

**Burlington Corp.**  
NASDAQ:BURL

**Analyst:** Christian  
**Sector:** Henderson  
Retail

**Short**

Price Target: \$28.74 / 92.00

## Key Statistics as of 11/4/2016

Market Price: \$69.24  
Industry: Retail  
Market Cap: \$4,939.6  
52-Week Range: \$39.40 - 87.23  
Beta: 0.39

## Catalysts:

- Reaction to Q3 report\*\*\*

## Company Description:

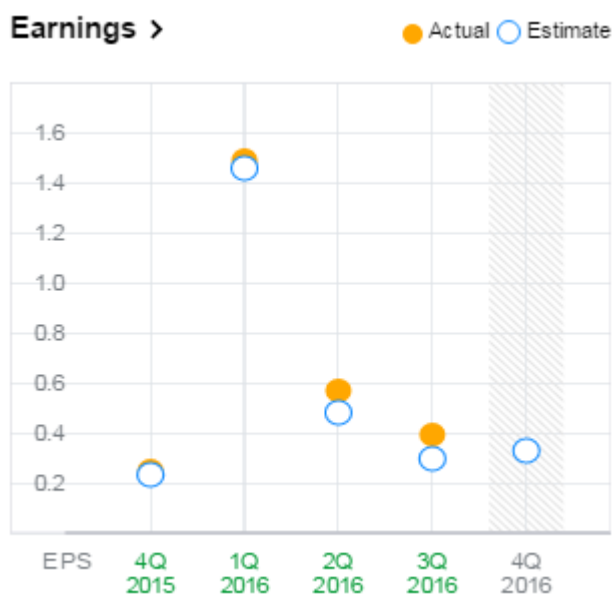
Burlington Stores is a nationally recognized retailer of high quality, branded apparel at everyday low prices. The company opened their first store in Burlington, New Jersey in 1972, selling primarily coats and outerwear. Since then, Burlington has expanded store base to 567 stores as of January 30, 2016, inclusive of an internet store, in 45 states and Puerto Rico, and diversified product categories through offering an extensive selection of in-season, fashion-focused merchandise, including: women's ready-to-wear apparel, menswear, youth apparel, baby, footwear, accessories, home and coats. They sell a broad selection of desirable, first-quality, current-brand, labeled merchandise acquired directly from nationally recognized manufacturers and other suppliers. For the fiscal year ended January 30, 2016, total revenue generated was \$5,129.8 million and net sales of \$5,098.9 million.



## Thesis

Upon a thorough fundamental and technical analysis of the Burlington Corporation, there should be a short option placed for a short time period on this stock. The recommendation is to enter at the current price right now of \$69.24, and exit at \$60, yield at least 14.3% return. The reason that a short option is recommended is not relating to the organization's bad performance, but the stock price is quite overvalued. Earnings reports will be released November 22 and I believe that the stock will begin to drop to get to correct valuation that I believe is around \$50-60. The main point that will be made in this report is Burlington's consistency. The company is not a weak company in sales but in 1 year the price has increased by nearly \$25 but the important items on the income statements have basically remained the same (not worth an increase of 54% in the stock).

Early this year the stock reached its highest point of \$87.23, because of an overreaction of the expected earnings in Q1.



Even though the earnings reported in Q1 were very strong, for reasons that will be explained further in this essay the stock is not worth the current price it is being traded at.

## Macro Environment

The Macro Environment is not something that Burlington should be worried about because this section of the retail industry is not regulated as much as the manufacturers section is. The company is selling inventory purchased from high end stores. Burlington is simply providing the service of discounted goods. Earlier this year in January, there was a class action settlement for \$29.4 million dollars to settled claims related to violation of consumer privacy where consumer phone numbers were required as part of credit card transactions. During the time of the settlement the stock dropped 8% but recovered quickly and begin rising rapidly.

## Industry Outlook

Throughout the 10k the risks that the company thought were important to discuss were the primarily focused on maintaining growth and the potential risks of a global recession that economists think is awaiting the global economy. These questions were answered by referencing the good job that Burlington has done in the last year to improve its growth substantially, while I believe their stock price deserved an increase. An increase of this caliber is an opportunity we cannot miss.

Some of the major competitors for this company are TJ Maxx (including TJ Maxx stores and Marshall's stores) and Ross, while semi-competitors are American Eagle, Urban Outfitters, The Gap and Abercrombie and Fitch. Burlington and direct competitors will be able to survive a dip in a global recession scenario because they offer discounted clothing and are less elastic, while the semi competitors may suffer more because of their expensive brands products are more elastic to consumers.

## Business Model

Currently the business model for Burlington is selling fashion-focused merchandise, including

women's ready-to-wear apparel, menswear, youth apparel, baby products, footwear, accessories, home décor and gifts, and coats. They have acquired most of their sales from women's ready to wear apparel at 24%, accessories and footwear 22% and menswear at 21%. They have a very diverse range of customers and these numbers have been consistent over the past few years. Since Burlington reopened stock to the public in 2013, they have produced constant steady numbers.

Category	Fiscal 2015
Women's Ready-to-Wear Apparel	24%
Accessories and Footwear	22%
Menswear	21%
Youth Apparel/Baby	16%
Home	11%
Coats	6%

## Porters Five Forces

### *Intensity of competition*

The intensity of competition is high especially with TJ Maxx (Marshalls is also under this brand), Ross Stores. Both of these companies have made competition stiff because they have the same or very similar business models. They cater to the needs of consumers in offering discounted name brand goods. It is very difficult to distinguish Burlington as a best competitor because many of the products available in the store is available in all of the discounted stores. While American Eagle, Abercrombie & Fitch, The Gap and Urban Outfitters are indirect competitors, customers may shop at these locations simultaneously.

### *Threat of Substitution*

The threat of substitutions is low because if the products in these discounted stores become unavailable, consumers will not purchase the goods carried from the designer factory at full price. There are not many substitutes to discounted name brand goods, except cheaper clothes from small mom and pop shops.

### *Barriers to New Entry*

Barriers to New Entry is low to enter the market. However, many companies will be reluctant to join the retail sector because of the difficulty in staying and gaining competitive advantage. To

enter this section of the market of selling authentic discounted name brand is more difficult because contractual agreements need to be made with companies to carry their name brand products.

### *Bargaining power of suppliers*

Bargaining power of suppliers is quite high because Burlington Stores makes much of their revenues from the resale of clothing goods. The factories have the option of choosing which retailer to sell their goods to.

### *Bargaining power of consumers*

The bargaining power of consumers is low because the discounted name brands and clothing is already at a bargain price. Consumers will be unable to drive prices down because profit is made from selling volume, and the profit per item is not as high as normal stores. Burlington Stores require a lot of their product to be sold for the profit.

## Product Differentiation

The company did not change its line of products which is why maintaining high stock prices is concerning for buying investors but an opportunity for shorting investors. There is not much that the company has done differently to have such a high stock price except marginally outperform earnings estimates. This is a ripe opportunity to take advantage of a short opportunity.

## Financials and Valuation

The financials on the company are consistent, which is very alarming. The only change is the well above industry average growth in net income and D/E ratio. The LTM Net Income growth is 76.66% which industry average is 4.84%, Debt to Capital is 108.3% while industry averages 2.52%. When comparing some of the important ratios to competitors (only TJ Maxx and Ross because they are direct competitors) the reason to short can be visually seen.

ROIC /WACC		
	<i>History</i>	<i>LFY</i>
BURL	1.83	2.23
Competitors	3.89	4.01

ROIC		
	<i>History</i>	<i>LFY</i>
BURL	16.7%	18.0%
Competitors	41.6%	38.5%

EBITA Margin		
	<i>History</i>	<i>LFY</i>
BURL	6.1%	6.8%
Competitors	12.4%	12.3%

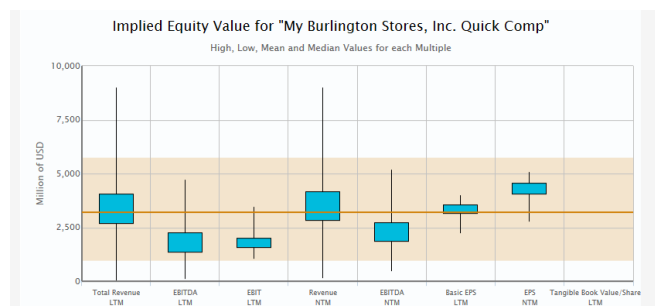
Ke		
	<i>History</i>	<i>LFY</i>
BURL	11.8%	9.9%
Competitors	11.9%	9.8%

A company that has increased stock price by 54% by simply out performing estimates should be expected to have better ratios than the ones they currently represent to their competitors.

One may ask the question how did the stock price get so high, and the answer is overvaluation.

## Summary and Catalysts

As stated in this article there is an immediate pressure to take advantage of the short opportunity with the Burlington stock. Due to reasons of over valuation, and consistency in historical company performance, and also under competing their competition. The stock is not worth the current \$69.14 and when earnings arrive on November 22 investors will potentially see the company is not performing well enough for this high price, the stock will drop. I recommended putting our lower limit at \$60 and capitalizing on a 14% return.



As further qualitative proof, this implied value chart shows and places where Burlington ranks among both direct and indirect competitors. They are not outperforming competitors and they are undeserving of their high stock price.

Finally the 1 year growth of revenue and EBITDA respectfully are 5.78 and 9.27 in 2016. The numbers for 2015 are 8.69 and 25.07. I believe the financial statements done for Burlington have been done in a slightly misleading way that makes investors overvalue the company, and that information will soon be readily available.

**Burlington Stores, Inc.**  
**(BURL)**

Analysis by P.C. Principal  
11/4/2016

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**BEARISH**

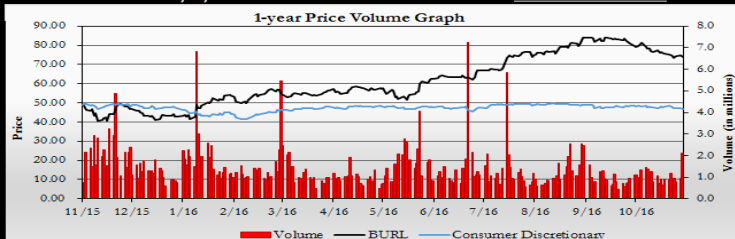
Current Price:  
Divident Yield:

**\$69.24**  
**0.0%**

Intrinsic Value  
Target Price

**\$31.11**  
**\$28.74**

**Target 1 year Return: -58.5%**  
**Probability of Price Increase: 0.4%**



Description	General Information
Burlington Stores, Inc. operates as a retailer of branded apparel products in the United States.	Sector: Consumer Discretionary Industry: Specialty Retail Last Guidance: November 3, 2015 Next earnings date: November 25, 2016 Estimated Country Risk Premium: 5.52% Effective Tax rate: 40% Effective Operating Tax rate: 41%

Market Data
Market Capitalization: \$4,939.59
Daily volume (mil): 1.27
Shares outstanding (mil): 71.34
Diluted shares outstanding (mil): 73.29
% shares held by institutions: 115%
% shares held by investments Managers: 84%
% shares held by hedge funds: 18%
% shares held by insiders: 1.48%
Short interest: 7.96%
Days to cover short interest: 5.11
52 week high: \$87.23
52-week low: \$39.40
Levered Beta: 0.29
Volatility: 0.00%

Quarter ending	Revenue	EBITDA
8/1/2015	1.25%	8.33%
10/31/2015	-1.57%	-4.21%
1/30/2016	0.71%	-7.97%
4/30/2016	0.29%	-0.44%
7/30/2016	0.68%	8.02%
Mean	0.27%	0.74%
Standard error	0.5%	3.3%

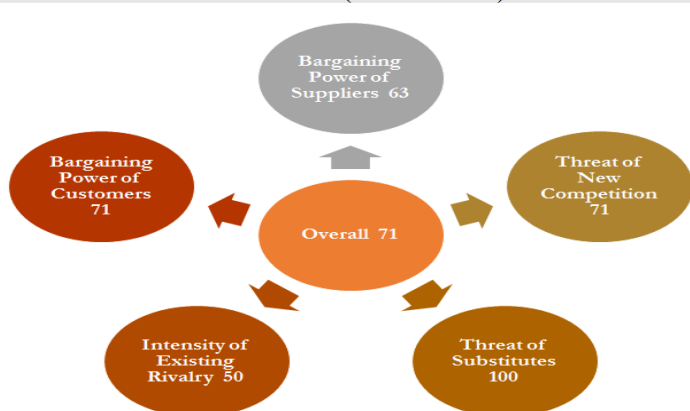
Management	Position	Total compensations growth
Kingsbury, Thomas	Chairman, Chief Executive Of	-100% per annum over 4y
Katz, Marc	Chief Financial Officer and	-100% per annum over 4y
Hand, Fred	Executive Vice President of	-100% per annum over 4y
Seeger, Rick	Executive Vice President of	-100% per annum over 1y
Vecchio, Jennifer	Chief Merchandising Officer	N/M
Crimmins, John	Chief Accounting Officer and	N/M

Profitability	BURL (LTM)	BURL (5 years historical average)
ROIC	8.2%	8.73%
NOPAT Margin	6%	6.75%
Revenue/Invested Capital	1.30	1.29
ROE	28.6%	0.96%
Adjusted net margin	5%	4.60%
Revenue/Adjusted Book Value	5.80	0.21

Invested Funds	BURL (LTM)	BURL (5 years historical average)
Total Cash/Total Capital	0.7%	1.4%
Estimated Operating Cash/Total Capital	0.7%	1.0%
Non-cash working Capital/Total Capital	1.5%	1.5%
Invested Capital/Total Capital	100.0%	99.5%

Capital Structure	BURL (LTM)	BURL (5 years historical average)
Total Debt/Common Equity (LTM)	0.61	0.79
Cost of Existing Debt	3.85%	6.80%
Estimated Cost of new Borrowing	3.32%	7.55%
CGFS Risk Rating	BBB	B
Unlevered Beta (LTM)	0.20	0.79
WACC	4.16%	8.14%

Porter's 5 forces (scores are out of 100)



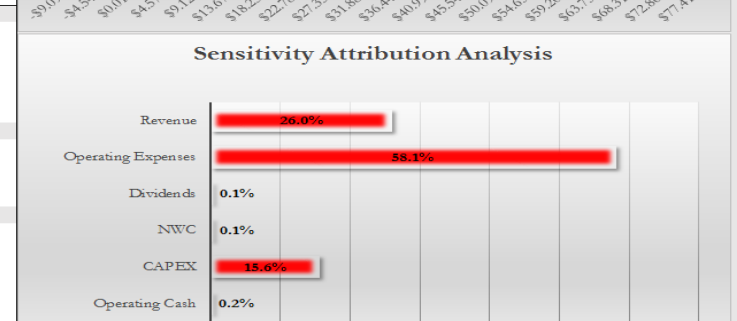
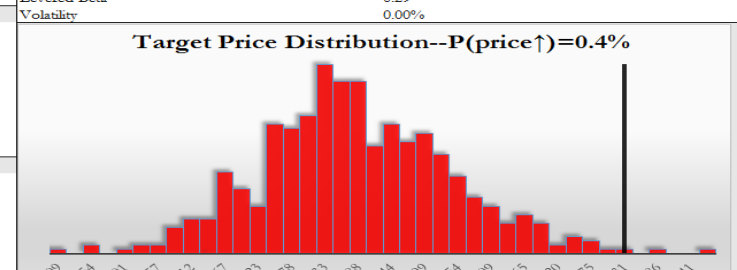
Peers
Ross Stores Inc.
The TJX Companies, Inc.
Coach, Inc.
Urban Outfitters Inc.
American Eagle Outfitters, Inc.
The Gap, Inc.
Tiffany & Co.
Michael Kors Holdings Limited

Total return to shareholders
N/M
N/M
N/M
7.7% per annum over 1y
0% per annum over 0y
N/M

Industry (LTM)
20.49%
7.0%
2.93
24.63%
6.6%
3.75

Industry (LTM)
19%
N/A
19%
82%

Industry (LTM)
0.26
7.32%
7.32%
A
0.91
8.48%



Period	Revenue growth
Base Year	6.8%
7/30/2017	6.7%
7/30/2018	6.0%
7/30/2019	5.5%
7/30/2020	5.0%
7/30/2021	4.9%
7/30/2022	4.8%
7/30/2023	4.6%
7/30/2024	4.5%
7/30/2025	4.3%
7/30/2026	4.2%
Continuing Period	4.1%

Period	Invested Capital
Base Year	\$2,022.78
7/30/2017	\$1,669.55
7/30/2018	\$3,614.00
7/30/2019	\$3,868.18
7/30/2020	\$4,096.35
7/30/2021	\$4,319.38
7/30/2022	\$4,385.38
7/30/2023	\$4,323.85
7/30/2024	\$4,494.55
7/30/2025	\$4,660.86
7/30/2026	\$4,774.20
Continuing Period	

Valuation	ROIC/WACC
NOPAT margin	
6.3%	1.97
5.9%	1.66
5.9%	1.59
6.6%	1.78
7.3%	1.85
7.2%	1.73
7.1%	1.64
7.1%	1.58
7.0%	1.48
6.9%	1.41
6.8%	1.37
6.7%	1.29

Net Claims	Price per share
\$42.27	\$42.27
\$3,878.34	\$47.45
\$3,426.59	\$53.05
\$3,135.21	\$59.07
\$2,776.59	\$65.56
\$2,353.47	\$72.48
\$1,917.31	\$79.83
\$765.67	\$98.18
\$308.58	\$106.44
-\$158.93	\$115.19
-\$566.36	\$124.56