The TJX Companies, Inc. (TJX) CEO Ernie Herrman on Q3 2020 Results - Earnings Call Transcript

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FQ3: 11-19-19 Earnings Summary

Press Release *10-Q*

EPS of $0.68 beats by $0.02 | Revenue of $10.45B (6.37% Y/Y) beats by $143.64M

Earning Call Audio

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The TJX Companies, Inc. (NYSE:TJX) Q3 2020 Results Conference Call November 19, 2019 11:00 AM ET

Company Participants

Ernie Herrman - CEO & President

Debra McConnell - SVP of Global Communications

Scott Goldenberg - CFO

Conference Call Participants

Alexandra Walvis - Goldman Sachs

Matthew Boss - JPMorgan

Kimberly Greenberger - Morgan Stanley

Paul Lejuez - Citigroup

Kate Fitzsimons - RBC Capital

Jay Sole - UBS

Omar Saad - Evercore ISI

Mark Altschwager - Baird

Lorraine Hutchinson - Bank of America Merrill Lynch

John Kernan - Cowen

Bob Drbul - Guggenheim Securities

Operator

Welcome to the TJX Companies' Third Quarter Fiscal 2020 Financial Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session [Operator Instructions]. And as a reminder, this conference call is being recorded, November 19, 2019.

I would like to turn the conference call over to Mr. Ernie Herrman, Chief Executive Officer and President of The TJX Companies, Inc. Please go ahead, sir.

Ernie Herrman

Thanks, Aelan. Before we begin, Deb has some opening comments.

Debra McConnell

Thank you, Ernie, and good morning. The forward-looking statements we make today about the company's results and plans, are subject to risks and uncertainties that could cause the actual results and the implementation of the company's plans to vary materially. These risks are discussed in the company's SEC filings, including without limitation, the Form 10-K filed April 3, 2019.

Further, these comments and the Q&A that follows are copyrighted today by The TJX Companies Inc. Any recording, retransmission, reproduction or other use of the same for profit or otherwise without prior consent of TJX is prohibited and a violation of the United States copyright and other laws. Additionally, while we have approved the publishing of a transcript of this call by a third party, we take no responsibility for inaccuracies that may appear in transcripts. We have detailed the impact of foreign exchange on our consolidated results and our international divisions in today's press release in the Investor section of our Web site, tjx.com.

Reconciliations of the non-GAAP measures we discuss today to GAAP measures are posted on our Web site tjx.com in the Investors section.

Thank you. And now, I'll turn it back over to Ernie.

Ernie Herrman

Good morning. Joining me and Deb on the call is Scott Goldenberg. Let me begin by saying that I am extremely pleased with our strong third quarter results. Our consolidated comp store sales increase of 4% was well above our expectations and over a very strong 7% increase last year.

Earnings per share of $0.68 were also significantly above our plan. I am particularly pleased with the continued strength of our largest division, Marmaxx, as comp store sales increased 4% on top of a very strong 9% increase last year. Once again, we saw strength in both Marmaxx's apparel and home businesses. In addition, I want to highlight the terrific comp and traffic strength of our European business, which drove the 6% comp increase at TJX International.

In the third quarter, customer traffic was the primary driver of our comp store sales increases at each of our for major divisions. Clearly, our great values and eclectic mix of quality branded merchandise continue to attract shoppers around the world. Further, this quarter marks the 21st consecutive quarter of customer traffic increases at TJX and Marmaxx. With our excellent third quarter results, we are raising our full year outlook, which Scott will detail in a moment.

Looking ahead, the fourth quarter is off to a solid start. We are seeing fantastic product availability across a wide range of brands, and we are in a great position to keep flowing fresh merchandise to our stores and online throughout the holiday season. Longer-term, we are excited about our potential to keep gaining market share and continuing the successful growth of TJX in the U.S. and internationally.

Before I continue, I'll turn the call over to Scott to recap our third quarter numbers.

Scott Goldenberg

Thanks, Ernie, and good morning everyone. As Ernie mentioned, third quarter consolidated comparable store sales increased 4%, which was over 7% increase last year and well above our plan. Customer traffic was up overall and was the primary driver of our comp sales increases at each of our four major divisions. As a reminder, our comp sales increases exclude the growth from our e-commerce businesses. Third quarter diluted earnings per share were $0.68, up 8% over the prior year's adjusted $0.63 and well above our expectations.

Now, I'll recap our third quarter performance by division. We were very pleased that every division delivered a comp increase at or above their second quarter comp over strong results last year. Further, each division exceeded the profit plan -- profit margin plan. We're seeing good momentum at all our divisions heading into the holiday season. Marmaxx comp sales increased 4% over a very strong 9% increase last year, and were driven by customer traffic. Once again, both our apparel and home businesses were strong, which points to Marmaxx's ability to keep raising the bar.

Segment profit margin increased 10 basis points. As we being the fourth quarter, we are excited about the initiatives we have planned to keep driving sales and traffic during the holiday season and beyond. HomeGoods comp increased 1% in the third quarter over a strong 7% increase last year. We are very pleased with the HomeGoods two years stock comp increase of 8%, which is a significant improvement compared with 2% two-year stack comp increase in the first half of the year.

Segment profit margin was down 40 basis points, primarily due to expense deleverage on the 1% comp. Customers love HomeGoods and we are very confident in its enduring appeal for consumers and the fundamental strength of this division.

TJX Canada's third quarter comp growth of 2% was over a 5% increase last year. Adjusted segment profit margin, excluding foreign currency, was down 180 basis points, primarily due to transactional foreign exchange pressure, higher supply chain costs and lower merchandise margin. We are excited about the holiday initiatives we have planned in Canada and longer term, are convinced we will continue to gain market share in that country through our three Canadian chains.

At TJX International, comps grew a very strong 6% in the third quarter. Again, this quarter we saw strength throughout our UK regions and across Europe. In Australia, comp performance continued to be strong. Adjusted segment profit margin, excluding foreign currency, was down 20 basis points versus last year. We remain very pleased with the sharp execution of this organization and the terrific result despite the uncertainty of Brexit and the challenging European retail environment.

I'll finish with our investment in Familia, which we detailed in our press release. We are excited to have an ownership position in a profitable off-price retailer of apparel and home fashions in Russia. We like Familia's strong financial profile and management team. This investment allows us to gain exposure in a new region of the world with an established off-price retailer that has significant growth potential. We are always looking for ways to increase value for TJX's shareholders, and see this as a good use of cash with an attractive return profile.

Now, let me turn the call back to Ernie. And I'll recap our fourth quarter and full year fiscal '20 guidance at the end of the call.

Ernie Herrman

Thanks, Scott. Now, I'd like to highlight some of the opportunities we see to keep driving sales and traffic in the fourth quarter. First, we are set up extremely well to offer consumers exciting compelling brands for their holiday gift giving. We expect our stores to be as branded as ever across most families of business this holiday season. We are seeing fantastic product availability in the marketplace and our buyers are taking advantage of it throughout numerous categories for wide range of quality, good, better and best brands.

Second, we expect to be flowing fresh merchandise to our stores and online even later this year, and multiple times a week throughout the holidays. Regardless of the number of shopping days this holiday season, I am confident consumers will get their shopping done and visit us for exciting gifts for everyone on their list. In addition, post holiday, we remain focused on being a destination for guests throughout the year.

Third, we feel great about our holiday marketing campaigns that started airing earlier this month. I hope you have had a chance to see them. Across our divisions, our campaigns are bold in order to distinctly position us as "The Shopping Destination" for inspiring gifts at amazing prices. We also are leveraging our campaigns across digital and social media platforms. Each of our four major divisions will be actively marketing every week throughout the holiday season.

Next, we're planning to capitalize on the holiday season to promote our loyalty programs. These programs are important vehicles for us to continue to engage with customers and encourage more frequent visits and cross shopping.

Next, we believe our stores provide consumers with convenient and efficient way to shop this holiday season. Our off-mall locations make our stores very easy to access. Once in our stores, shoppers are able to scan an extremely wide selection of merchandise across multiple categories in a very timely manner. Again, we will have something for everyone's shopping gift list in-store and online where they can shop us 24/7.

Lastly, we are well positioned with our gift cards, and believe that many consumers will be looking to use them right after the holidays. We feel great about our initiatives and our plans to transition our stores post holiday and are confident that are fresh and exciting selection of merchandise will entice shoppers when they visit us.

At the e-commerce, we were very happy with the launch of marshalls.com in September. We are excited to offer consumers the convenience of shopping, both Marshalls and TJ Maxx online whenever they want. As with tjmaxx.com, we are differentiating marshalls.com's offering from our Marshall stores to give consumers a compelling reason to shop both channels. In both our U.S. and UK online businesses, we like the growth and metrics that we are seeing.

In closing, we feel great about our momentum heading into the fourth quarter, which is off to a solid start. Long-term, we are confident that we have a significant opportunity to continue growing our customer base and gaining market share around the world. We believe the growth we have seen in Gen Z and millennial customers across all of our major divisions for the last several years bodes well for our future.

As always, we remain laser focused on executing our off-price business model. We believe our unwavering commitment to offering consumers excellent values on great brands and fashions, combined with our treasure hunt shopping experience, will continue to be a winning formula for TJX.

Now, I'm going to turn the call over to Scott to go through our guidance. And then, we'll open it up for questions. Scott?

Scott Goldenberg

Thanks, Ernie. Before I provide our detailed guidance, I want to spend a moment and update you on tariffs. Based on the tariffs in place now, we've started to see some pressure on our margins from the goods we see directly sourced from China. This includes the merchandise that we are committed to and the changes in tariff legislation that was announced after our Q2 call. For Q4, our guidance now includes the negative impact from these tariffs.

Now moving on to our Q4 guidance. We expect earnings per share to be in the range of $0.74 to $0.76, a 9% to 12% increase over the prior year $0.68. We're modeling fourth quarter consolidated sales in the range of $11.7 billion to $11.8 billion. For comp store sales, we're assuming growth of approximately 2% to 3% on a consolidated basis and at Marmaxx.

Fourth quarter pre-tax profit margin is planned in the 10.4% to 10.6% range versus the prior year's 10.6%. We're anticipating fourth quarter gross profit margin to be in the range of 27.6% to 27.8% versus 27.8% last year. We're expecting SG&A as a percent of sales to be approximately 17.1% versus 17.2% last year. For modeling purposes, we're currently anticipating a tax rate of 25.8%, $5 million of net interest expense and a weighted average share count of approximately 1.22 billion.

Moving on to our full year fiscal '20 guidance. We are raising guidance for fiscal '20 earnings per share to be in the range of $2.61 to $2.63. This would represent 7% increase over the prior year's adjusted $2.45. This EPS guidance now assumes consolidated sales in the $41.2 billion to $41.3 billion range, a 6% increase over the prior year. This guidance assumes 1% negative impact due to translational FX.

We are expecting a comp increase of approximately 3% on a consolidated basis. We expect pretax profit margin to be in the range of 10.4% to 10.5%. This would be down 30 basis points to 40 basis points versus the adjusted 10.8% in fiscal '19. We're planning gross profit margin to be in the range of 28.2% to 28.3% compared with 28.6% last year. We're expecting SG&A, as a percentage of sales, to be approximately 17.8% versus 17.8% last year. For modeling purposes, we're currently anticipating a tax rate of 25.7%, net interest expense of about $12 million and a weighted average share count of approximately $1.23 billion.

Now to our full year guidance by division. At Marmaxx, we now expect comp growth of 3% to 4% on sales of $25.4 billion to $25.5 billion, and segment profit margin in the range of 13.4% to 13.5%. At HomeGoods, we are planning comps to increase 1% on sales of approximately $6.3 billion and segment profit margin to be approximately 10.4%. For TJX Canada, we expect a comp increase of 1% to 2% on sales of approximately $4 billion.

Adjusted segment profit margin, excluding foreign currency, is expected to be in the range of 12.3% to 12.4%. At TJX International, we now expect comp growth of 5% to 6% on sales of $5.5 billion. Adjusted segment profit margin excluding foreign currency is expected to be approximately 4.9%. It's important to remember that our guidance for the fourth quarter and full year assumes that currency exchange rates will remain unchanged from the levels at the beginning of the fourth quarter.

In closing, we look forward to giving you fiscal '21 guidance on our Q4 earnings call in February. Now we are happy to take your questions. To keep the call on schedule, we're going to ask that you please limit your questions to one per person. Thanks, and will now open it up for questions.

Question-and-Answer Session

Operator

Thank you [Operator Instructions]. Our first question today is from Alexandra Walvis.

Alexandra Walvis

My question is on the investment that you made in Russia. Can you talk a little bit about the decision-making process behind that? Why, this market in particular, where you see the growth potential? And how are you thinking about the sort of build versus buy when thinking about new retail formats? Thanks so much.

Ernie Herrman

The first thing is, you know this, like anything we approach we felt this was a terrific opportunity to become a strategic investor and a business that is pretty much what our off-price and apparel and home fashions business is. So it was a great opportunity for us. It allows us, as you look down the road, a strong financial profile where we see a slightly accretive addition to our earnings beginning in fiscal 2021.

But when you boil it down, one of the things that really hit us when we were first engaged with looking at Familia is the DNA of that business is very similar to the way they approach the business, very similar to what we do. You have a strong financial profile where they have profitable margins, low cost structure. They have significant store growth potential with more than 275 stores today, including nearly 50 stores opening in 2019, so you start adding all of these aspects, and by the way, we did a tremendous amount of due diligence.

So Scott Goldenberg, Doug Mezy, who is our Senior Executive Vice President and we had Glenn Brenner. We had a whole team that really engaged, did multiple visits. We had Bank of America involved, advising us, PWC. We really were highly engaged on all facets of it, strong management team. I'll tell you one thing that to the core, which was important to us is the relationships that we established during the process. We could tell that their merchant teams were compatible with our merchant teams. In fact, they had set themselves over there with a 100 buyers already in place, and a strong heads of buyers which we love to see, because we're very merchant focused. Everything in that model over there as they continue to gain market share in Russia, just screams out that it's very much a nice TJX relationship and investment on our part. Scott, I don't know if you have anything to add…

Scott Goldenberg

So just to echo a few things, Ernie talked about important stuff in merchandizing, a lot of families of businesses are similar but there's lot of categories that they still can, both expand and new ones to go in, so we both a lot of great opportunities ahead. But also from -- as a finance guy there, we love their strong balance sheet, their operating cash flow. They finance all of their working capital and store growth from internally generated funds. So love that characteristic about it and still have room to pay a dividend, so well of the financial characteristics.

And just in terms of Russia, again, Ernie mentioned the number of stores. There is a lot of white space to open up, and they are really the only effectively off-price retailer in Russia.

Ernie Herrman

Alexandra, they're expecting to add a similar number of stores over the next three to five years, which is very exciting. And just so you understand, as we move forward, Scott Goldenberg is actually going to be a Board observer and Doug Mizzi will have a seat on their board. Doug Mizzi again, who is our Senior Executive Vice President, who oversees Canada and Australia. So we will have a continued strong relationship in terms of our investment.

Operator

Thank you. Our next question comes from Matthew Boss.

Matthew Boss

Ernie, I guess, strongest two-year stack in seven years at Marmaxx, again, despite the highly competitive and promotional backdrop that we're hearing from other retailers. Can you speak to some of the wins that you're seeing across both apparel and home that's really driving this consistent momentum? And anything you particularly highlight as opportunity as we look into the fourth quarter and holiday?

Ernie Herrman

Yes, the two-year stack was strong. I would like to say, which of course, I would do with the teams here. Not as strong as maybe it looks on the two-year stack, because the last year number in Marmaxx was up against a relatively weak number, the third quarter before and full transparency. So having said that, yes, even if we added all three years, as we've done extremely well on our third quarters here, these past two quarters particularly have been driven I think by a branded content and opportunistic. As I mentioned in the beginning of the script, what we'd like Matthew is the availability across a lot of good, better, best brands across numerous families of business in the store, has allowed us and it's really started last year in that third quarter. We've been able to go after a lot of brands within all the different families of business and apparel particularly.

Home has been -- and yes, our home business has been very healthy as well. And I think our teams have done a really good job there going after the category trends there. So less about the brands in our home business and more about the category trends, which I think have been integral to why we've been putting increases on top of the increases.

One of the -- and you're talking about Marmaxx. Ironically, one of the things that I just mentioned in terms of that branded content and the branded push we've been having. We feel it's important in every one of the divisions in TJX to keep us differentiate in every geographic area that we're in. So Marmaxx has certainly been the epitome of that, I would say, in the last quarter. But Europe has really had a similar push and more availability on that front and great execution on the categories there in apparel and home as well.

And as we go to fourth quarter, I think that was kind of the second part of your question. What we're looking for there, because of the branded content has been so good in a lot of the apparel areas. Oh, by the way, accessories, it's been excellent too, for us; women's accessories as well. Those areas tend to be strong giftable areas for holiday. And so we see the momentum. We've made a lot of the buys for holiday in those areas, obviously, by this point in time. And we have great visibility into that branded, more branded than ever content going into fourth quarter. So great question.

Scott Goldenberg

Matt, the only thing I would add to what Ernie said is just the, like we've seen for, when business is very good and we have the higher comps, is the consistency of the comps across almost all of the regions in the United States and the consistency among on all of our types of stores, the suburban, ex-urban, et cetera. So I think it's the consistency of the comps as well that bodes well for lifting the overall comp.

Matthew Boss

And then Scott, maybe just on SG&A. Well, I know, you're not providing formal guidance today. Just any puts and takes to consider on the expense line as we look ahead, I think would be really helpful.

Scott Goldenberg

Again, no real changes to what we've talked about before. I mean, the supply chain cost, both for this year and going forward is still is the biggest one had mostly having to do with building out our infrastructure investments. But no real changes, wage, all the other ones are similar. Wild cards, obviously, are tariffs, FX, et cetera. And the only other one I would talk about would be probably a little better than what we thought is freight costs due to some of our own strategies that we put in place plus the renewal when we had some of our contract renewals that we said would happen at the end of the third quarter were a little better than we would have thought on some of the inbound freight and some of the outbound freight in terms of what we've been trending. So I think the positive news there. But overall, nothing significantly different than what we've talked about and elaborated on last quarter.

Ernie Herrman

And Matt, I would just like to -- I'm going to circle back also to your question, because one of the thing hit me on the two year stack in Marmaxx. One of the things they've done that's been really terrific, I think I've discussed this with many of you in the past, is the planning organization there that flows the merchandise, we've been chasing a trend. So the buying team and the planning team have just done a great job at staying on top of the sales trend by region of the country and by family of business.

So Scott was talking about how the regions have all been healthy. Sales by category have been widespread, but the planning area in Marmaxx I think has done an outstanding job of being able to flow to the sales above plan, because that's not always easy. It's very complicated. And I give our buying teams in Marmaxx and our planning teams, a lot of credit to be able to chase a sales trend that was clearly higher than what we planned it to be.

Operator

Thank you. Our next question is from Kimberly Greenberger.

Kimberly Greenberger

I just wanted to ask about tariffs, Scott, if I could. It seems like the fourth quarter gross margin guidance, which does include tariff impact, is for sort of flat to 20 basis points of declining gross margin. It seems really quite modest. So were there some remediation efforts you were able to put into place? I guess, I just would have thought maybe there would be a little bit more pressure, but that you guys seem to be managing through it very nicely so far.

Scott Goldenberg

Yes. I mean, I'll start and then Ernie will jump in. Yes, so overall in the fourth quarter, some of what we've been seeing both in the third and fourth quarter, third quarter and what we think in the fourth quarter is we had improvement in markdowns due to the better sales in the third quarter. We see some opportunity there in the fourth quarter as well. We have seen better buying as well as we move through the third and fourth quarter. Tariffs that we did have more tariff expense due to some of the changes in tariff legislation but mostly, the bigger piece had to do with -- as we committed to goods there were more tariffs that we had to spend.

We also, compared to the freight cost as I mentioned just earlier, have come down slightly. So there's less freight costs in the fourth quarter than what we would have seen in the first -- certainly, the first three quarters of the year. So yes, the margins are planned up and would have been up a bit more evenly as we split some FX pressure, primarily internationally. But yes, I think there has been better buying. And Ernie, you can talk about it a bit.

Ernie Herrman

One the benefits that we had is we believe that a lot of vendors have been bringing goods earlier this year, which has been advantage of us and has helped us in the third quarter to mitigate tariffs as such. The issue unfortunately going forward into 2020 is more challenging than that, because we don't have as much visibility as we move forward into next year as to whether or not we can keep mitigating like we have. It remains to be seen what happens with the vendor and competitor pricing.

Consumer demand, potential tariff pass through. And we have so much of fiscal '21 that is not committed to versus currently where we have the visibility for this fourth quarter, so much over the next year. We have just a small portion committed to that, it's kind of up in the air, and we're a little suspect as to what we can mitigate for next year. As well as we also unfortunately know that on some of our direct imports, which in the scheme of things isn't huge number. We know we are getting here with tariffs on those. So I have to tell you that for next year, it's a bit of a wait and see, again, until we start to get a little closer to that time period and see what happens with the vendors.

Kimberly Greenberger

Does that your commentary, particularly regarding vendors and their behavior with bringing goods in early? Does that relate to your comments at the end of Q2 or on the Q2 call where you talked about the product availability out in the marketplace is basically some of the best that you've even seen? And does that remain the case?

Ernie Herrman

So I think that has been a help. To the degree, I would say it is not a major driver though. So when we go to our European markets, Canada, here all the markets have had way more goods and it's in categories with the tariffs actually. It's like, yes, some where tariffs are and a lot where tariffs aren't. So that would tell us that it's just a general availability through the roof. I still think some of that, Kimberly, relates to the e-com businesses around the board, because the e-com business, as I think many have been off their projections on sales, and that is creating -- it's less the department stores, it's more the e-com business creating more spill off of merchandise. And I do believe a little component of that might have been tariffs coming in early. But it's beyond what that number would have been.

Operator

Thank you. And our next question is from Paul Lejuez.

Paul Lejuez

Can you talk about the performance with Homesense, and what you might be seeing in terms of cannibalization of the HomeGoods concepts where those two go head-to-head in the same market? Also, curious how you're thinking now that you've got 20 something the Homesense stores, about the best location for Homesense and where it should play relative to HomeGoods in the market? And any early view on how many you might be opening next year? Thanks.

Ernie Herrman

Paul, I'll start and then Scott can talk to maybe next year stores. But in terms of the cannibalization, what start off as --. So first of all, our Homesense sales had tapered off for a little bit weren't as strong as we had hoped. Part of that is some of the categories that were weak in HomeGoods were also weak in HomeSense. So that was holding us back. In terms of the actual transfer sales, we've seen in total about where we planned it to be.

And what it is is the nearby stores have actually had a little less transfer, but stores are little further away than the nearby HomeGoods, because HomeGoods trades -- HomeSense draws from a large radius as is HomeGoods, by the way, more so than a Marmaxx. It was hitting some of the other stores. So in total, we end up with almost identical to what our transfer sales have been planned after cannibalization. So I would say on that front, pretty much on plan. We, in terms of store opening, Scott, do you want to talk about where we're at, which as I…?

Scott Goldenberg

We really, Paul, haven't given any guidance at this point in terms of any of the store openings we're doing next year, so still going to have a healthy number of both overall stores for HomeGoods and all that. I would say that our new store openings, in just general thinking about HomeSense HomeGoods, is pretty much on our pro forma or better, so we like what we're seeing, both on our HomeGoods stores.

HomeSense stores, I think, the one thing we had to do is still work to be done. One thing we have not seen when we were contemplating the model was the amount of wage, freight and certainly in tariff impact, as Ernie has mentioned, a little more impacts for home business. So I think those were pressures that were non-contemplated where we first created the model.

Having said that, a lot of work has been done too, and we've seen the results of improving the operational side of the business in terms of some of the expense management has continued to get better. Our margins are continuing to improve. And I think still work to be done, but all moving in the right direction. I think the differentiation in all that is what we would have expected. So I still, as Ernie said, I think, we still think we have lot of room we can improve on the sales and still on operating. But overall, feel pretty good about, like I think as we've seen recently in just home businesses in those categories, were certainly a little bit hit harder in the HomeSense than even the general HomeGoods business.

Paul Lejuez

Just one follow up on Familia. Do you have an option to buy a larger stake at a certain price as part of this initial investment? Thanks.

Scott Goldenberg

We're not going to comment on any of the details. I think overtime we could buy more, but not going into go into any of the -- any further at this point. Obviously, we like what we've done and that's about all we'll comment on now.

Operator

Thank you. Our next question is from Kate Fitzsimons.

Kate Fitzsimons

My question is on inventory. Could you just speak to your overall inventory strategies? Inventories were up 13%. Should we think about a greater pack away number pushing that inventory balance higher year-on-year, just given what you are seeing with the buying environment? And at 9% on a per store basis, there was a mention at later flows in your prepared commentary. Just any color on how you're thinking about product flow plans for the fourth quarter, and how we should think about that inventory that would be great. Thank you.

Ernie Herrman

So this is -- there is a few different reasons why we're very comfortable with where we are. First thing is, the inventories are up. Yes, there's a little bit more packaway. That is not the drivers though. It is not that big of a number in the scheme of things. Part of this is -- we had a couple of years where actually our sales were ahead of our inventory growth.

So, we are playing a little bit of a catch-up there. But, the number one reason is we're chasing the trend of our business with a market that has been absolutely loaded with goods that we want to take advantage of. And this is really the time when the ultimate opportunistic approach of TJX really comes through. So, this is like primetime for us to say, okay, we are going to -- because we logistically are set up with one of the few retailers, who can flow goods to the stores differently than we own them in DCs. So, what we're able to do right now is even some of it wasn't a packaway, we're able to buy very aggressive if we think the deal at the right cost and at the right retail provides an exciting deal, chase the trend. And the trend in Marmaxx specifically has just been so strong that you'd want to keep doing that, obviously. And that's a big driver of that inventory number you're talking about. And then, this allows us to really try to maximize the sales as we go into fourth quarter off of a strong, as you heard about our two-year stack that I think Matt had asked about back in the beginning, that allows us to continue to kind of propel for a healthy two-year stacks as we go forward. And if we end up a little long in something, some of these goods could become packaway, because we bought it so advantageously.

So, it's really the ultimate chasing of the business trend. Also, there's a little of the compressed holiday selling window that's entering into play. I think, that's a piece that said, hey, we're better off having this little bit of a reserve inventory to kind of drive the top-line. And again, start with the fact that we're able to buy these goods at advantageous costs.

Scott Goldenberg

Yes. The only thing I'd add to what Ernie said, so we liked what we did last year with a little bit more enhanced flow. And this year, I think, we took a step above that. So, it didn't cause the third quarter ending inventories and to be higher. It's not affecting our operational business. This would be obviously more staged in our distribution centers, waiting to be flowed out to the stores. And as you can see in our third quarter, as we talked about our per store inventories, where we wanted to be, particularly at Marmaxx, and our markdown rates came down. So, we feel good about the overall management and go forward. Obviously, I think, it will come down. But, there will still be more packaways likely at the end of this year, when we end the year than what we had in a prior year.

Operator

Our next question is from Jay Sole.

Jay Sole

A lot of retailers talked about how maybe August was okay, but September was really tough because of weather. It just sounds like from the comp at Marmaxx that you didn't see that kind of trend. Was that the case? Like, can you talk about maybe what you saw by month and why maybe you weren't impacted by warm weather or whatever was going on in September?

Ernie Herrman

Jay, we don't break it down by month. But, what I can tell you is we had a fairly consistently healthy quarter in that sales -- it wasn't one of these quarters where it was like up and down. It was just pretty consistent. So, again, we don't give breakdowns by month, but it was consistent.

Jay Sole

And then, maybe if you can just talk a little bit about just the -- little bit more on the transportation cost. I know you sort of said it came a little bit better. Do you -- maybe, is it possible to dimensionalize like how transportation costs, when you renewed those contracts, changed on a year-over-year basis, just maybe directionally?

Ernie Herrman

Yes. I'm not going to unpack it all. But, the biggest piece for us was on our inbound rates were significantly less than what we had planned. Again, there was a step down on the outbound rates, but less to do with the negotiations with just a bit of a natural dropdown on what those increases were. So, that was the biggest driver. Fuel costs have been not a big factor. I think, one of the things -- we're not going to go too much into -- overall, the rest of the rates, whether they were ocean rates or intermodal rates, still had low the mid-single-digit increases, so no real change there. The one wildcard for next year, which is to be determined [ph] is the ocean freight, in ocean freight, there's going to be some requirements for a low sulfur fuel to be determined when that's going to go into effect, but it could have some higher rates on the ocean freight next year. But overall, it was really -- it was the truckload deliveries on the inbound that were the biggest savings. And that's really what it is. So, that's it, Jay, on that.

Operator

Your next question is from Omar Saad.

Omar Saad

Ernie, I wanted to ask you a follow-up to one of the comments you made about the inventory availability at the end of the quarter being really good. You made a comment that a lot of it is coming from the e-commerce channel. I'm trying to understand exactly what that dynamic is. Is its traditional retailers e-commerce businesses that are overstocked in those DCs are ending with too much inventory or are you seeing it from pure e-commerce businesses? Maybe help unpack what you meant by that. I would appreciate it.

Ernie Herrman

So, Omar, across all fronts, so what you have is you have your vertical -- and here's the good news, it's fairly widespread. So, you have your vertical e-com players, so brands that have their own e-com sites, difficult for -- I would, by the way -- and I would lump all e-com players into the challenge and their defense predicting me -- remember most -- almost all the goods they're selling on their websites are imported goods with long lead times. So, they are trying to predict e-com sales by category and item, not so easy to do. They don't have all the years of history that brick and mortar retailer would have. And it's always been a little bit more volatile for those guys to try to predict their needs relative to -- and that's on a category or an item and on their needs. And that whole challenge applies really to the vertical e-com players as well as the guys that have brick and mortar and e-com sites, because you're still running into a challenge of being long on certain categories because the need -- the sales just haven't been what you thought.

By the way, doesn't mean they don't have categories where they -- sales were better than they thought and they didn't have enough, right, in total. In total it’s just -- because there were so many e-com players now spread out across the board, it is yielded from whether the vertical guys or the multichannel guys that has yielded -- and by the way that applies to whether it's accessory categories or apparel categories, hard lines, I would say, there is a growing chunk of our off-price buys are coming from that channel, and those are the reasons. If you were kind of wanted -- if you spent a week in one of those offices there in e-com, you’d see how -- where you are placing goods so far ahead on a website and trying to predict the need, it’s just very difficult. And most of them are on a high growth pattern, which adds to the volatility of their ability to project.

Omar Saad

This is really helpful insight. Fair enough. Thank you very much. It's really helpful, Ernie. Thanks. Good luck.

Ernie Herrman

Okay.

Operator

Thank you. And our next question is from Mark Altschwager.

Mark Altschwager

You had a nice change in trajectory in the HomeGoods operating margin in the quarter. You raised your guidance there for the year. I was hoping you just a little bit more about the drivers to that performance and the upside to your expectations. And, how should we be thinking about the margin trajectory on HomeGoods from here?

Scott Goldenberg

I'll jump in Mark for a second on that. I think, similar to what Ernie is just saying about the buying environment, I think, HomeGoods has taken advantage all year, particularly in the third quarter of buying better than what was planned, even despite having as Ernie indicated, higher tariff impacts, but we -- certainly a lot better buying. We were able to leverage some on the markdown line, even with the one comp, some of that's a technical opportunity versus the prior. But nonetheless, we controlled the inventory very well. So, merchandise margins were certainly a big factor there.

As we said also, when we did the first call at the beginning of the year that the supply chain costs and the freight costs would be more first half weighted. And the supply chain piece of it was going to be a bigger impact in the first two quarters because we cycled the opening of the Cataract, [ph] in New Jersey distribution opening in the third quarter. So, started to see that drop a bit. So, that was a piece of it and the freight costs are going to be lower in the back half of the year than the first half. So, those three components made up the rest. And then, I would say HomeGoods did a particularly good job on the lower than planned comp of mitigating and doing a great job of expense management.

So, that was substantially better than what we had thought. So, the combination of expense management, the lower change in the supply-chain and the freight and the better merchandise margin due to better buying primarily was the difference between the third quarter and the first half of the year.

Mark Altschwager

Thank you. And then, on HomeGoods, I know you talked about some of the inventory mix being a drag on that comp last quarter. Do you feel like you’ve worked through that -- some of the suboptimal inventory as you head into the fourth quarter?

Ernie Herrman

Yes. Mark, I would say we actually still have work to do on some of those areas and departments that we have not been happy with the execution. So, stay tuned on that. I think, we have a lot of work to do. We have other areas that I think have actually ticked up and that's where you’re getting the sequential improvement. In those other areas, I would say we’re still not happy with where we are and hoping more by the first quarter that we would have those more straightened out. So, yes, still more work to be done. I’m very happy with the way we’re entering the quarter in total in terms of better momentum than where we were six months ago, but not really specifically in those categories.

Mark Altschwager

Thank you. And best of luck.

Ernie Herrman

Thank you.

Operator

Thank you. And our next question is from Lorraine Hutchinson.

Lorraine Hutchinson

Thanks. Good morning. Do you see any opportunities to take price to offset some of the tariff pressure next year, or should we model tariff offsetting any easing of freight costs, as we look to fiscal 2021?

Ernie Herrman

Hi, Lorraine. Actually, we do not see that at all for the next year. In terms of tariffs, we have not moved -- we haven't seen any retails moving in the environment. So, that's part of -- we are going to be the last retailer to ever do any retail adjustments. And we have not seen in any of the categories an ability on our part because we haven't seen it in the competition. We haven't seen any retail strangely enough going up. Some of the categories where -- and specifically in the home area where the tariffs have hit, are actually areas that are under pressure in terms of value. And we probably wouldn't be the -- there is some of the less likely areas that we could actually raise retails. We would like -- by the way, we would like to, I wish that was the case. And so, as a result, when you go to the next year, again, this is why we are apprehensive about saying that we can mitigate the tariffs because it could be a challenge based on the lack of a visibility that we have now right now. It's just having us on the standby, the standby mode. And we really don't want to commit to being able to mitigate, at least not today.

Lorraine Hutchinson

And then, do you have any insight or guardrails around how next year's earnings growth could look in those scenarios?

Scott Goldenberg

Yes. I'll jump in, Lorraine. Yes. So, I think, basically, since we haven't -- as Ernie has said, we haven't bought the vast majority of the goods, it's still early to tell. There is just too much volatility and what could or could not happen with the pricing. So, we'll comment it, obviously, on that we get to the next call when three plus months from now we should have a better indication of what we'll have, at least a meaningful amount of buying, having taken place. So, not the answer you probably want to hear, but we're not going to barely go through any scenarios or give any guidance at this point in time.

Lorraine Hutchinson

Thank you.

Operator

Thank you. Our next question is from John Kernan.

John Kernan

Good morning, guys. And thanks and congrats on all the moment as we head into next year.

Ernie Herrman

Thank you.

John Kernan

Scott, a question on SG&A. You've made quite a few investments in supply chain this year, both on the SG&A as well as CapEx. Just wondering how that effects your ability to leverage SG&A as we go into next year and just how we should thematically think about SG&A as a source of long-term margin upside?

Scott Goldenberg

Yes. Again, not commenting too much about next year guidance, supply chain, most of our -- we spend a lot of money, a lot of it's in remodelling our stores, opening new stores, opening new distribution centers in the short-term to medium-term. The growth on adding new distribution centers is still a deleverage point for us, it should be a similar amount. And that's about all we're going to say long -- and we're not really going to answer the longer term piece of it at this point. So, it's -- I don't want to comment on what may or may not happen several years from now. At the moment, I would just say, same thing I said in the last call, looks to be a similar amount of deleverage, at least just specifically talking about supply chain.

John Kernan

Any color you can give us on CapEx in terms of where that -- the direction into next year, obviously stepped up a bit this year, I think related to some of the supply chain investments?

Scott Goldenberg

Again, too early to make the call. I mean, we stepped up our capital this year, a couple hundred million, but it looks to be at this point, less than what we thought. We think, our cash position will be a bit better than what we thought. That's really due to a combination of a lot of factors. So, I think CapEx will be -- probably would not be that much different into what we had planned it for this year. I think, this year will end up less, which means will just be a timing of capital moving for projects that didn't get done this year into next year. So, but we're not going to give a specific number. I would say this year's number is a good guide to what we would do next year.

Operator

And we do have time for one final question. Our last question today is from Bob Drbul.

Bob Drbul

Just wondering if you could comment on TK Maxx in the UK and what's happening there. And I'm not sure, if you gave this, but the mix for the Russian investment in terms of the merchandise mix, vendor overlap in terms of apparel, just sort of how that shakes out versus where you guys are today? Thanks.

Ernie Herrman

Sure. Bob, on the TK Maxx business, we couldn't be happier, obviously. The one thing we -- in the earlier release and the script that we can’t highlight as much as I'd like to talk to right now with you is just the market share that we keep capturing. And it's just been off the charts if you start actually looking at what's happening in retail over there. And again, I would go back to our teams have just done a fantastic job. And that goes from every portion from their logistics, from their flow and their planning area there, similar as to what I mentioned at Marmaxx earlier. They have kept not easy to drive the sales trend to those comps when you -- again, as you know, culturally in this Company, we plan conservatively. And they are right now running strongly ahead of what the conservative plans are. That requires a buying team and a merchandise planning team and a store execution and logistics, DCs, marketing team. Scott, of course would say a finance team as well, that would all be contributing to a strong trend there that is really right now performing very well.

So, just very happy with, again, in terms of the mix you were asking about, it really goes back to what I said in the beginning though. They have just delivered, in their case, more of the better and best branded goods. So, yes, it's across almost every family of business. I happened to just be there a week ago. And when I was in the stores, I was just seeing with the teams we were looking at the branded content throughout the different categories of goods. And I really haven't seen it to that level really ever before on one of my visits over there. And Scott's actually been there recently. I think he and his guys have seen the same thing. Scott?

Scott Goldenberg

Yes. I'd just jump in. I'm not going to comment on the merchandise content. But, in terms of the overall, I mean, some of the other factors we just love, what we see there's that conversion has been great across all of their markets. The performance, like we talked about Marmaxx across consistent -- really consistent across all of the countries that we do business there. The new stores are performing well. We're opening a lot of vendors, which I think Ernie was alluding to. Some of it's due to e-commerce. Vendors -- one of the things that we particularly like and have alluded to earnings, talking about the market share, but our performance versus the best we can determine versus retailers, whether it's in Europe or the UK, that outperformance, particularly in the UK is strikingly better and is also much, much better than the European retailers. So, love that. We've maintained that delta.

And we've done a pretty good job in the last two years of maintaining our margins compared to what a lot of other retailers in Europe have done with the pressure that's been due to -- with both Brexit, wage, and the FX impact, which they have a lot and the currency. So, feel real good about how we've held up. And certainly, as Ernie commented, the number one thing being this great top line sales. So, yes, feel real good about our business going into the holiday season.

Ernie Herrman

And then, your part B, Bob, I think was on Familia’s mix. Right now, we wouldn't comment on how much it overlaps or not. I will tell you -- and I think Scott said this in the beginning, they do run a full line store, similar to what we do. And they have home division; they have multi families of business. And I think there's some obviously vendors that would overlap and a fair amount that don't. But again, we think it's a good relationship.

Scott Goldenberg

Yes. I think, yes, two things I just want to add on that. There is, I think plenty of merchandise, same thing we would say here with us and competitors, and there's plenty of merchandise availability in Europe as well. But, one thing I just do want to also add is our e-com business in the UK is particularly strong in combination with the strong brick and mortar. We're almost -- we have bridged the 7% of UK sales on our e-com with strong brick and mortar, so that you feel real pleased with how we're doing both segments there. And almost 50% of goods that are ordered are Click and Collect. So again, that's something that a bit differentiated there with our e-commerce business.

Ernie Herrman

And one of the pluses, as you know, we talk about here is our e-com business, we purposely keep it differentiated, so that we don't cannibalize our stores as much. So, over there, maybe not as differentiated as here, but still differentiated with the goal of having the customer shuffle.

So, I think that was our last question. And we've enjoyed the call. Thank you all for joining us today. We look forward to updating you on our fourth quarter earnings call in February. Thank you, everybody.

Operator

Ladies and gentlemen, that concludes your conference call for today. You may all disconnect, and thank you for participating.