

March, 31, 2017

Burlington Stores, Inc.: BURL

Michael Capozzi

Sector: Services

Industry: Discount, Variety Stores

Current Price: \$96.05

Target Price: \$110.42

Company Description: Burlington Stores, Inc. is a retailer of branded apparel products in 40 states and Puerto Rico. Their merchandise includes ladies sportswear, menswear, youth apparel, baby furniture, footwear, accessories, home décor and gifts, and coats.

BUY

Current Price: \$96.05
 Target Price: \$110.42
 Market Cap: 6.7B
 Beta: 0.18
 52 week range: \$51.19-\$97.94
 Average Volume: 916,818
 WACC: 9.5%
 EBITDA Margin: 10.32%
 D/E Ratio: 0.2



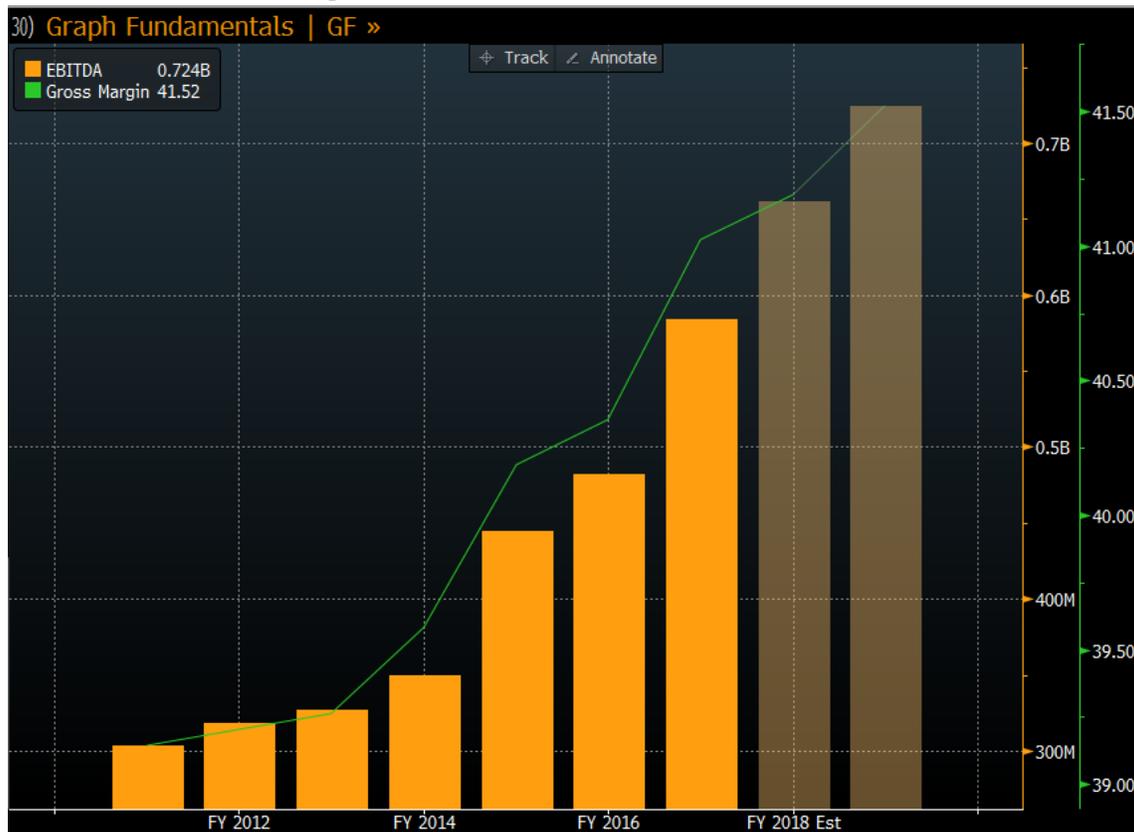
Thesis: Burlington Stores Inc. has been able to create significant value in an industry that has proved otherwise. They have continued to increase revenues for the last 5 fiscal years. 2016 proved to be another successful year for the company, increasing revenues 6% and increasing EPS 40.4%. Margins have also continued to increase due to the successful strategies the company has taken on in recent years. They have been able to steer customers away from the computer and into the stores. They have done this by offering value that not even Amazon can match. While competitors like Macy's and JC Penney's are closing stores, Burlington is opening more. Within their stores they are able to create more revenue per square foot and increase same store sale percentages. The company has been successful in diversifying its products by rebranding itself as a retailer of various clothing and home products. Burlington has also been able to increase margins by reducing inventories through new inventory strategy. Diversity in products have also allowed Burlington to sell products that have higher markups. Due to these factors BURL should have no trouble reaching their target price of \$110.42.

Catalysts:

- Short Term(within the year): Expansion into more diverse products and efficient inventory strategies, will increase revenues and margins
- Medium Term(1-2 years): Introduction of new stores. The company's ability to create more value in their stores than their competitors
- Long Term(3+): Trump's tax benefits can help increase future margins

Earnings Performance:

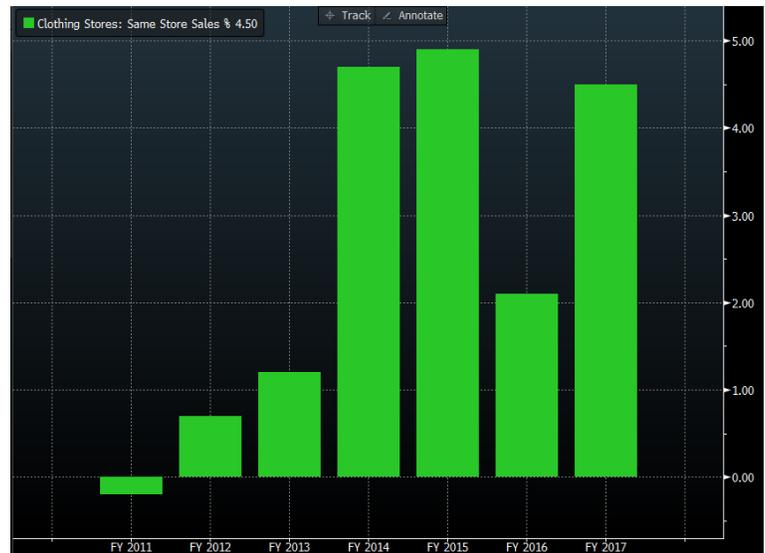
Many analysts may consider BURL to be a growth stock because of its recent earning calls and the way they have positioned themselves for growth in future earnings. The company has continued to record increased revenues for the last 5 years. In 2016, BURL posted a 6% growth in revenues to \$1.3B, while their EPS grew at 40.4%. Net income and cash flows from operating activities also grew at 128% and 8% respectively. These results were due to 4.6% rise in comparable sales and a gross margin increase in gross margins to 42.02% for the three months ending 1/28/17. BURL has also been able to increase EBITDA margins consistently over the last 5 years. For the 12 months ending 1/28/2017, BURL reported EBITDA margins at 10.32. In regards for the upcoming year, forecasters see more growth for BURL. Revenues are estimated \$6.053B. EBITDA and Gross margins are both forecasted to rise in the upcoming year. Their success can be attributed to their ability to increase revenues and keep costs low.



Store Growth:

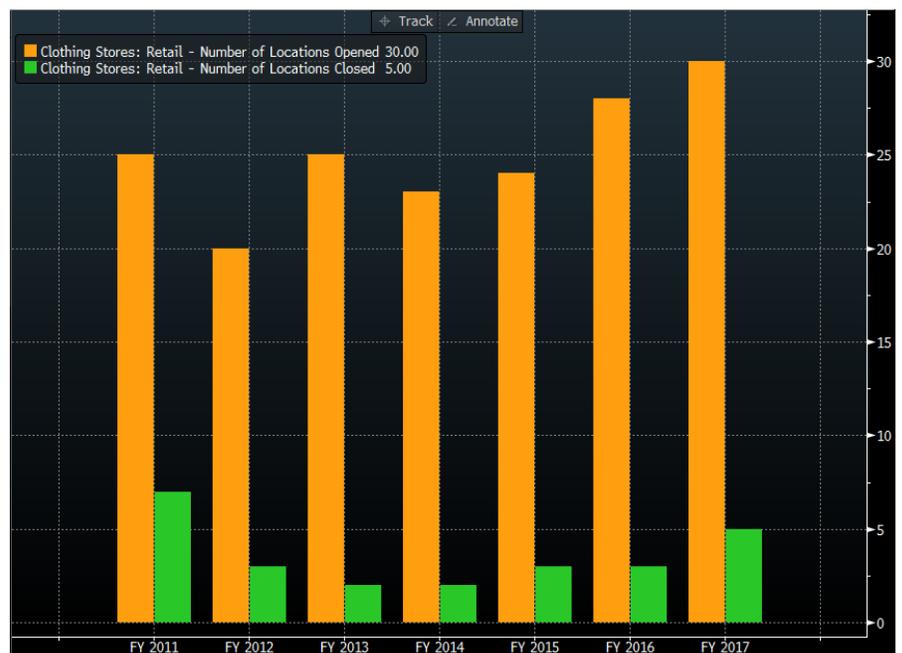
Retail has not proved to be a great industry for investors. Although Burlington has been thriving in a difficult market. They have proved that people are still willing to leave their homes and shop at a physical location. This is because they are able to offer prices on fashionable-focused merchandise that rivals competitors such as Amazon.

This value creation attracts customers to turn to Burlington for their fashion needs. While competitors like Macy's, Sears, and JC Penney's continue to close stores, Burlington plans on opening more. The company added 28 stores and plans on opening an additional 25 in 2017. They currently have 592 locations in 40 states and Puerto Rico. Revenues in existing store have increased in their latest earning report as well. Same store sales percentage, which indicates the increase or decrease in revenues in stores that have existed for over a year, have been consistently increasing despite a slight dip in 2016. Their same store sales increased 4.5% for their last fiscal year reported.



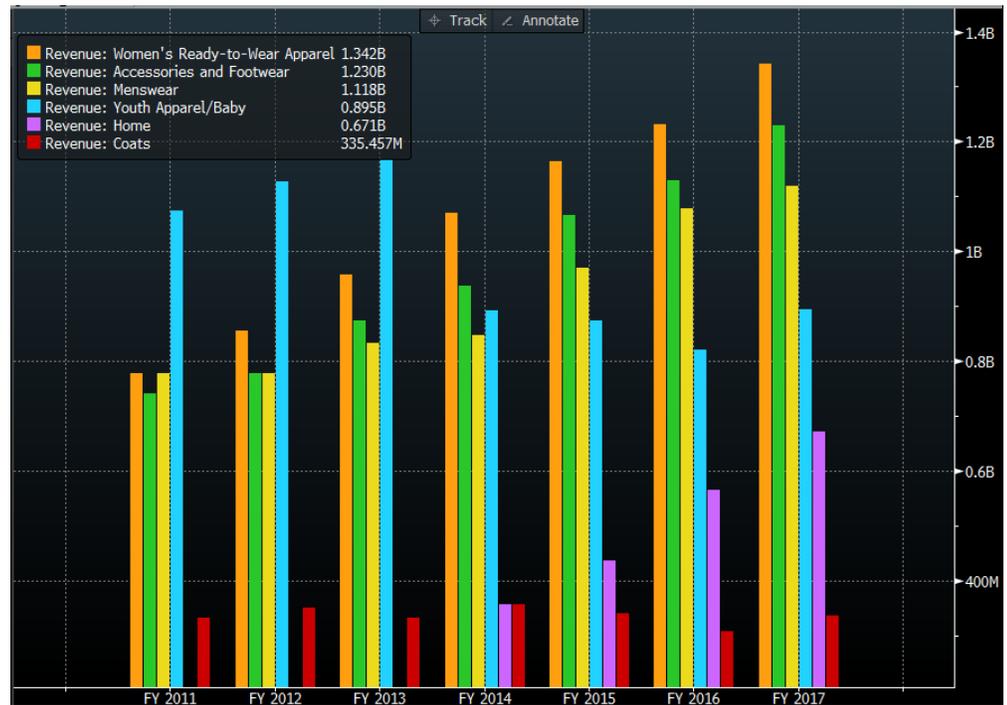
Sales per retail square footage has also increased 5.6% since the previous fiscal year. In comparison to competitors, Macy's has seen a 3.5% decrease and has opened 27 stores, while closing 68. JC Penney's same store sales saw no growth and closed 9 stores, while only opening 9. And Sears, who has probably seen the most trouble over the last few years, has seen a 9.3% decrease in same store sales

Burlington is able to provide value for their customers to travel to a physical location in much better way than their competitors. Even online giant, Amazon, cannot compete. Burlington's sale of winter coats at 75% off was much cheaper than anything Amazon had to offer. And finally, the stores themselves are esthetically pleasing for their customers.



Revenue by Segments:

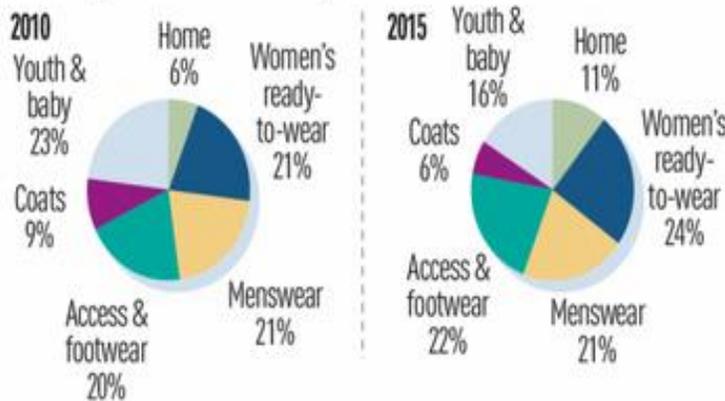
Burlington Stores provide much more than just coats. Their revenues come from women's ready-to-wear apparel, accessories and footwear, menswear, youth apparel/baby, home, and of course coats. The move to rebrand themselves as more than just coats has been a very successful strategy. The ability to do this has helped them avoid being a cyclical company that is only successful in the winter months. In 2010, coats made up 9% of their revenue, today it only makes up 6%. Majority of their sales come from women's ready-to-wear apparel, accessories and footwear, menswear, and youth apparel/baby. This move to focus on other products has benefited margins because of the coat's added inventory costs.



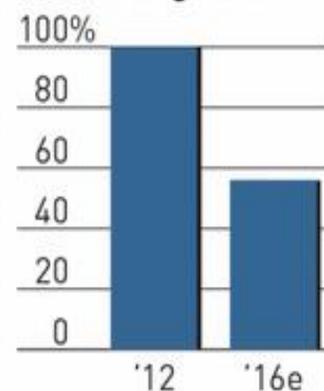
Shedding Coats

Burlington offers more home products and women's apparel while relying less on coats and winter sales for annual profits

Store product makeup



Percentage of annual EPS coming from Q4



Sources: RBC Capital Markets, company reports

Inventories:

Due to Burlington current strategies, they are able to reduce inventories, in turn reducing costs associated with inventory. First, the company has focused less on selling coats, this has ultimately led to lower inventory costs and store sizes for the company. The company has also began to use a “pack away” inventory strategy, which is when a company purchases products on a major discount and then sell them at a later date. Over the last few years, Burlington has been able to increase its inventory turnover from 3.71 to 4.44. The company has also been able to decrease its overall inventory -10.4% compared to the last fiscal year. In comparison, Macy’s inventory turnover has decreased from 3.19 to 2.86 since 2012. Burlington has been able to manage inventories more efficiently than competitors, thus reducing costs.



Profit Margins:

One of Burlington’s most successful strategies, has been to focus on more than just coats. By doing this they have been able to reduce costs, increase revenues, and increase profit margins. Coats have high inventory costs associated with them, as discussed earlier. By reducing the amount of coats in inventory, Burlington has been able to decrease their COGS. They have also been able to offer more products that they can sell at a higher markup. Especially, products like footwear and accessories, which carry huge markups. Gross margins have climbed to 41.02% and EBITDA margins have also increased to 10.32%. In comparison to their competitors, Burlington has been as profitable as or more profitable than their competitors.

Name	GM:Y	EBITDA to Net Sales:Y	OPM:Y
Median	32.33%	9.76%	7.25%
100) BURLINGTON STORES INC	41.02%	10.32%	7.16%
101) ROSS STORES INC	28.70%	16.36%	14.01%
102) TJX COMPANIES INC	28.98%	13.59%	11.62%
103) MACY'S INC	39.40%	9.21%	7.34%
104) J.C. PENNEY CO INC	35.67%	8.00%	3.32%
105) SEARS HOLDINGS CORP	22.04%	-7.24%	-4.76%

Conclusion:

Due to catalysts provided, BURL can continue to create value for investors. More importantly they have been able to create significant value for their customers. Burlington is one of the few companies that can still create value in their stores instead of through e-commerce. This competitive advantage has allowed them open more stores, while their competitors find themselves closing stores. Their consistency in increasing revenues and margins has made this stock a buy for many firms and individual investors. A reasonable target price of around \$110 is very achievable for BURL.

Current Price	\$96.05
Intrinsic Value	\$101.90
Target Price	\$110.42
Target 1 Year Return	14.96%
Probability of Price Increase	82.4%

Burlington Stores, Inc.
(BURL)

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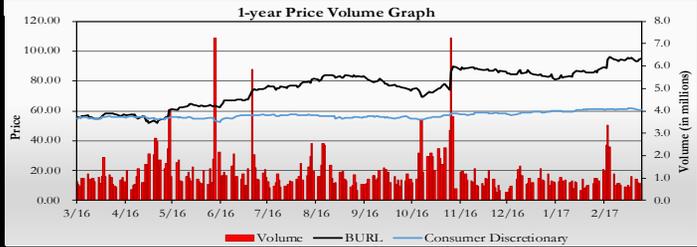
NEUTRAL

Analysis by **Michael Capozzi**
3/28/2017

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Divident Yield: **0.0%**

Intrinsic Value: **\$101.90**
Target Price: **\$110.42**

Target 1 year Return: 14.96%
Probability of Price Increase: 82.4%



Description	
Burlington Stores, Inc. operates as a retailer of branded apparel products in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Specialty Retail
Last Guidance	November 3, 2015
Next earnings date	May 22, 2017
Estimated Country Risk Premium	6.25%
Effective Tax rate	20%
Effective Operating Tax rate	20%

Market Data	
Market Capitalization	\$6,740.86
Daily volume (mil)	0.60
Shares outstanding (mil)	70.18
Diluted shares outstanding (mil)	71.72
% shares held by institutions	74%
% shares held by investments Managers	85%
% shares held by hedge funds	17%
% shares held by insiders	1.48%
Short interest	7.50%
Days to cover short interest	5.68
52 week high	\$97.94
52-week low	\$51.19
Levered Beta	0.54
Volatility	0.00%

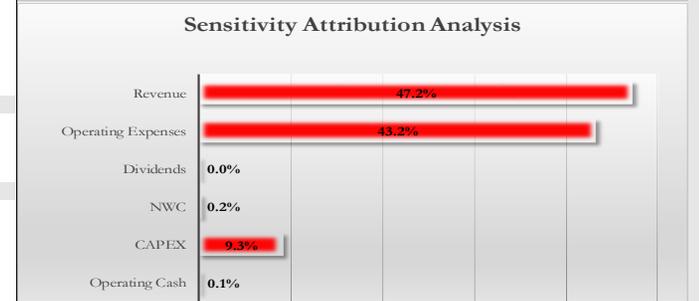
Past Earning Surprises		
Quarter ending	Revenue	EBITDA
1/30/2016	0.71%	-10.45%
4/30/2016	0.29%	-0.44%
7/30/2016	0.68%	8.02%
10/29/2016	0.57%	15.64%
1/28/2017	1.55%	-8.82%
Mean	0.76%	0.79%
Standard error	0.2%	5.0%

Peers	
Urban Outfitters, Inc.	
Coach, Inc.	
The Gap, Inc.	
Ross Stores, Inc.	
L Brands, Inc.	
The TJX Companies, Inc.	
American Eagle Outfitters, Inc.	
Ascena Retail Group, Inc.	



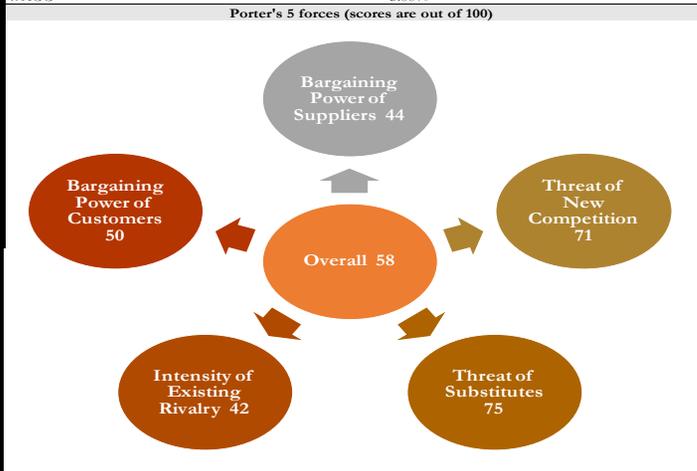
Management	
Kingsbury, Thomas	Chairman, Chief Executive Of
Katz, Marc	Chief Financial Officer and
Hand, Fred	Chief Customer Officer and P
Seeger, Rick	Executive Vice President of
Vecchio, Jennifer	Chief Merchandising Officer
Crimmins, John	Chief Accounting Officer and

Total compensations growth	
-100% per annum over 4y	N/M
-100% per annum over 4y	N/M
-100% per annum over 4y	N/M
-100% per annum over 1y	7.7% per annum over 1y
N/M	0% per annum over 0y
N/M	N/M



Profitability		
BURL (LTM)	BURL (5 years historical average)	Industry (LTM)
ROIC	15.0%	13.87%
NOPAT Margin	9%	9.33%
Revenue/Invested Capital	1.60	1.49
ROE	83.7%	25.03%
Adjusted net margin	7%	6.35%
Revenue/Adjusted Book Value	11.29	3.94
Invested Funds		
BURL (LTM)	BURL (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	2.0%	1.7%
Estimated Operating Cash/Total Capital	2.0%	1.3%
Non-cash working Capital/Total Capital	-3.7%	0.3%
Invested Capital/Total Capital	87.7%	83.8%
Capital Structure		
BURL (LTM)	BURL (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.51	0.73
Cost of Existing Debt	4.82%	6.41%
Estimated Cost of new Borrowing	15.18%	15.18%
CGFS Risk Rating	F	F
Unlevered Beta (LTM)	0.33	0.77
WACC	5.88%	9.07%

Valuation		
Period	Revenue growth	NOPAT margin
Base Year	9.2%	9.4%
1/28/2018	7.6%	6.8%
1/28/2019	4.2%	9.4%
1/28/2020	5.0%	9.2%
1/28/2021	4.1%	10.3%
1/28/2022	4.1%	10.5%
1/28/2023	4.1%	10.9%
1/28/2024	4.1%	11.3%
1/28/2025	4.1%	11.7%
1/28/2026	4.1%	12.1%
1/28/2027	4.1%	12.5%
Continuing Period	4.1%	12.9%
ROIC/WACC		
Base Year		2.56
1/28/2018		1.83
1/28/2019		2.86
1/28/2020		2.11
1/28/2021		2.22
1/28/2022		2.14
1/28/2023		2.11
1/28/2024		2.08
1/28/2025		2.04
1/28/2026		2.01
1/28/2027		1.98
Continuing Period		1.95



Invested Capital		
Period	Invested Capital	Net Claims
Base Year	\$1,992.75	\$3,525.43
1/28/2018	\$1,699.86	\$2,779.10
1/28/2019	\$2,809.06	\$3,136.29
1/28/2020	\$3,184.94	\$2,710.08
1/28/2021	\$3,496.52	\$2,219.41
1/28/2022	\$3,560.35	\$1,700.88
1/28/2023	\$3,109.95	\$1,139.96
1/28/2024	\$4,104.02	\$2.86
1/28/2025	\$4,298.88	-\$637.54
1/28/2026	\$4,516.06	-\$1,325.32
1/28/2027	\$4,741.27	-\$2,061.99
Continuing Period		

Price per share	
Base Year	\$102.26
1/28/2018	\$110.21
1/28/2019	\$120.76
1/28/2020	\$132.49
1/28/2021	\$145.07
1/28/2022	\$158.62
1/28/2023	\$173.24
1/28/2024	\$196.40
1/28/2025	\$213.20
1/28/2026	\$231.29
1/28/2027	\$250.75
Continuing Period	