

## Retailing - Hardlines

# Tax Refund Tracker: Refunds down 36% in first three weeks of tax season

Industry Overview

## Tax refunds down YoY driven by later filing of returns

Per the US Treasury, tax refunds are down 36% YoY in the first three weeks of tax refund season (ending Feb 16<sup>th</sup>). Refund dollars were -72% in Week #1 (ending Feb 2<sup>nd</sup>), -48% in Week #2 (ending Feb 9<sup>th</sup>) and -8% in Week #3 (ending Feb 16<sup>th</sup>). Per the IRS, this has been driven by fewer returns received (-11% YoY), fewer returns containing refunds (29% contain refunds vs. 50% last year to-date), and a smaller average refund per return (-13% YoY to-date), partially offset by more returns processed (99.6% of returns processed vs. 92.4% last year to-date). These details provided by the IRS have historically been volatile in the first few weeks of refund season given a limited number of returns are received this early. As of February 16<sup>th</sup>, only \$18bn of refunds had been issued, less than 8% of the total amount released by the end of last April.

## Delays likely to improve through refund season

The IRS began accepting returns on January 29<sup>th</sup> this year vs. January 23<sup>rd</sup> last year, which on a retail calendar that syncs up the days of the week, is a full week later than last year. We believe this late start to refund season will cause refunds to be down YoY in the coming weeks but given our expectation that refund dollars will ultimately be flat YoY, we expect these declines will moderate and eventually flip positive.

## Expect flat tax refunds after declines last year

Due to inflation, the IRS has increased tax brackets, the standard deduction, and many other inputs that go into tax calculations made at year end. However, the IRS has also commensurately increased withholding rates so overall refund amounts should not change meaningfully YoY. As a reminder, the average tax refund was down roughly 10% YoY last year through the majority of tax refund season in Feb-Apr due to the expiration of certain pandemic-era tax benefits.

## This week and next few may be tough for the low-income

We're concerned that low-income spending will slow this week and the next few given YoY refund declines from the later start to tax refund season. This will be impactful starting this week since each year the IRS cannot issue many refunds with certain tax credits until the second half of February. Within our coverage, we see the most near-term risk to Ollie's (OLLI) and AutoZone (AZO) given their exposure to the low-income consumer. The impact is more nuanced for the lease-to-own industry including Upbound (UPBD) and PROG Holdings (PRG) given YoY refund declines have historically led to lower originations and higher loss rates but better margins given fewer early payouts.

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Equity  
United States  
Retailing-Hardlines

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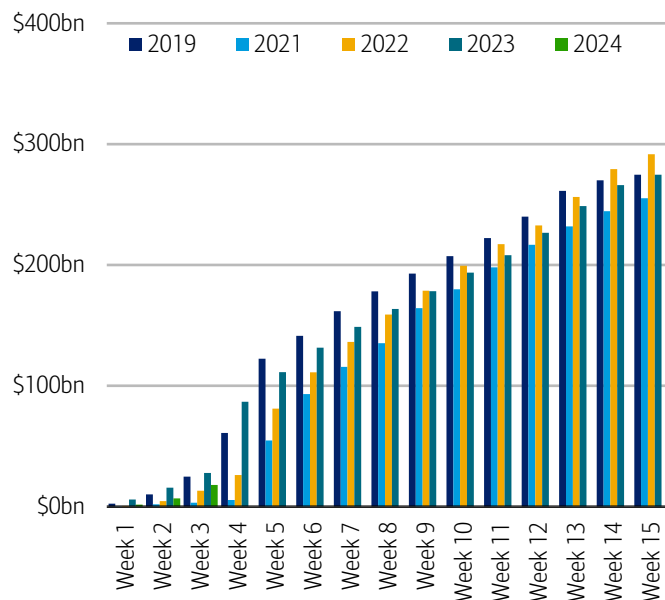
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**Exhibit 1: Cumulative refunds (\$mn)**

\$18bn of refunds have been released in the first three weeks of refund season

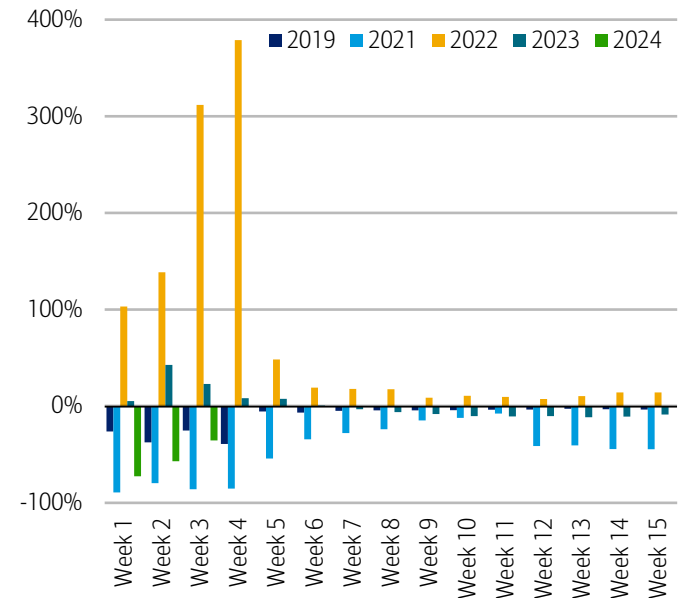


**Source:** US Treasury. Dates for each year are slightly different as they are aligned to always end on a Friday. For example, Week 1 in 2024 started 1/29/24 and ended 2/2/24.

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**Exhibit 2: Cumulative refunds (YoY %)**

Refunds are down 36% YoY in the first three weeks of refund season



**Source:** US Treasury. Dates for each year are slightly different as they are aligned to always end on a Friday. For example, Week 1 in 2024 started 1/29/24 and ended 2/2/24.

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**Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
AZO	AZO US	AutoZone	US\$ 2727.83	B-2-9
OLLI	OLLI US	Ollie's	US\$ 77.82	C-1-9
PRG	PRG US	PROG Holdings	US\$ 31.11	C-1-9
UPBD	UPBD US	Upbound Group	US\$ 32.31	C-1-7

**Source:** BofA Global Research

**Price objective basis & risk****AutoZone Inc. (AZO)**

We value AutoZone at a PO of \$3110 based on 20x the average of our FY24 & FY25 EPS estimates. This is above AZO's 10-year pre-COVID average of 15x, which we think is warranted given the AZO's consistent market share gains in both the do-it-yourself (DIY) and Commercial/do-it-for-me (DIFM) channels.

Upside risks are 1) stronger-than-expected auto parts demand, 2) stronger operating leverage or gross margin expansion as costs contract, 3) larger market share gains than expected, 4) stronger FCF generation enabling share repurchases above our estimates.

Downside risks: 1) AZO's competitors could consolidate the industry faster through acquisitions, knocking AZO out of the market leading position, 2) pricing pressure from online and discount retailers could be more acute than expected, particularly given AZO's overexposure to the DIY channel, 3) cost inflation (most notably wages) could accelerate faster than AZO is able to mitigate margin pressure through pricing or cost cutting.

**Ollie's (OLLI)**

Our price objective of \$99 is based on 31x our 2024 EPS estimate. Our target multiple is above the average for our hardline retail universe (currently 16x). We think OLLI has room to grow its store base and its opportunistic closeout sourcing model should be a competitive advantage in more difficult macroeconomic environments.

Upside risks are: 1) better-than-expected comps from sourcing opportunities, 2) upside from more favorable economic policies for low-income households, and 3) stronger pricing power and negotiating leverage due to greater scale.

Downside risks are: 1) inability to source enough quality closeout inventory, 2) slowing low income consumer demand, 3) pressure to margins from promotions, supply chain costs or wages and 4) inability to compete due to an underinvestment in supply chain and omnichannel capabilities.

**PROG Holdings Inc (PRG)**

Our price objective of \$39 is based on 12x '24E P/E. Our target multiple is near the middle (10x-16x) of other lease-to-own providers and subprime lenders given our view that PRG has substantial room to grow as the leading player in virtual LTO.

Upside risks to our PO are 1) higher revenue from new partnership wins, 2) faster-than-expected penetration of existing retail partners, 3) upside to margins from better-than-expected cost leverage, and 4) another round of stimulus checks are issued. Downside risks are 1) stricter regulation of the lease-to-own (LTO) industry, 2) higher write-offs due to poor decision and/or a recession, 3) competition from LTO marketplaces, and 4) slowing growth in invoice volumes, a key leading indicator.

**Upbound Group Inc. (UPBD)**

Our price objective of \$39 is based on 11x '24E P/E. Our target multiple is in-line with other lease-to-own providers and subprime lenders given similar growth profiles.

Upside risks to our PO are: 1) higher revenue from new partnership wins, 2) faster-than-expected penetration of existing retail partners, and 3) upside to margins from better-than-expected cost leverage. Downside risks are: 1) stricter regulation of the lease-to-own (LTO) industry, 2) cannibalization of the Rent-A-Center Business by Acima and the virtual LTO industry broadly, 3) lower margins due to higher write-offs and/or other costs, and 4) slower-than-expected growth in GMV and/or comps.

**Analyst Certification**

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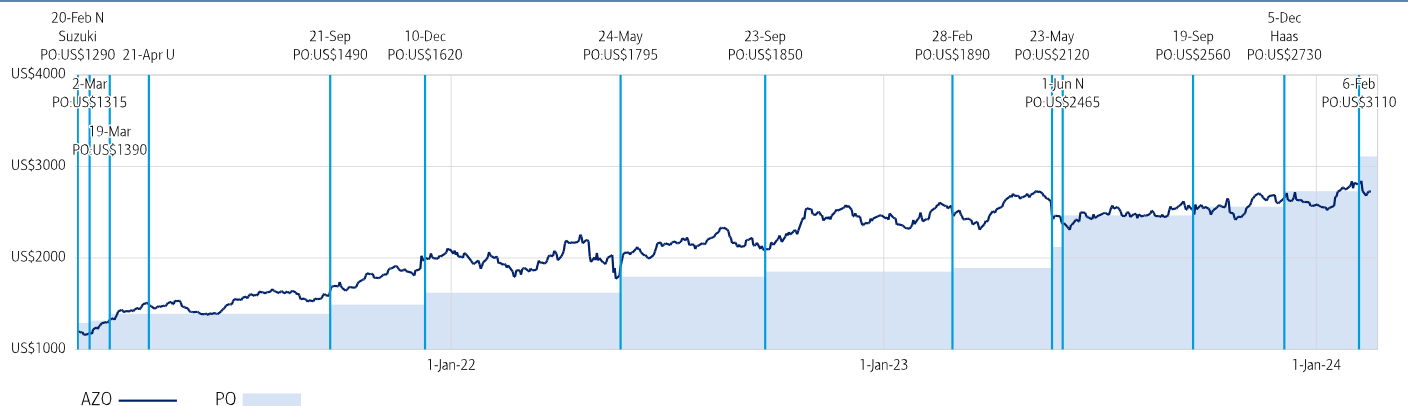
## US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Robert F. Ohmes, CFA
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
<b>NEUTRAL</b>				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
<b>UNDERPERFORM</b>				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L. Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA
	Whirlpool	WHR	WHR US	Jason Haas, CFA

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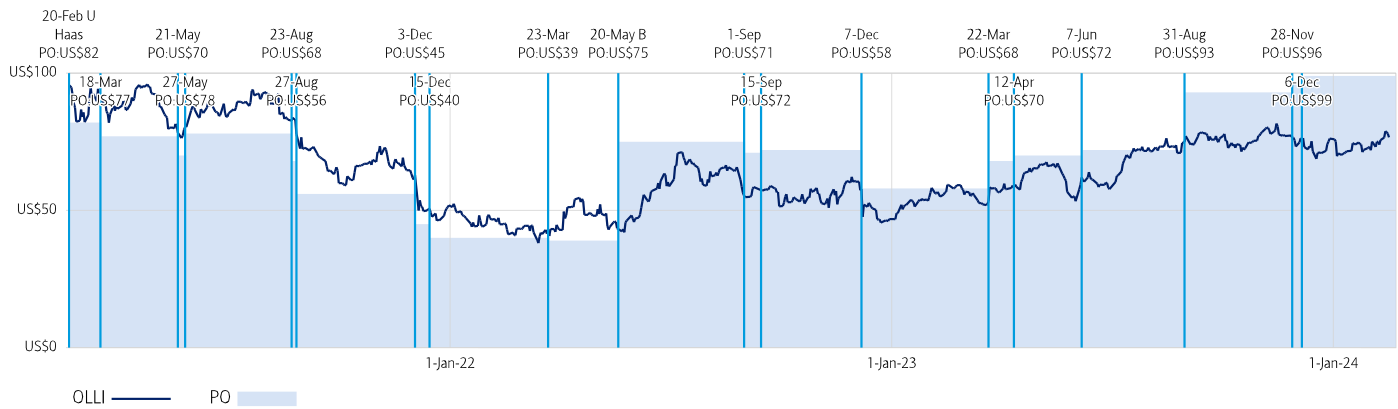
### Important Disclosures

## AutoZone (AZO) Price Chart



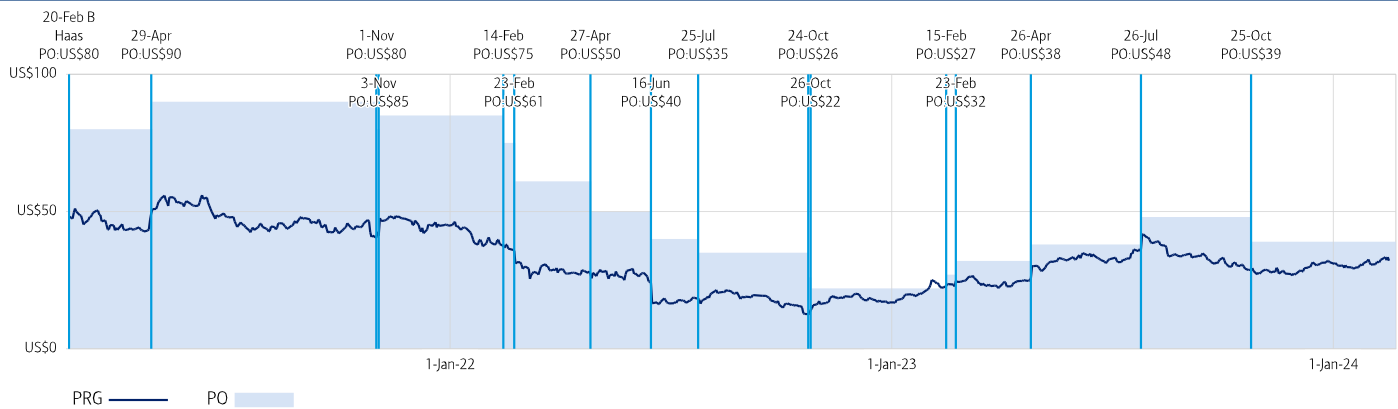
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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.

**Ollie's (OLLI) Price Chart**

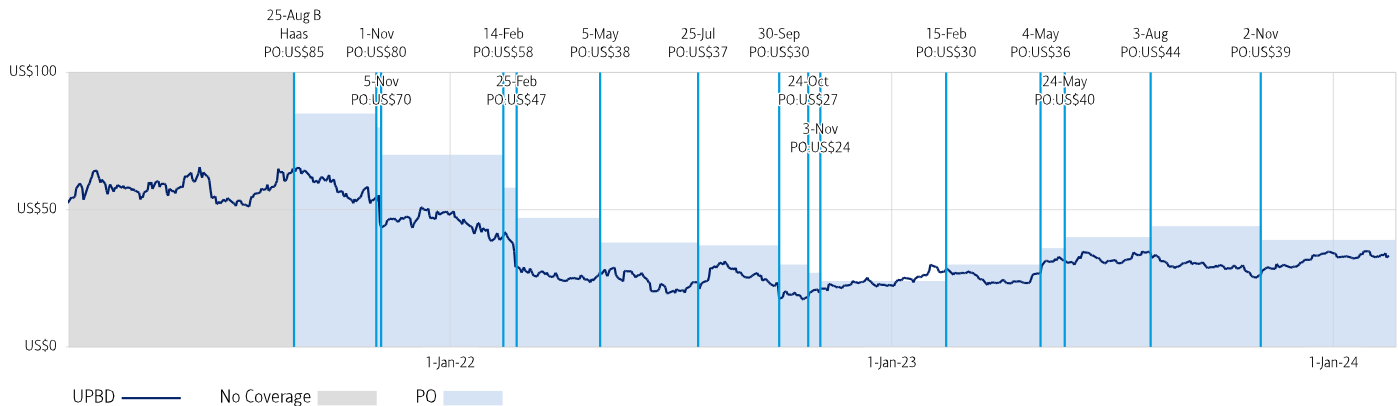
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**PROG Holdings (PRG) Price Chart**

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**Upbound Group (UPBD) Price Chart**

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> 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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