

# Burlington Stores Inc. (NYSE:BURL)

Give it a Burl



**Sally Jiao, Senior Analyst**

BCom 2023

July 23rd, 2021

# Executive Summary

## Company Analysis



- **Overview:** Burlington Stores is an American off-price retailer that offers branded apparel, accessories, and home goods at up to 60% off of their original price.
- **Strengths:** High barriers to entry, strong supplier partnerships, and lean inventory management.
- **Strategy:** BURL's fiscal 2021 initiatives include: (1) Driving comparable sales growth; (2) Enhancing retail store base; and (3) Increasing operating margins.

## Investment Theses

COVID-19 accelerated consolidation within the apparel retail industry and shifted consumer demographics. This presents off-price retailers with an opportunity to gain market share.

BURL's real estate strategy will allow it to capitalize on macroeconomic trends. This potential is largely being overlooked by the market.

With an experienced management with a track record of success, BURL can effectively execute its "Burlington 2.0 strategy" and drive shareholder value.

## Industry Analysis

- **Industry Drivers:** The industry caters to customers who are seeking to purchase branded products at significantly lower prices. The business model is therefore driven by (1) economic recessions & downturns and (2) the availability of in-season products from suppliers.
- **Market Structure:** Overall apparel industry is highly fragmented with many competitors. However, within Off-Price retail, three key players control approximately 90% of the market share.
- **Historical/Projected Growth:** Off-price retail is projected to increase its market share within the retail industry significantly in upcoming years due to the decline of department stores, accelerated by the COVID-19 pandemic. Off-price retail's CAGR over the next five years is projected to be 4.7% versus the retail industry at 3.1%.

## Valuation & Target Price

- Discounted Cash Flow analysis, Comparable Companies analysis were conducted to determine the intrinsic share price. We also took analyst estimates on the street into account.
- DCF was given a heavier 50% weighting due to the lack of appropriate competitors within the off-price retail industry as well as the predictability of future income streams.
- Based on our valuation of \$376.92, we recommend a BUY rating for BURL at \$329.97 with an implied return of 14.5%.

# Company Overview

## Company Highlights

- Subsector:** Off-Price Retail.
- Sector:** Consumer Discretionary.
- Business & Revenue Model:** BURL derives over 99% of its net sales from stores operated under the “Burlington Store” brand. This is the only reportable revenue segment as of 2021. The store base is geographically diversified with a total of 761 stores located in 45 states and Puerto Rico.
- Historical Performance:** Burlington has demonstrated a strong history of growth prior to the pandemic, with a CAGR of 8.6% from FY13 to FY19. For the past eight quarters, the company has beaten consensus EPS estimates by USD\$0.01 to USD\$0.32.

## Financial Metrics

Cumulative Shareholder Return Performance, Assumes Initial Investment of \$100



Enterprise Value

**\$23.4B**

Revenue (FY21E)

**\$7.0B**

Market Cap

\$19.8B

EBITDA (FY21E)

\$0.9B

P/E

32.2x

EBITDA Margin

13.5%

EV/EBITDA

-279.7x

Debt / EV

19.9%

	Moderate Department Store	Burlington	Other Large Off-Price Retailers
Store Size (sq.ft.)	>=80,000	25000 -32000 (2021 Debut)	30,000
Product Breadth	Broad apparel range w/ more depth	Apparel, Baby Products, Accessories	Similar to BURL in categories, less depth
Brands	Moderate brands, private label	Premium and moderate brands	Premium and moderate brands
Pricing	Promotional	EDLP/Off-price	EDLP/Off-Price
Sourcing / Vendors	Pre-season sourcing strategy, limited flexibility	Substantial in-season liquidity for opportunistic buys	Reliance on packaway merchandise; pre-season cuttings
Customers	Older (45+ years) \$78K avg.income	Younger (20-39 years) \$64K avg. income	Younger (20-39 years) \$77K avg. income

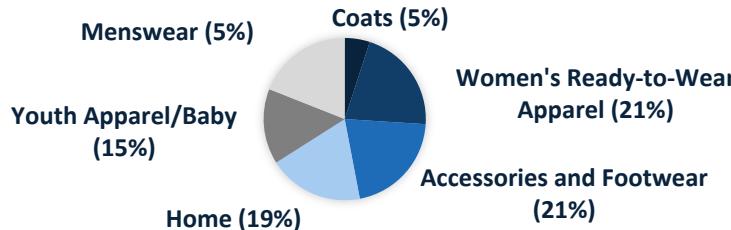
## Growth Strategies

- 1 Drive comparable sales growth → Leaner inventory in FY21 expected to aid opportunistic buys.
- 2 Enhance retail store base → Long-term target of 2000; 100 new stores expected to open in FY21.
- 3 Increase operating margins → FY21 margins expected to expand by 125bps to 43%.

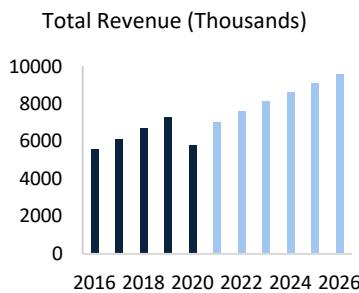
# Company Overview

## Revenue & Margin Analysis

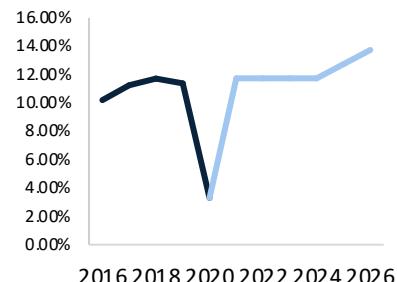
### Brand Merchandise Assortment



### Historical & Projected Revenue Growth



### Historical & Projected EBIT Margins (% of Revenue)



- Historically, BURL opened 35-45 stores annually.
- The store base is due to expand by 100 in FY21 with the new real estate strategy.
- We expect 50 new stores to open in FY22 before gradually tapering off to the conservative estimate of 35 stores per year.

## Company Head/Tailwinds

### Growth Opportunities

- Recent M&A activities in retail industry encourage off-price retailers to gain significant market share.
- BURL is a well-established brand within the United States w/ high customer loyalty, which it can use to drive sales and store counts.
- Based on off-price benchmarks, BURL has the potential to drastically increase its profit margin through optimizing footprints.

### Challenges

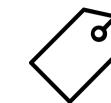
- BURL competes with major, well-known players in the off-price industry, as well as department stores and online retailers that offer seasonal brand-name merchandise at substantial markdowns.
- The popularity of e-commerce as well as its adoption by TJX and ROST, two of BURL'S strongest competitors, may pose significant challenges to the company's long-term growth.

## Competitive Advantages



### High Barriers to Entry

Significant capital investments, strong supplier relationships, and oligopolistic industry structure create high barriers to entry.



### Liquidity for Opportunistic Buying

Compared to ROST and TJX, which rely primarily on pre-season cuttings, BURL obtains most of its inventory through opportunistic buying practices.



### Strong Supplier Network

BURL possesses a strong and diverse supplier network consisting of many branded retailers.

# Industry Overview

## Industry Key Metrics

### Off-Price Benchmarks

**13.5%**

EBIT Margin

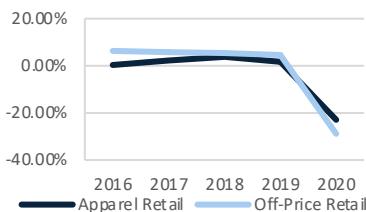
**\$42B**

U.S. Market Size

**4.5%**

Comp. Growth

### Market Size YOY Growth – Off-Price Sector V.S. Apparel Retail Industry



- During the pandemic, off-price retailers suffered a greater loss due to the difficulties of starting e-commerce channels.
- However, this is not expected to last as stores re-open.

## Key Trends

### Upward Trajectory Expected for Off-Price Retail

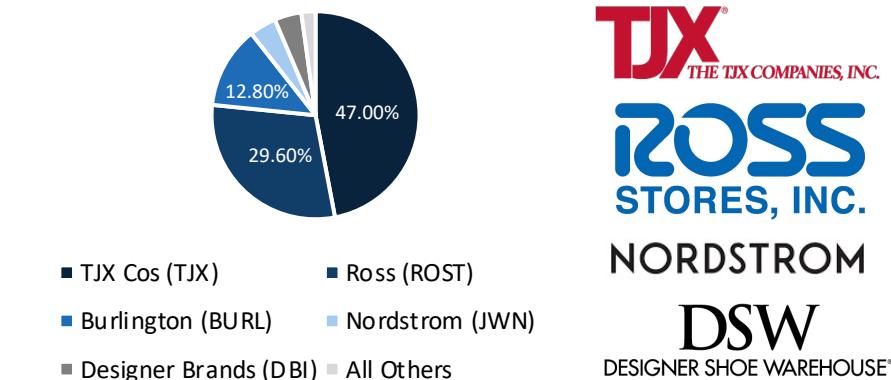
- Economic Downturns:** The rise in U.S. jobless claims filed in the past month belies improving labor market conditions. During a downturn, customers are on the hunt for bargains. The continuous increase in U.S. inequality further contributes to this phenomenon.
- Growth of E-Commerce:** The rise of fast fashion, e-commerce giants such as Amazon and SheIn poses a significant threat to off-price retail as they attempt to appeal to similar target audiences.
- M&A Activity:** Due to COVID-19, many struggling department stores have engaged in mergers, acquisitions, and in some cases, bankruptcy filings. The retail apparel industry as a whole has undergone significant consolidation, presenting an unique opportunity for off-line retail to gain market share.

## Competitive Landscape

### BURL Consistently Increases Market Share in Off-Price Retail

- Structure:** The retail apparel industry as a whole is highly fragmented and competitive. However, the off-price retail sector is oligopolistic in nature, with 89.4% of the market share being dominated by three key players.
- Historical Trends:** ROST, TJX, and BURL have dominated the industry for the past five years. Meanwhile, smaller companies, such as JWN and DBI have seen their market shares dwindle. In fact, Payless Holdings was driven to file for Chapter 11 Bankruptcy in 2017 due to the fierce competition.
- BURL's Market Share** Since 2015, BURL has steadily increased its market share from 10.4% to 12.8% through offering in-season apparel at lower prices than those of its competitors.

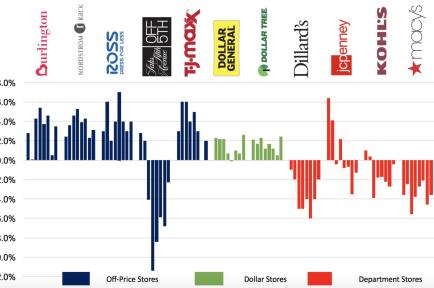
### Key Competitors and their Market Share within Off-Price Retail



# Shifts in Demographics and Industry Dynamics Drive Growth

On the supply side, COVID-19 has accelerated consolidation within the retail apparel industry...

## 2019 Comp Sales Growth



## Recent M&A Activity

### FOREVER 21

was acquired by  
**ABG** AUTHENTIC BRANDS GROUP  
**Brookfield**

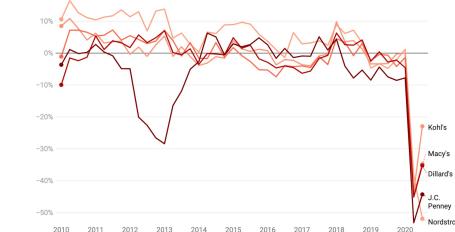
### PRETTYLITTLETHING.co

received an investment from  
**boohoo** group plc

### speedo

was acquired by  
**Pentland**

## Quarterly Revenue Growth – Department Stores



Prior to the pandemic, off-price retail had already begun stealing market share away from large department stores.

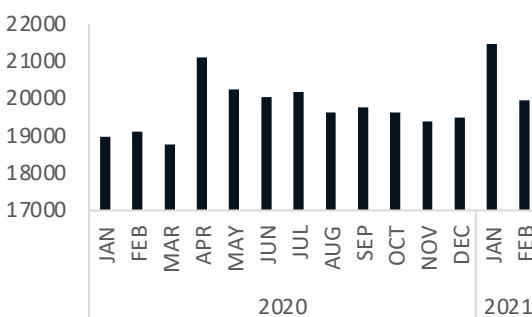
During the pandemic, many struggling apparel retail stores went under M&A.

As a result, brands resorted to wholesaling their inventory at low prices, benefitting off-price retailers.

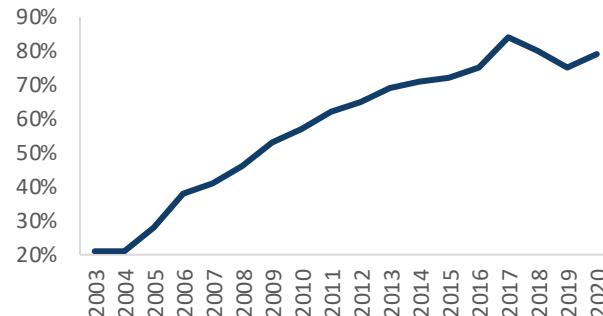
Additionally, the share loss from major department stores present a ripe opportunity for capture by off-price retailers.

...While on the demand side, it has shifted consumer preferences towards bargain purchases

## Low personal discretionary income..

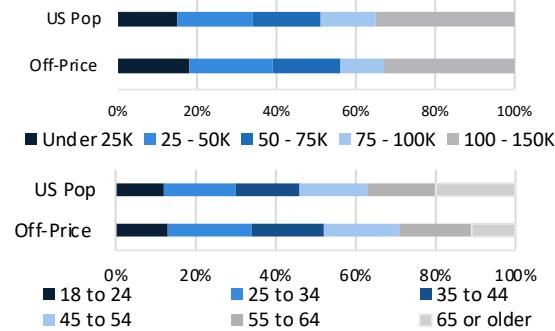


## ...and rising debt among younger generations



U.S. national student debt as % of Gross Domestic Product

## ...should continue to drive appeal for off-price



Demographic of off-price customers vs U.S. population  
: Favors younger generations w/ lower incomes

# Real Estate Strategy Implies Significant Economic Benefits

## “Burlington 2.0” Strategy capitalizes on new industry tailwinds through aggressive store expansions

- 1 Chase the sales trend → Tighter control on liquidity; opportunistic buys
- 2 Higher Just-in-Time Inventory → Faster turns, lower markdowns; Fresh receipts to support sales
- 3 Invest in buying & planning → Merchant and planning head count; Improved training, tools
- 3 More operational flexibility → More responsive supply chain; More flexible store staffing model
- 3 Smaller store prototype → More productive retail locations; Lower occupancy & operating expenses



Management doubled its long-term target of store base from 1000 to 2000 due to increasing confidence in small store prototype



## Smaller stores imply leaner inventory...

### Unit Economics should improve to meet industry benchmarks

Burlington	FY15	FY16	FY17 <sup>1</sup>	FY18	FY19
Sales per Sq. Ft. (selling)	\$ 153	\$ 165	\$ 178	\$ 201	\$ 224
EBIT margin	6.6%	7.6%	8.5%	9.0%	9.2%
Comp Growth	2%	5%	3%	3%	3%

Peer 1	FY15	FY16	FY17 <sup>1</sup>	FY18	FY19
Sales per Sq. Ft. (selling)	\$ 400	\$ 416	\$ 421	\$ 455	\$ 476
EBIT margin*	14.3%	14.1%	13.3%	13.5%	13.5%
Comp Growth	4%	5%	1%	7%	5%

Peer 2	FY15	FY16	FY17 <sup>1</sup>	FY18	FY19
Sales per Sq. Ft. (selling)	\$ 383	\$ 395	\$ 409	\$ 422	\$ 432
EBIT margin	13.6%	14.0%	14.5%	13.6%	13.4%
Comp Growth	4%	4%	4%	4%	3%

## ...and more “Treasure Hunt” experiences

### Case Study – Supermarket Space



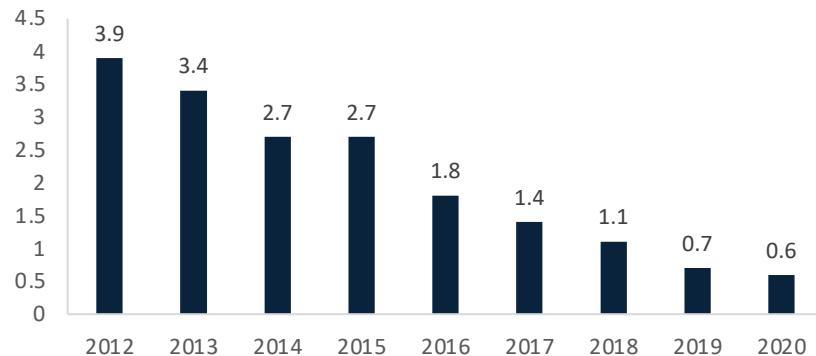
*Smaller Size / Smaller Average Bucket Spend per Trip*

- Smaller physical stores allow BURL to better service the growing demand for “treasure hunt” experiences through higher inventory turnovers.
- Bargains are presented in a self service shopping environment, and the “first come first serve” sentiment encourages impulsive buying and large shopping volumes.

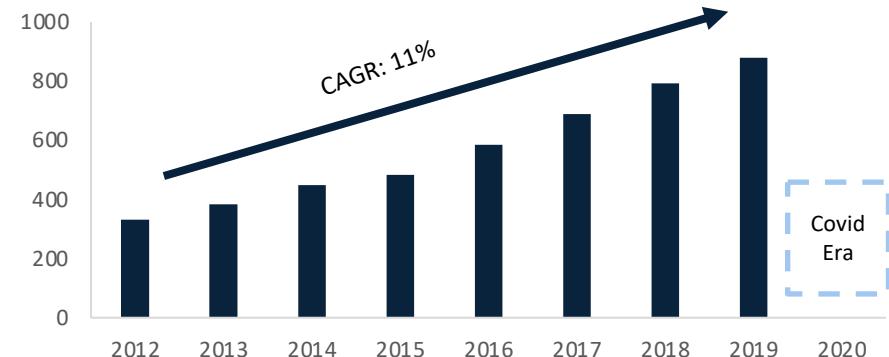
## Strong Balance Sheet and Management Support Ambitious Expansions

BURL's current balance sheet should support new store openings and transformations...

Net Debt/EBITDA has continuously decreased since 2012...



...While rising EBITDA margins demonstrate strong record of cash generation



...Under a strong leadership team with extensive experience in off-price merchandising



### Michael O'Sullivan – Chief Executive Officer

- Joined in September 2019 from Ross Stores (ROST)
- At ROST, Michael worked for 16 years as their COO & managed major functional areas such as supply chain, finance, IT, and merchandise allocations.
- Led company to achieve 18% annual EPS growth rate.



### Jennifer Vecchio – Chief Merchandising Officer

- Has been with the company since 2015, but has served as CMO since April 2019.
- Over 20 years of experience in various merchandising positions in ROST and Macy's



### Fred Hand – Chief Operating Officer

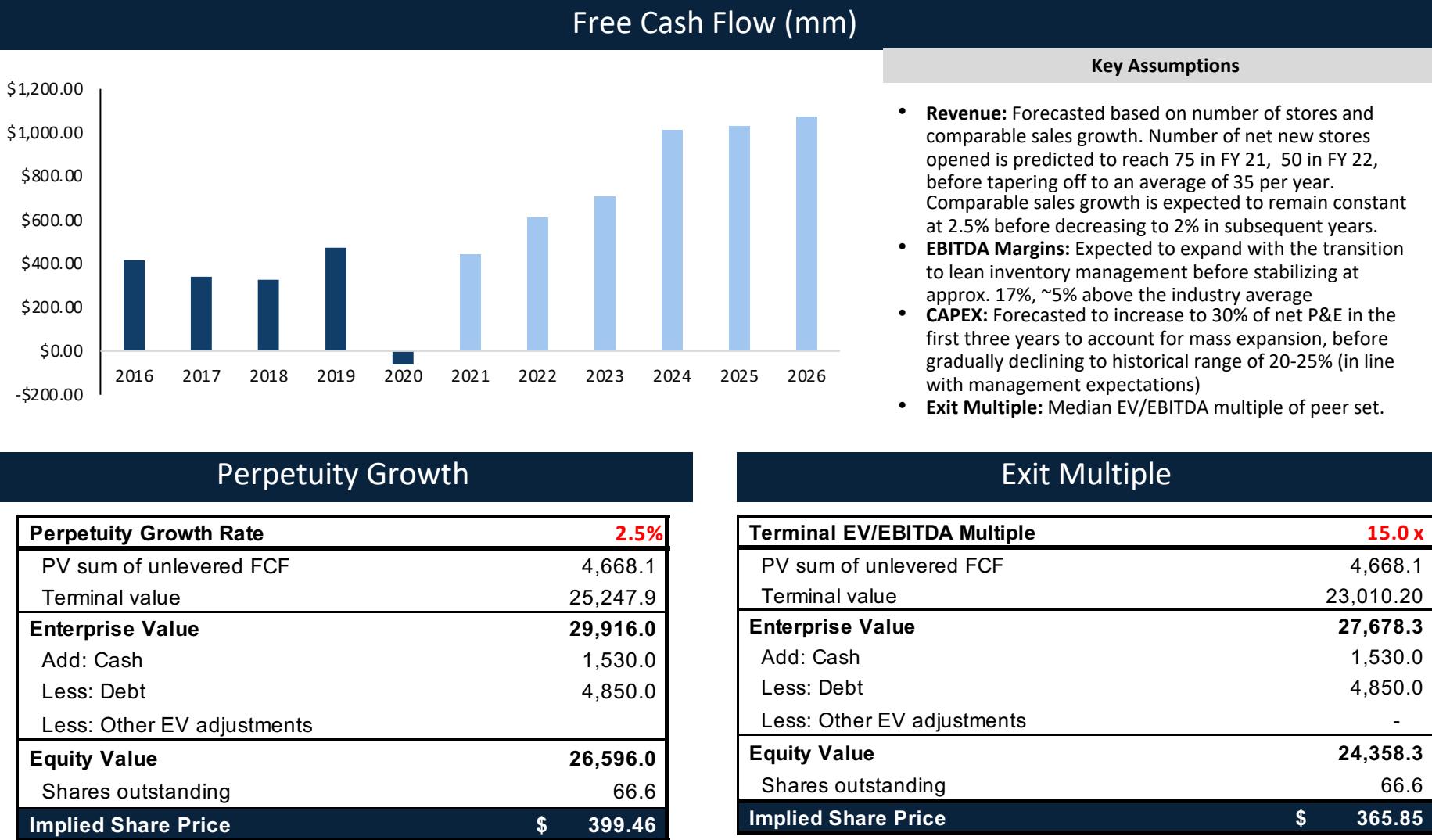
- Has served as COO since July 2020; previously chief customer officer & executive vice president of stores
- In previous roles, he drove improvements in operating costs for individual stores



### John Crimmins – Chief Financial Officer

- Became CFO in October of 2019.
- Came to Burlington in 2011 as a Senior Vice President in Finance & played a key role in improving company balance sheet.

# Intrinsic Valuation



# Relative Valuation

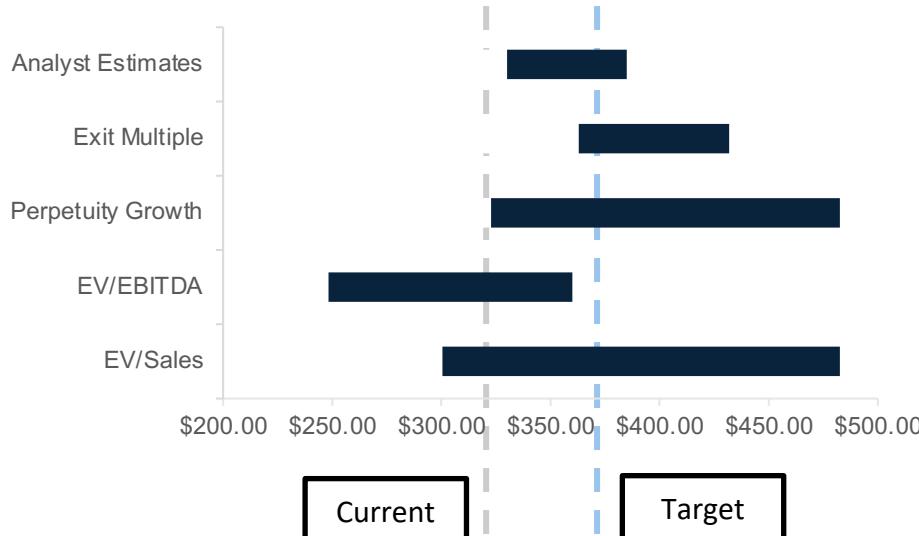
## Comparable Companies

(Figures in mm CAD)				EV/Sales Multiple			EV/EBITDA Multiple			Company Fundamentals	
Company	Ticker	Equity Value	Enterprise Value	2021A EV/Sales	2022E EV/Sales	2023E EV/Sales	2021A EV/EBITDA	2023E EV/EBITDA	2022E EV/EBITDA	YoY Revenue Growth	EBITDA Margins
ROSS STORES INC	ROST	43,625.9	43,915.2	2.4 x	2.2 x	2.1 x	28.4 x	15.1 x	13.9 x	-21.87%	10.89%
TJX COMPANIES INC	TJX	80,473.7	86,535.9	1.8 x	1.8 x	1.7 x	25.9 x	14.0 x	12.9 x	-22.96%	9.35%
FIVE BELOW	FIVE	11,012.7	11,790.7	4.1 x	3.5 x	3.0 x	22.2 x	22.4 x	18.9 x	6.25%	22.96%
CANADA GOOSE HOLDINGS INC	GOOS	4,817.4	6,108.4	5.5 x	4.6 x	4.0 x	28.9 x	16.3 x	13.0 x	-5.68%	22.30%
LULULEMON ATHLETICA INC	LULU	47,722.7	47,328.1	7.7 x	6.9 x	6.1 x	36.9 x	27.4 x	22.5 x	10.62%	23.58%
BURLINGTON STORES INC	BURL	21,221.1	24,541.1	2.8 x	2.5 x	2.4 x	23.3 x	19.7 x	17.2 x	-20.89%	15.03%
Median				3.5 x	3.0 x		16.3 x	13.9 x		-5.68%	22.30%
Mean				3.8 x	3.4 x		19.0 x	16.2 x		-6.73%	17.82%
High				6.9 x	6.1 x		27.4 x	22.5 x		10.62%	23.58%
Low				1.8 x	1.7 x		14.0 x	12.9 x		-22.96%	9.35%

- Comparable companies were chosen based on two main categories: **growth** and **core business**. Within the core business segment, BURL competes with TJX and ROST, the two other major players within the off-price retail industry. However, given that BURL is expected to exponentially ramp up growth in the next few years through aggressive store openings, we believe that GOOS, FIVE, and LULU serve as more appropriate peers due to their similar growth and EBITDA margin profiles.
- Relative to the core business, BURL is trading at a premium on EV/Sales and EV/EBITDA. However, we believe that this is justified given its higher potential for growth and margin expansion (its EBITDA Margin is already significantly above both TJX and ROST). We believe that as it continues to grow, it should re-rate to even higher multiples in line with the growth group.

# Valuation Summary

## Valuation Football Field



## Recommendation

We recommend a BUY rating for Burlington at \$329.97 (Jul 23 Close) with a target price of \$376.92 and an expected upside of 14.5%

## Valuation Methodology

- Intrinsic and relative valuation were weighted 50% and 25% each, with more emphasis being placed on the former due to the lack of appropriate competitors within the off-price retail industry.
- The remaining 25% was composed of price targets obtained from sell-side coverage of BURL.

### Intrinsic & Relative Valuation

#### DCF Valuation

Perpetuity Growth Implied Price	\$	399.46
---------------------------------	----	--------

Exit Multiple Implied Price	\$	365.85
-----------------------------	----	--------

#### Comps Valuation

Comps - EV/EBITDA Implied Price	\$	266.96
---------------------------------	----	--------

Comps - EV/Sales Implied Price	\$	482.61
--------------------------------	----	--------

### Select Price Targets from Sell-Side

**\$365**

Beth Reed



Capital  
Markets

**\$380**

Matthew Boss

**J.P. Morgan**

**\$354**

Michael Binetti



**\$370**

Adrienne Yih

**BARCLAYS**

**\$385**

Kimberly  
Greenberger



**\$345**

Simeon Siegel

**BMO**

Consensus Target Price: \$366

# Risks & Catalysts

## Catalysts

### Future Bankruptcies & Potential Store Locations



- New stores may move into Pier 1 or Modell's Sporting Goods locations. Both chains filed for Chapter 11 bankruptcy protection in 2020 and are closing all their stores.
- Future bankruptcies of department stores could pose more opportunities for gaining market share within the industry.

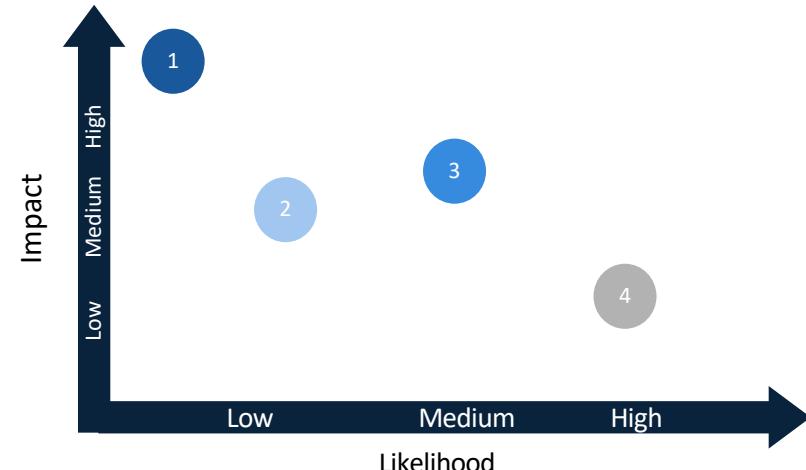
### Supply Chain Disruptions within Traditional Retail

- The second wave of COVID-19 could bring about further disruptions and cancellations in the supply chain for traditional department stores. If the government continues to impose stricter restrictions on social gatherings, inventory will stockpile in department stores.
- Off-price retailers can take advantage through sourcing unwanted/oversupplied merchandise at significantly lower prices.

### Quarterly Earnings Release

- New store openings may drive growth that is evident in quarterly earnings as soon as in the next quarter. Given that BURL has historically consistently beaten analysts' consensus EPS estimates, a positive earnings release is not unlikely and will likely drive the share price towards the target.

## Risks



**1** **Dependence on New Openings:** New stores may not generate expected profits due to factors such as locational disadvantages. BURL's financial position may be adversely affected.

**2** **Supplier Relationships:** Ability to offer lower-than-average prices & introduce in-season items may be hindered if attractive branded merchandise cannot be purchased in large quantities.

**3** **Increased Competition:** Some department stores, mass merchants, and specialty apparel stores have started to offer off-price concepts and this trend increases competition for BURL.

**4** **Seasonality:** Majority of operating income is typically realized during the second half of the year. Significant amounts of inventory must be carried before holiday periods.