

Ticker: BURL
Sector: Consumer Cyclical
Industry: Apparel Retail

Intrinsic Value: \$265.77
Current Price: \$248.00
Stop Loss: \$210.80 (15%)

TTM P/E: 38.93x
Forward P/E: 30.03x
Beta: 1.63

Market Cap: 17.086B
Dividend Yield: N/A
52 Week Range: 115.66-282.49

Burlington Stores, Inc.

Business Summary:

Burlington is an off-price retailer that currently operates 1007 stores in the US and Puerto Rico. Burlington offers merchandise at up to 60% off other standard retail prices. Their products include apparel (women, men, children, baby), beauty, footwear, accessories, home goods, toys, and coats. Merchandise is first-quality, current brand, and labeled. Burlington acquires inventory directly from nationally recognized manufacturers and other suppliers through “opportunistic purchasing” which is the process of purchasing excess stock from suppliers at discounts.

Industry Trends:

Off-price retail is a growing industry driven by multiple factors. Economic fluctuations tend to drive changes within this industry. In periods of economic depression, lower income customer segments hold back on discretionary spending while higher income shoppers may “trade-down” and start shopping at discount retailers. This means changes in the economy impact the customer mix in this industry. Additionally, social media allows shoppers to get an inside peak into the “hidden treasures” within the stores, driving curiosity and a sense of urgency within customers. Finally, as sustainability become more relevant, customers appreciate that these retailers give a “second life” to excess merchandise.

Investment Thesis:

Burlington’s strong pipeline of new store locations, commitment to improving utilization of store square footage, and initiative to target more “trade-down” customers make Burlington a compelling investment opportunity.

Five Year Historic Stock Performance:



Competitive Analysis:

The off-price retail industry is dominated by three main competitors: TJX, Ross Stores, and Burlington. Burlington is the smallest of the three and compared to the other stores, targets a lower income customer segment and prioritizes “trend chasing” more than the other to ensure inventory meets customer needs.

Pros:

Intrinsic valuation shows current price is undervalued.

The off-price retail market is expected to grow at an 8.5% CAGR over the next 4-5 years.

Burlington’s small store base means they have plenty of room for expansion of their stores and can focus on creating more operationally efficient storefronts.

Risk Factors:

Uncertainty of supply: Burlington doesn’t have set contracts with suppliers meaning they don’t have consistent, guaranteed inventory.

E-commerce: More online shopping option threaten Burlington’s ability to win customers.

Cannibalization: As Burlington executes their plans to expand their store base, they may end up eroding their current customer base.

Implied Equity Value and Share Price	
PV of Cash Flows	\$ 4,658,215.2
PV Terminal Value	\$ 20,008,871.4
Enterprise Value	\$ 24,667,086.6
Plus: Cash and Cash Equivalents	925,359.0
Less: Total Debt	1,394,942.0
Implied Equity Value	\$ 24,197,503.6
Fully Diluted Shares Outstanding	63,662
Implied Share Price	\$ 380.09
Current Stock Price	248.00
Margin of Safety	53.26%

Sensitivity Analysis of Implied Price						
		WACC				
		8.5%	8.8%	9.0%	9.3%	9.5%
PCR	2.50%	\$ 386.96	\$ 370.08	\$ 354.51	\$ 340.10	\$ 326.73
	2.75%	\$ 401.69	\$ 383.50	\$ 366.79	\$ 351.36	\$ 337.09
	3.00%	\$ 417.76	\$ 398.10	\$ 380.09	\$ 363.53	\$ 348.26
	3.25%	\$ 435.35	\$ 414.02	\$ 394.55	\$ 376.72	\$ 360.32
	3.50%	\$ 454.71	\$ 431.46	\$ 410.33	\$ 391.05	\$ 373.38

Comparative Analysis

	EV/LTM EBITDA	P/E	EPS	LTM Gross Margin	LTM Net Profit Margin
BURL	11.3x	37.0x	6.64	43.1%	4.2%
TJX	12.8x	28.0x	4.13	36.6%	8.6%
ROST	12.5x	23.7x	6.2	32.5%	9.8%
TGT	8.7x	15.6x	9.69	28.4%	4.2%
M	4.2x	23.6x	0.65	41.0%	0.1%
JWN	4.8x	12.7x	1.73	36.5%	1.9%

ESG Analysis

Environmental

The off-price business model promotes sustainability by giving a “second life” to clothing that would otherwise be thrown away, reducing excess waste.

Burlington has goals to reduce overall GHG Emissions in the long term.

Social

Burlington provides a quality environment for employees as a certified “Great Place to Work.” Burlington is committed to ethical sourcing and performs social compliance audits with suppliers.

Governance

Compensation is aligned with performance, and Directors undergo annual self-evaluations. The Board of Directors oversees Corporate Social Responsibility (CSR) matters through dedicated committees.

