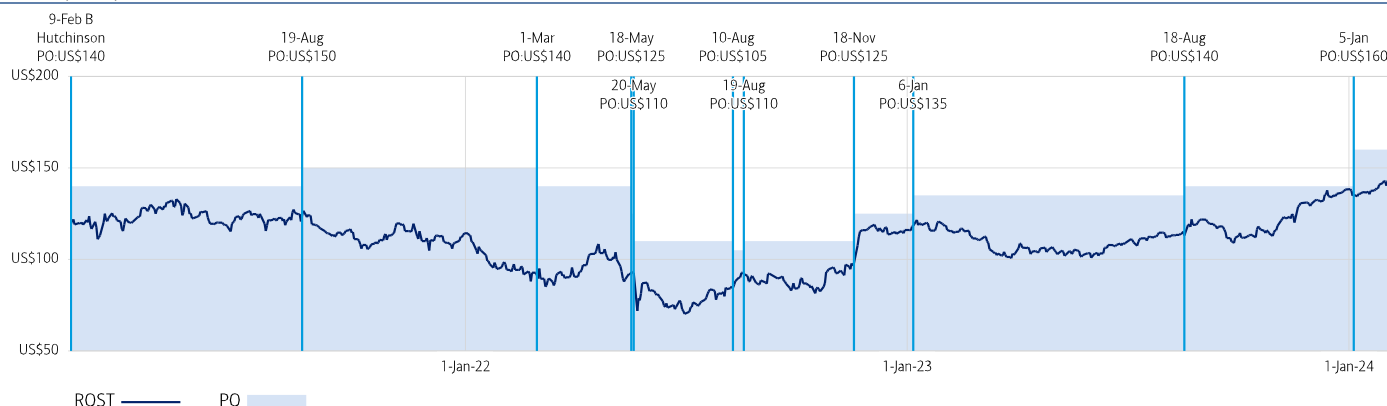
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Gap Inc. (GPS) Price Chart

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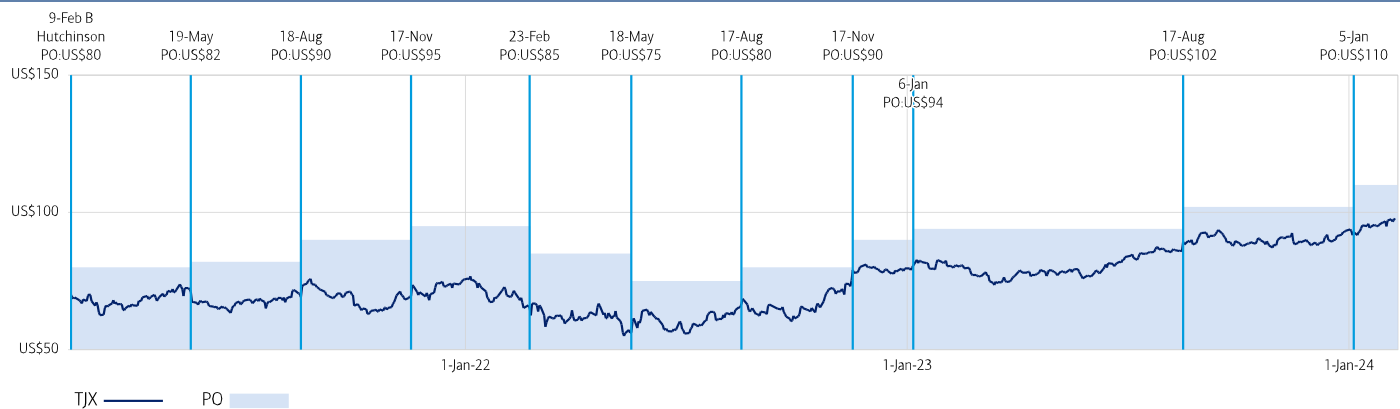
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Ross Stores (ROST) Price Chart

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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: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

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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