EQUITY RESEARCH REPORT

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Recommendation: BUY

Price (Market Close 12/12/19): $225.57

52-week Price Range: $136.30 – $229.96

Market Cap (millions): $15,000

DECEMBER 12, 2019

ROAD TO WALL STREET COHORT 9

PROFESSOR KEN FREEMAN

Contents

Introduction/Background

Section citations: (Burlington: Our History; *Burlington Stores, Inc. Form 10-K*, 2019; O'Connor, 2018)

Company History

Burlington Stores, Inc. ("Burlington", NYSE: BURL), previously known as Burlington Coat Factory, was founded in 1972 by Monroe Milstein. However, the company's roots trace back to 1924 when the company was originally founded as a wholesaler of junior suits and women's coats. In 1972, Milstein's wife convinced him to buy a former factory outlet in Burlington, New Jersey, with the money she saved as a librarian for their future store's down payment. The Milsteins made sales of $1.5 million in their first year. At first, they just sold coats wholesale, but eventually transitioned into expanding their line to other clothing items, linens, accessories, shoes, a baby department, and home décor.

In 1983, the company, which by this point had 31 stores, went public, raising enough capital to double its store count by 1985. In the late 1980s, Burlington had net sales of over $600 million and was able to expand its business to the West Coast of the United States, with stores in both San Francisco and San Jose. In 2006, the company was acquired for $2.06 billion by Bain Capital in 2006. During this time, management solidified its value proposition as a pure off-price retailer.

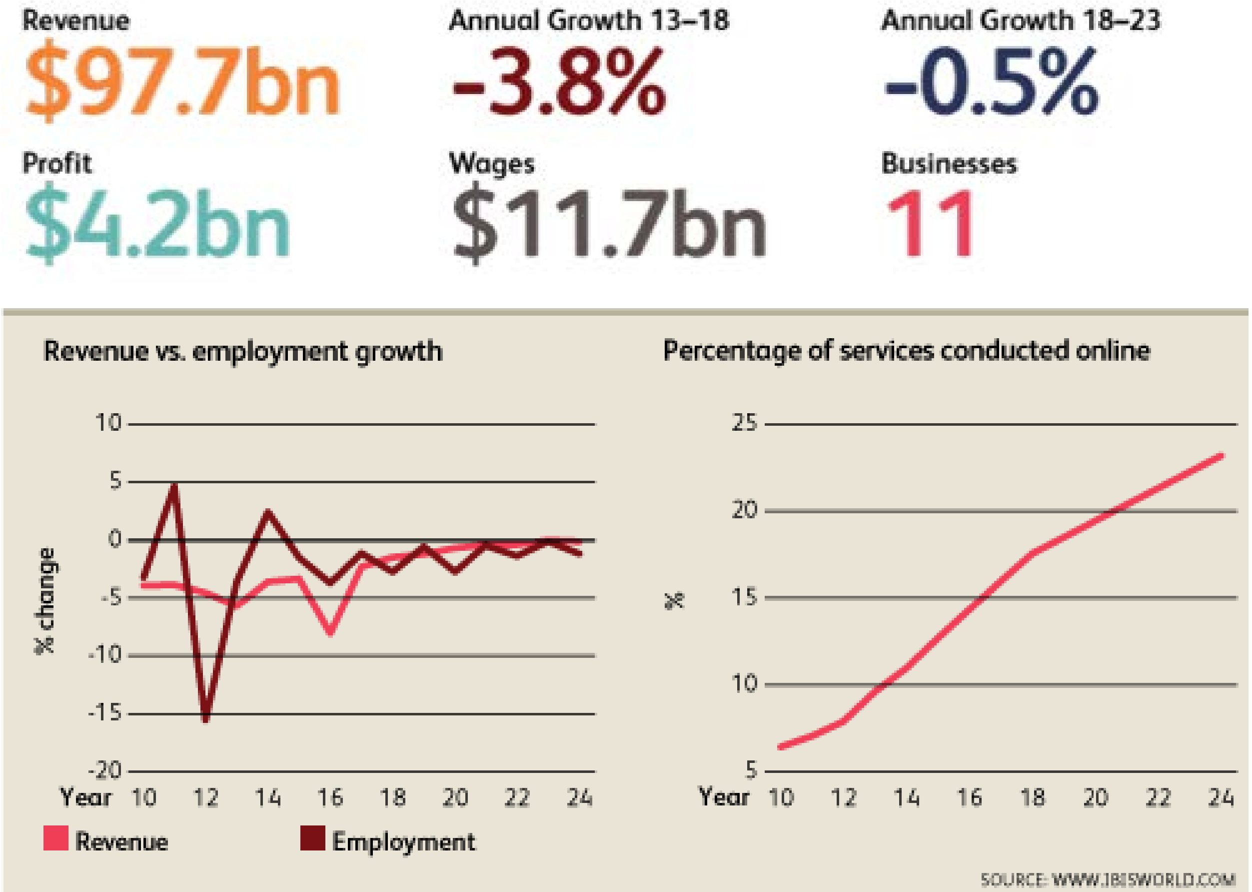
In June of 2013, the company filed for another public offering (NYSE: BURL), and in October of the same year, their stock rose 40% on its first day of trading. Three years later, in 2016, Burlington Stores entered the Fortune 500 for the first time. From 2014 to 2016, the firm took on a rebranding process, changing its official name from Burlington Coat Factory to Burlington Stores to show the public that the store offers "more than just coats".

Currently, Burlington has 631 active stores in 45 states and Puerto Rico. However, Burlington is focusing on remodeling its current stores and is working to close older stores with unnecessarily large square footage. Nonetheless, Burlington's management still has plans to expand to 1,000 stores over the long-term.

Industry Overview

According to Burlington, they "are a nationally recognized retailer of high-quality, branded merchandise at everyday low prices" (*Burlington Stores, Inc. Form 10-K*, 2019). This description fits with the discount department store industry. According to the market research firm IBISWorld, this industry consists of retailers that sell consumer goods at discounted prices and have central checkout locations (O'Connor, 2018).

The discount department store industry had revenues of $97.7 billion in 2018 (O'Connor, 2018). BURL had net sales of about $6 billion in the fiscal year 2018, inferring that the company's market share was 6% in 2018 (*Burlington Stores, Inc. Form 10-K*, 2019). Industry revenues are forecasted to decline by 0.5% annually from 2018 to 2023.



Business Life Cycle

BURL is in the mature stage of the business life-cycle. This assessment is given due to the industry in decline, according to IBISWorld, though BURL plans "to reach 1,000 stores over the long-term" (*Burlington Stores, Inc. Form 10-K*, 2019; O'Connor, 2018). Considering BURL's expansion plans along with the overall industry landscape and BURL's longtime operations (since 1972), all of this indicates that BURL is a mature company.

Macro Trends & Company Positioning

The discount department store industry is struggling, but there are mitigating factors slowing the industry's decline.

Online Sales

The advent and continued popularity of online sales have a medium impact on BURL and its industry. Online platforms redirect revenues away from brick-and-mortar locations, usually cannibalizing existing revenue instead of generating organic sales (O'Connor, 2018). Even if Burlington owns the online platforms, there is no guarantee that customers will be loyal to Burlington if they find lower prices elsewhere. Hence, online sales are a macro trend that is threatening to Burlington and the industry.

Flexible Supply Chains

Burlington has no "long-term purchase commitments or arrangements with any of [its] suppliers" which ensures a flexible supply chain in an uncertain world characterized by trade tensions and nationalist sentiment leading to more isolationist policies (*Burlington Stores, Inc. Form 10-K*, 2019). The company remains well insulated from these external pressures by not tying themselves down to any one region or supplier.

Company's Economic Moat

Burlington holds two main competitive advantages that position them well against competitors.

Network Effect

Burlington currently has 631 active stores in 45 states and Puerto Rico, with a highly functioning supply chain. The company's size gives it massive bargaining power over its suppliers, as switching costs would be hard for suppliers to cover. Thus, Burlington can bargain for better prices and can offer their customers some of the lowest prices in the industry. Moreover, Burlington has exclusive deals with some higher-fashion distributors that keep customers coming to their store over other off-price retailers.

Cost Advantage

As an American national off-price department store retailer, Burlington boasts some of the lowest prices of consumer goods in the industry. For the vast majority of Burlington's customers, it is the prices that bring them into the stores and keep them coming. There are very few corporations that can compete with Burlington's clothing prices and even fewer competitors can provide a low-cost, one-stop-shop for all clothing needs.

Company's Business Model

Burlington Stores, Inc is an American national off-price department store retailer. Burlington's off-price retail stores offer up to 60% off other retailers' prices, which includes both men's and women's apparel, beauty, footwear, and accessories. Burlington labels their model an EDLP, or Every Day Low Price Model. This model allows Burlington to always have a strong customer base during a stable or growing economy, or one that is currently on a decline.

Burlington has approximately 5,000 different vendors from which they get their products. This high vendor count not only diversifies where Burlington receives its products, but it also allows them to purchase from specific vendors at the most advantageous times. This purchasing strategy differs from one of its competitors, Ross Stores, which purchases returned goods that come from either defective or canceled orders.

Historical Growth

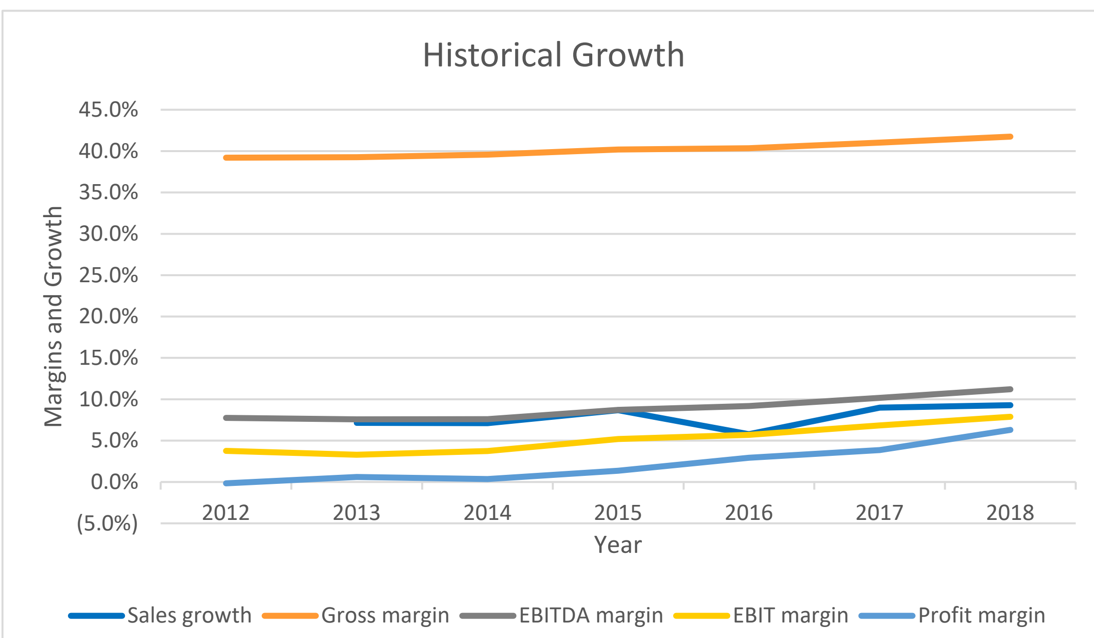
Burlington Stores, Inc (BURL) came to the public market after going into the private sector from 2006-2013. Burlington's IPO the second time, in 2013, was valued at $17 per share, and the current (12/12/19) share price is $225.57. Since the IPO, Burlington Stores, Inc has had consistent year-over-year growth.

The company had also opened 25 net new stores in 2016, 2017, and 46 in 2018. In 2019, their goal is to open 50 new net stores. They are not only adding new stores, but they are also renovating new stores. Between 2017-2018 Burlington added 189 stores to the company's "Brand Standard."

Burlington Stores, Inc. – Growth

($ in thousands)							
		Historical					
	1/28/12	**2/2/13**	**2/1/14**	**1/31/15**	**1/30/16**	**1/28/17**	**2/3/18**
Profitability							
Sales growth		7.2%	7.1%	8.7%	5.8%	9.0%	9.3%
Gross margin	39.2%	39.3%	39.6%	40.2%	40.4%	41.0%	41.7%
EBITDA margin	7.8%	7.6%	7.6%	8.7%	9.2%	10.2%	11.2%
EBIT margin	3.8%	3.3%	3.7%	5.2%	5.7%	6.8%	7.9%
Net Income	(6,272)	25,301	16,150	65,955	150,482	215,873	384,852
Revenue	$3,887,531	$4,165,504	$4,461,987	$4,849,634	$5,129,843	$5,590,950	$6,110,043
Profit margin	(0.2%)	0.6%	0.4%	1.4%	2.9%	3.9%	6.3%

The data table above shows Burlington's sales growth, net income, revenues, and profit margins, all with consistent and positive year-over-year growth from 2012 to 2018.



Competitive Analysis

Section citations: (Biron, 2019; Larkin, 11/14/19; Levine-Weinberg, 2019; Motley Fool Staff, 2019; Motley Fool Transcribers, 2019; Roberts, 2019; Sun, 2019; Tyler, 2018a; Tyler, 2018b)

Major Players in the Industry

The largest off-price retailer in the United States is TJX, the owner of both T.J. Maxx and Marshalls. TJX has continued to grow and expand even while its fellow brick-and-mortar counterparts suffered. Many credit this growth to the fact that TJX is able to set their prices lower than Amazon's prices and have an incredibly quick rotation of products within stores to keep their customers returning frequently to see what is new. While Burlington has 631 stores, TJX has over 2,200. TJX locates most of its storefronts in suburban strip malls, allowing them to be less affected by the decline traditional retail malls have faced. TJX's third-quarter supports that its price formula has provided for consistent growth. TJX beat their 2019 Q3 earnings but were cautious in their expectations for Q4. Many investors expect TJX to benefit from store remodels, digital marketing efforts to secure the younger consumer base, and its e-commerce investments.

Ross Stores, NASDAQ: ROST, reported 2019 Q3 earnings that were not only better than expected but had double-digit improvement. Sales and earnings hit highs, and their stock price is near a record high for the company. Strong sales in children's merchandise and the Midwest region supported its Q3 success.

J.C. Penney, NYSE: JCP, is looking to revamp their stores to accommodate the cultural shift in shopping, having delivered quarterly revenue declines since the 2017 holiday season. Shoppers are increasingly citing that they go to the mall to socialize, rather than to only shop. Most of J.C. Penney's stores are located in suburban shopping malls and are suffering from this shift accordingly. J.C. Penney CEO Jill Soltau has been piloting a new experience-driven store model in their Hurst, Texas location. This location has an arcade, barbershop, yoga studio, and focuses on including more places for customers to relax and less merchandise. If successful in increasing revenues and foot traffic, Soltau plans on remodeling more of its stores in this manner.

Dillard's, NYSE: DDS, another competitor of Burlington, currently has nearly 300 stores, 30 of which are clearance centers. All clearance merchandise is at least 65% off full price. In mid-November 2019, Dillard's stock rose 7.7% as a result of a Q3 profit, rather than the loss the Street was expecting. Despite the threat of e-commerce, Dillard's continues expanding, opening new stores, most of which will be in markets the department store chain already serves. Dillard's has not substantially invested in e-commerce. Like Burlington, they do not even have a mobile app for customers.

Strengths

- Burlington Stores' ability to emerge and be successful in new markets allows them to diversify their revenue streams and markets they operate in.
- Acquires its products from over 5,000 different vendors, which allows them to consistently have a diversified array of inventory coming in at discounted prices.

- Highly skilled and knowledgeable workforce that is educated through Burlington's training and Development programs.
- Burlington Stores have a high working capital ratio, which demonstrates the efficiency of managements ability to utilize both their short term assets and liabilities to support sales.

Weaknesses

- Off-price retailing suggests a diminished perception of the Burlington brand by customers, limiting who would buy from the company
- Not fully committed to stocking merchandise in-stores in a very appealing way like other department stores or retailers, leading to minimal infrastructure in stores
- Pre-tax profit margin has been holding steady instead of improving, suggesting stagnation in the company's revenues or expenses
- Even after Burlington's second IPO in 2013, barely any dividends have been paid to shareholders which weakens the view of the company's financial strength and raises concerns about the future

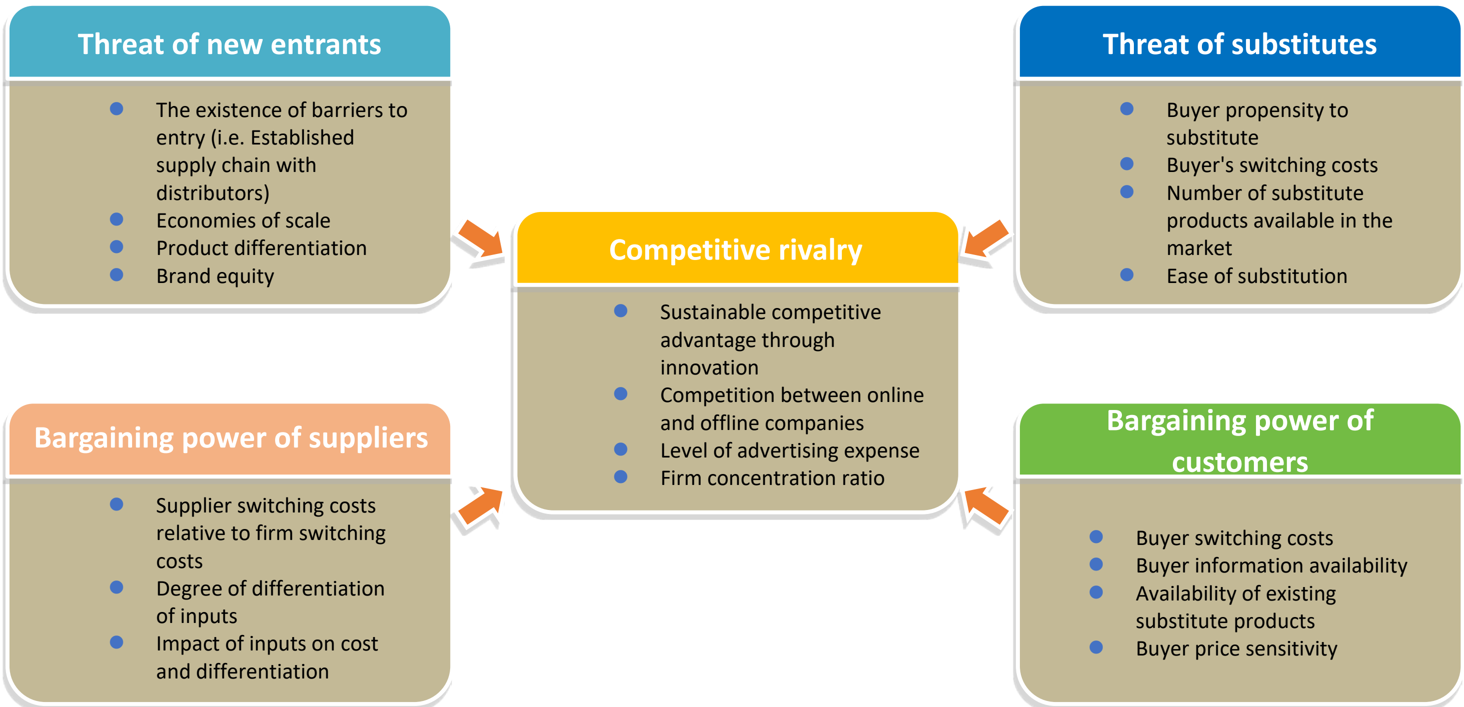
Opportunities

- 2019 is the year millennials begin outnumbering baby boomers. To capture the millennial market, Burlington could invest in an app, as most other retailers such as Walmart and Macy's have, to make shopping easier for the tech-savvy younger generations
- Since the millennial market is highly interested in social issues, Burlington could work to change its reputation as a firm that does not support animal welfare issues with a "Say No to Fur" campaign
- Macy's and JCPenney announced they would have ThredUp (thrifted) cloth sections in their stores. Due to the increased interest in buying second-hand clothes from younger generations, Burlington could invest in adding a second-hand clothes section as well
- Business Insider has written about the disorganized layout of the store. Burlington could invest in redesigning their layout, as Macy's and Target have

Threats

- The demand for the highly profitable products is seasonal in nature and any unlikely event during the peak season may impact the profitability of the company in short to medium term
- Rising pay level movements and increasing prices in China can lead to serious pressure on profitability of Burlington Stores
- As the company is operating in numerous countries, it is exposed to currency fluctuations especially given the volatile political climate in several markets across the world
- New technologies developed by the competitor or market disruptor could be a serious threat to the industry in medium to long term future
- Increased use of online stores as a means of purchase (Amazon and e-commerce)

Porters' 5 Forces



Service Industry

New entrants in off-market retail bring innovation, new ways of doing things, and put pressure on Burlington Stores, Inc. through a lower pricing strategy, reducing costs, and providing new value propositions to the customers. Burlington Stores, Inc. has to manage all these challenges and build effective barriers to safeguard its competitive edge.

How Burlington Stores, Inc. can tackle the Threats of New Entrants

- By innovating new products and services by sourcing from innovative vendors. New products bring not only new customers to the fold but also give old customers a reason to buy Burlington Stores, Inc.'s products.
- By building economies of scale so that it can lower the fixed cost per unit.
- Building capacities and spending money on research and development. New entrants are less likely to enter a dynamic industry where the established players such as Burlington Stores, Inc. keep defining the standards regularly. It significantly reduces the window of extraordinary profits for the new firms, thus discourage new players in the industry.

Bargaining Power of Suppliers

All companies in the off-market retail industry buy their raw material from numerous suppliers. Suppliers in a dominant position can decrease the margins Burlington Stores, Inc. can earn in the market. Powerful suppliers in the services sector often use their negotiating power to extract higher prices from firms. The overall impact of higher supplier bargaining power is that it lowers the overall profitability of retailers like Burlington.

How Burlington Stores, Inc. can tackle Bargaining Power of the Suppliers

- By building an efficient supply chain with multiple suppliers.
- By experimenting with product designs using different materials so that if the prices go up of one raw material, then the company can shift to another.
- Developing dedicated suppliers whose business depends upon the firm. One of the lessons Burlington Stores, Inc. can learn from Wal-Mart and Nike is how these companies developed third party manufacturers whose business solely depends on them, thus creating a scenario where these third party manufacturers have significantly less bargaining power compared to Wal-Mart and Nike.

Bargaining Power of Buyers

Buyers are often a demanding lot. They want to buy the best offerings available by paying the minimum price possible. This desire puts pressure on Burlington Stores, Inc.'s profitability in the long run. The smaller and more powerful the customer base is of Burlington Stores, Inc. the higher the bargaining power of the customers and higher their ability to seek increasing discounts and offers.

How Burlington Stores, Inc. can tackle the Bargaining Power of Buyers

- By building a large base of customers. This will be helpful in two ways. It will reduce the bargaining power of the buyers, plus it will provide an opportunity for the firm to streamline its sales and production process.
- By rapidly innovating new products. Customers often seek discounts and offerings on established products so if Burlington Stores, Inc. keeps on coming up with new products then it can limit the bargaining power of buyers.
- New products will also reduce the defection of existing customers of Burlington Stores, Inc. to its competitors.

Threats of Substitute Products or Services

When a new product or service meets a similar customer needs in different ways, industry profitability suffers. For example, services like Dropbox and Google Drive are a substitute for storage hardware drives. The threat of a substitute product or service is high if it offers a value proposition that is uniquely different from present offerings of the industry.

How Burlington Stores, Inc. can tackle the Treat of Substitute Products / Services

- By being service-oriented rather than just product-oriented.
- By understanding the core need of the customer rather than what the customer is buying.
- By increasing the switching cost for the customers.

Rivalry among the Existing Competitors

If the competition among the existing players in an industry is intense, then it will drive down prices and decrease the overall profitability of the industry. Burlington Stores, Inc. operates in a very competitive industry. This competition keeps Burlington on its toes as it opens new stores and diversifies its product offerings to adapt to the customers' changing desires.

How Burlington Stores, Inc. can tackle Intense Rivalry among the Existing Competitors in Off-market Retail Industry

- By building a sustainable differentiation
- By building scale so that it can compete better
- Collaborating with competitors to increase the market size rather than just competing for a small market

Implications of Porter Five Forces on Burlington Stores, Inc.

By analyzing all the five competitive forces, Burlington Stores, Inc. strategists can gain a complete picture of what impacts the profitability of the organization in off-market retail. They can identify game changing trends early on and can swiftly respond to exploit the emerging opportunity. By understanding the Porter Five Forces in great detail, Burlington Stores, Inc. 's managers can shape those forces in their favor.

Margins Relative to Competition

Here is a comparison of all relevant margins (last twelve months, LTM) between BURL and its competitors.

	BURL	ROST	TJX	JCP	DDS
Gross margin	41.66%	28.70%	28.32%	35.44%	32.46%
EBITDA margin	10.86%	57.06%	12.58%	5.08%	6.08%
Net margin	6.17%	16.65%	7.65%	-1.71%	2.05%

Burlington has the healthiest gross margin out of all of its competitors, including the other discount retailers. This difference implies that BURL does a better job of minimizing its cost of goods sold relative to the other discount retailers. However, it is surprising to see BURL having an even better gross margin than JC Penney, a traditional retailer, because off-price retailers generally have lower gross margins due to limited pricing power and the discounting given to consumers.

Though Burlington has the highest gross margin, it has a much smaller net margin compared to its competitors in the industry, ROST, and TJX. This difference indicates that BURL might have higher expenses coming from its store expansion plan, salary expenses, and other non-operational expenses.

Conclusion/Recommendation

Major Shareholders

Several investment management companies believe in BURL for the long-run, hence their significant stock holdings (*Burlington stores, inc. Schedule 14A*, 2019):

- T. Rowe Price Associates, Inc. 12.93%
- The Vanguard Group 9.37%
- FMR LLC 7.16%
- BlackRock, Inc. 5.88%

In total, these investment managers own 35.34% of BURL.

Management Ownership

The Chief Executive Officer, Thomas A. Kingsbury, owns 1.17% of the company, and all other executive officers and directors own 1.86% collectively (*Burlington Stores, Inc. Schedule 14A*, 2019).

These moderate percentages of stock ownership indicate that the management team is sufficiently incentivized to maximize shareholder value but also focus on the long-term growth of the company as opposed to quick stock price increases that would enable them to sell their shares for a quick profit.

Composition of Revenues & Margins Analysis

Section citations: (*Retail apparel industry profitability*, 2019; Burlington Stores, 2019)

Gross Profit Margin

2012	2013	2014	2015	2016	2017	2018	LTM
38.68%	38.76%	39.11%	39.75%	39.99%	40.76%	41.51%	41.55%

Within the retail apparel industry as a whole, the Gross Margin Annual (TTM) reported for the industry was 26.21%. All of Burlington's Gross Profit margins since 2012 have been significantly above 26.21%, indicating their efficiency in sourcing cheap materials for their inventory compared to the greater apparel industry. Consistent margin growth proves optimistic for Burlington's long-term performance.

Operating Profit Margin

2012	2013	2014	2015	2016	2017	2018	LTM
3.77%	3.29%	3.75%	5.20%	5.71%	6.84%	7.88%	6.34%

The larger retail apparel industry cites an Operating Margin Annual (TTM) of 2.18%. Burlington's margins have consistently been much higher. Their margins imply they can operate efficiently in comparison to the industry as a whole by keeping selling, general and administrative costs of running their business low as compared to industry standards. Consistent margin growth proves optimistic for Burlington's long-term performance.

Pretax Profit Margin

2012	2013	2014	2015	2016	2017	2018	LTM
0.45%	0.56%	0.89%	3.48%	4.55%	5.83%	6.92%	5.48%

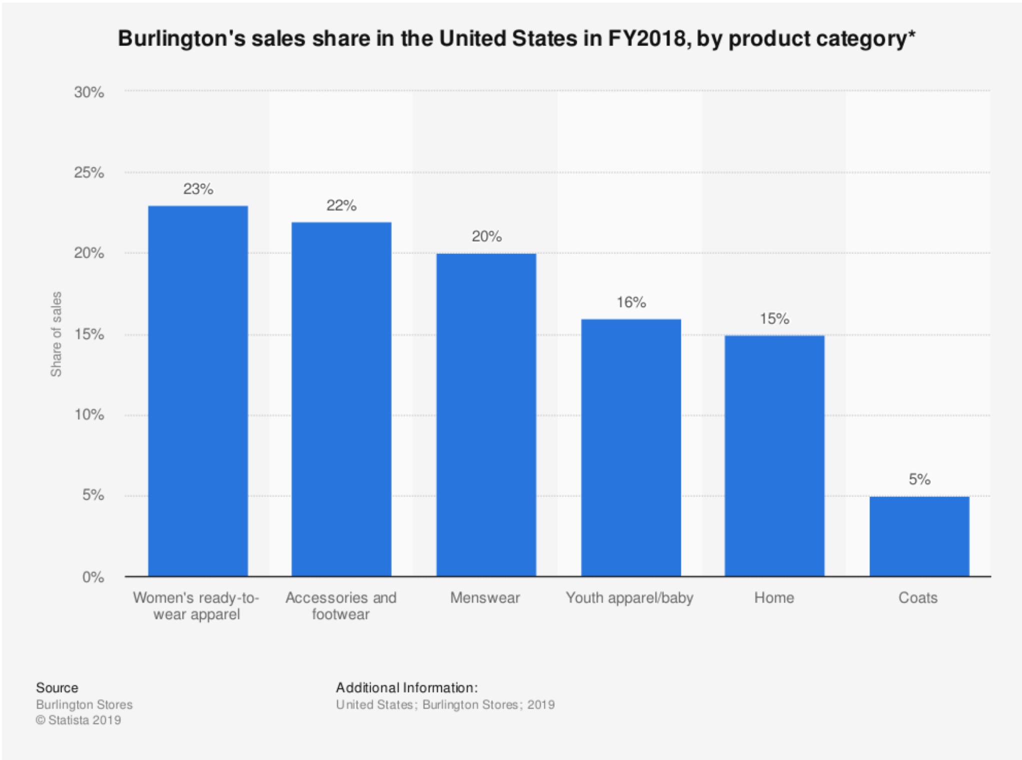
The larger retail apparel industry cites the Pretax Margin Annual (TTM) as 7.34%. Burlington's margins have been much lower, although they can be increasing since 2012. The fact that Burlington has lower pretax profit margins than the industry at large is a bit concerning, as a high pretax profit margin is a sign of financial health. These lower margins seem to be the result of high-interest expenses, although Burlington's interest expenses have decreased from 129,121 in 2012 to 55,847 in the last twelve months. This has been reflected in their increase in pretax profit margins over the past years.

Net Profit Margin

2012	2013	2014	2015	2016	2017	2018	LTM
-0.16%	0.61%	0.36%	1.36%	2.93%	3.86%	6.30%	4.81%

As a whole, retail is known for having low-profit margins. Despite this, its high turnaround and revenue allow for overall high profits. Retail net profit margins tend to stay between 0.5% and 3.5%. Burlington has exceeded this margin range since 2017. This is due in part to the 2017 tax reform that cut Burlington's corporate tax rate from 35% to 21%.

Retail clothing is quite volatile in their margins, as it relies on being able to adapt quickly to changes in consumer tastes. Not being able to change rapidly with these consumer tastes can result in fluctuating profit margins. Quick adaptions to consumer tastes could also explain the sharp increase in Burlington's Net Profit Margin from 2017 (3.86%) to 2018 (6.30%). Burlington, as an off-price retail store, benefits from the fact that most retail spending is purely discretionary. Many consumers shop around for the lowest prices, especially now that all major stores post their prices and sales online. With this high elasticity of demand for retail goods, we feel Burlington has been able to keep higher retail profit margins due to their off-pricing strategy.



Burlington obtains most of its revenues from women's apparel and accessories/footwear. This is followed by menswear and youth apparel/baby products. Their home product revenue has increased to 15% of sales, which is important to note as Burlington continues to shift public perception of their brand to be more than simply an apparel shop. Coats only account for 5% of sales, which may be surprising to some, as Burlington was known as Burlington Coat Factory for decades.

DuPont ROE Analysis

Burlington Stores, Inc.	February 3rd, 2019
Net Income	$414,745
Sales	6,643,051
Return on Sales (ROS):	**6.24%**
Sales	6,643,051
Assets	3,079,172
Asset Turnover:	**2.157**
Assets	3,079,172
Equity	322,710
Equity Multiplier:	**9.542**
Return on Equity:	**128.52%**

Return On Sales Analysis

Burlington Stores, Inc.	February 3rd, 2019
Net Income	414,745
EBT	507,584
Tax Burden:	**81.71%**
EBT	507,584
EBIT	563,574
Interest Burden:	**90.07%**
EBIT	563,574
SALES	6,643,051
EBIT Percentage:	**8.48%**
Return on Sales:	**6.24%**

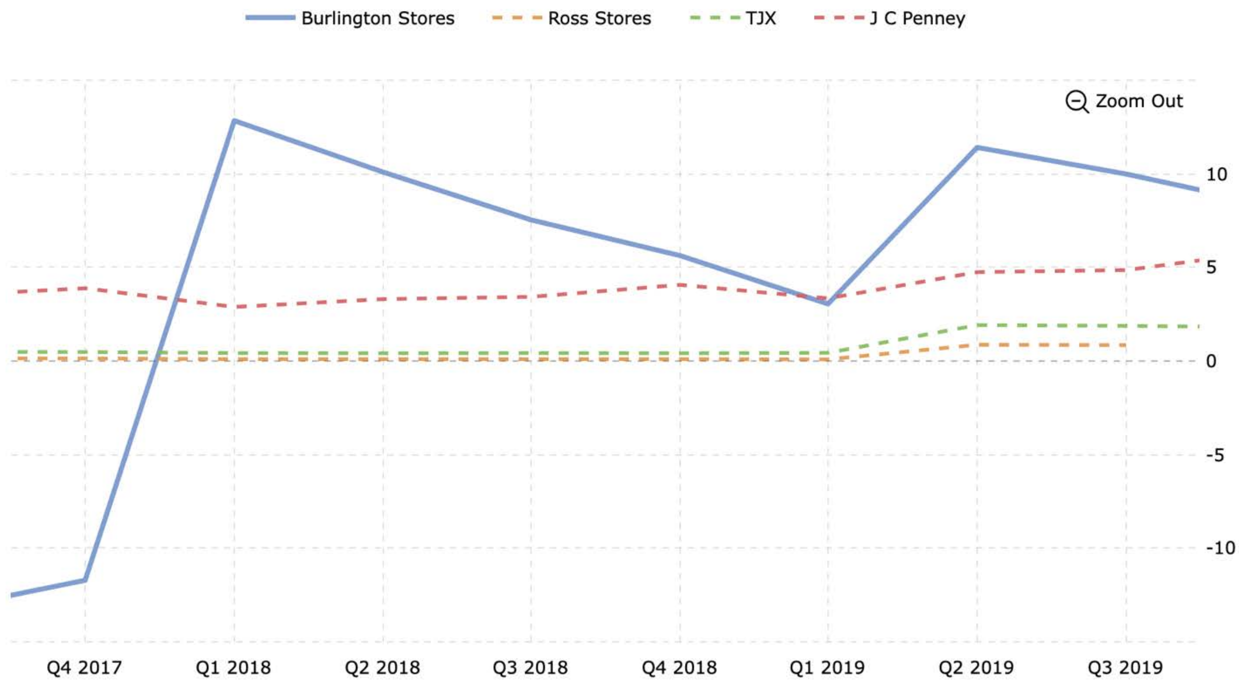
Asset Turnover Analysis

Burlington Stores, Inc.		February 3rd, 2019
Sales		6,643,051
Assets		3,079,172
Asset Turnover:		**2.16**
TJ Maxx	April 3rd, 2019	
Sales		38,973
Assets		14,326
Asset Turnover:		**2.72**
Ross Stores	April 3rd, 2019	
Sales		14,983,541
Assets		6,074,691
Asset Turnover:		**2.47**

Leverage/Capital Structure

Burlington is a highly levered company compared to its peers in the off-priced retail sphere and has decided to issue debt rather than equity. Burlington's growth plan includes significant expansion, and they are funding it primarily through debt since it is cheaper than equity. Still, since the end of 2017, they have begun to issue more equity.

According to Burlington's 2019 10-K filing, they have $956.7 million in obligations. Of their obligations, they had no outstanding balance on their $600 million asset-based lending facility or their ABL Line of Credit. Also, the debt obligation is inclusive of $32.7 million of capital lease obligations and estimated interest payments for the debt obligations of approximately $44.5 million by the end of the next fiscal year.



The graph above shows the debt to equity of Burlington Stores in comparison to its competitors in the industry. Burlington is currently more highly levered than its peers. Due to their debt to equity ratio, this can be viewed as a higher risk investment compared to its competitors in the off-price retail industry. They are significantly more levered from all of their expansion since the company financed its growth through borrowed funds in which they may not be able to pay back due to several circumstances beyond their control.

Working Capital Analysis

Net Operating Working Capital (NOWC) =

$(Cash + Accounts\ Recivable + Inventories) - (Accounts\ Payable + Accrued\ Expenses)$

= $(112{,}274 + 58{,}752 + 954{,}183) - (848{,}561 + 47{,}258)$

$= \$229{,}390$ million.

$$Working\ Capital\ Turnover\ Ratio\ Formula\ = \frac{Turnover\ (Net\ Sales)}{Working\ Capital}$$

$$= \frac{6{,}643{,}051}{229{,}390} = 28.96$$

The efficiency of the management can be determined by knowing the working capital turnover ratio. If the ratio is higher, the management is very competent and efficient because it can utilize the short-term assets and liabilities of the company in a better way to support its sales. A higher ratio is a sign that all the operations of the business are running smoothly, and there is no need for additional funds in the business.

Burlington's Working Capital Turnover makes it an industry leader. The companies closest competitor, Ross, only had a turnover ratio of 3.08 ($\frac{3,979,869}{1,288,440}$: figures in millions) last quarter versus Burlington's 28.96 (ROST 2Q 10Q 2019).

Valuation: Relative & Absolute

Relative

Trading comparables were calculated to see how BURL's stock was trading relative to peers. Specifically, the multiples created from this method of relative valuation show how overvalued or undervalued a company is relative to its peers.

The following assumptions were made in this valuation:

- **LTM** Only financial from the last twelve months (LTM) were used. This LTM designation means that financial information includes the quarters 1 and 2 of 2019 as well as quarters 3 and 4 of 2018 to provide a full twelve months of financial data. Though Burlington and several of their peers released quarter 3 financials for 2019, not all of its peers released their financials. Hence, the LTM calculations did not include quarter 3 2019 data to keep information consistent and more easily comparable across all of the companies.
- **Stock price** The stock price is based on the previous close information provided by Microsoft through its Microsoft Office Excel services. Our calculations that incorporate the stock price for each company are accurate based on the stock price as of market close December 12, 2019.
- **Company's financial data** All financial data for each company was sourced from the relevant financial statements generated in the quarterly and annual reports filed by the company with the United States Security and Exchange Commission (SEC), called "10-Q" for the quarterly report and "10-K" for the annual report.

The following table shows the summary of valuation multiples generated by our calculations

	BURL	**ROST**	**TJX**	**JCP**	**DDS**
P/S	2.36x	2.81x	1.80x	0.03x	0.23x
TEV/EBITDA	22.92x	18.10x	14.37x	6.63x	5.46x
P/E (trailing)	38.31x	103.24x	23.51x	-1.73x	11.03x

Burlington has the second-highest price to sales (P/S) multiple (2.36x), second only to Ross Stores (2.81x). This multiple for Burlington suggests that its stock is trading at a strong price point, similar to ROST. The difference between these stores and the other competitors like JCP and DDS may arise due to BURL's competitive advantages mentioned earlier in this report.

The most relevant multiple for retailers is total enterprise value to earnings before interest, taxes, depreciation & amortization (TEV/EBITDA) because this multiple takes into account inventory costs, employee costs, and general overhead costs without taking into account the capital structure and budgeting aspects of the companies. In other words, TEV/EBITDA ensures a fairer comparison of companies with small or large operations in terms of physical locations, large financing costs, and other items that may be unique to particular companies within a certain size. According to Professor Damodaran at the Stern Business School at New York University (NYU), the average TEV/EBITDA multiple for general retailers as of January 2019 was 9.31x (Damodaran, 2019). Clearly, the major discount retailers such as Burlington, TJX, and ROST are all significantly over the average multiple. In fact, Burlington has the highest TEV/EBITDA multiple relative to its peers, suggesting that it has a better net debt position relative to its market capitalization than the company's peers. However, this high multiple could mean the BURL is overvalued compared to its competitors.

This overvalued position is slightly supported by analyzing price to earnings (P/E) multiples, where ROST has the highest with a seeming outlier of 103.24x. Thus, BURL appears to have a moderate valuation when only analyzing the P/E multiples.

Overall, Burlington has good multiples when compared to its peers, but the company should continue to be monitored if they face a correction in terms of ensuring their multiples trade around their peers or the industry average multiple that Professor Damodaran finds in his research.

Absolute

We created a Discounted Cash Flow (DCF) model to measure the intrinsic value of Burlington. Here are several assumptions made for the model:

- **Revenue growth**: Based on historical revenue growth from 2014 to 2018, the model assumes an annual revenue growth rate of 8.0% from 2019 to 2023. This estimate is more conservative than Burlington's actual revenue growth of about 9% for 2017 and 2018 because we believe that the continued growth of online sales, as well as global macroeconomic uncertainty potentially disrupting supply chains, will cause some downward pressure on future revenue growth. However, being a discount retailer, these downward pressures will be less inhibitive for Burlington. Thus, we arrived at the 8.0% forecasted revenue growth.
- **EBITDA margin**: Based on historical EBITDA margins from Burlington's 2016 to 2018 financials, we forecasted that the average EBITDA margin from this time would continue into the future. In this case, the average margins from years past was the best predictor moving forward because we saw no unusual initiatives or information that would disrupt historical trends moving forward. Hence, we arrived at 10.5% for the forecasted EBITDA margin.
- **Capex as a % of revenue**: Based on historical capex data from Burlington's 2016 to 2018 financials, the numbers were held relatively steady from year to year. Hence, we saw no reason to forecast a different trend for the future, and therefore, we forecast capex percentages at 4.3%. This percentage is closer to 2018's actual number but still within the historical range, as Burlington continues its plan to open more stores.
- **D&A as a % of revenue**: Based on historical D&A data from Burlington's 2016 to 2018 financials, the numbers were virtually constant year to year. Barring any unanticipated future changes, we forecast that this D&A number will hold constant in the future at 3.3%.

- **Taxes/EBIT**: Based on historical data from Burlington's 2016 to 2018 financials, the numbers were consistent between 2016 and 2017 but there was a break in 2018 when Taxes/EBIT dropped drastically. This drop may be a result of the reduction in corporate taxes advanced by President Trump. However, with a mixed control of Congress between the two political parties and a resurgence of left-wing power in states, there is a possibility that the corporate tax burden could rise. Hence, we averaged the two periods to forecast Taxes/EBIT of 15.0%.
- **Changes in working capital**: Based on historical data from Burlington's 2016 to 2018 financials and keeping in mind the company's store expansion plans, we forecasted 0.2% changes in working capital.
- **Perpetuity growth rate**: 1.00% was assumed for this growth rate because it is less than the forecasted growth rate of the entire U.S. economy but is also indicative of steadiness in the discount retailer industry.
- **Risk-free rate**: The risk-free rate of 2.32% was obtained from the 10-year average of the 10-year U.S. Treasury bill, a standard risk-free investment. Only the 10-year average is used to reflect the new paradigm of an unusually low-interest environment.
- **Adjusted beta**: According to Yahoo Finance's research, the 3-year adjusted beta for Burlington was 0.22. This inelastic number indicates that Burlington's stock moves less relative to the market. For example, if the market increases or decreases by 1 point, BURL will increase or decrease by 0.22, respectively.
- **Enterprise Market Risk Premium (EMRP)**: According to Professor Damodaran at the Stern Business School at New York University, the EMRP was 5.32%.

- **Target debt %**: This number was calculated from averaging the debt to capital ratios of Burlington from 2015 to 2018 to capture the whole cycle. This process gave a target debt of 19.80%.

Implied share price	
Enterprise value	18,647,561
Debt	1,082,951
Cash	97,207
NCI	--
Associate Investments	--
Equity value	17,661,817
NOSH	66,011
Implied share price	**$267.56**
Current price (previous market close)	$ 225.57
(Discount) / premium	***(15.09%)***

WACC Calculation	
Cost of equity	
Risk-free rate	2.32%
Adjusted beta	0.22
EMRP	5.32%
Cost of equity	**3.49%**
Cost of debt	
Pre-tax cost of debt	3.95%
Tax rate	21.00%
Post-tax cost of debt	**3.12%**
WACC	**3.42%**

Sensitivity analysis

WACC					*Terminal Growth*
$267.56	0.00%	0.50%	1.00%	1.50%	2.00%
2.42%	$278.44	$349.10	$469.62	$721.54	$1,577.38
2.92%	$227.39	$272.93	$342.23	$460.42	$707.49
3.42%	$191.30	$222.89	$267.56	$335.53	$451.45
3.92%	$164.42	$187.51	$218.50	$262.31	$328.98
4.42%	$143.65	$161.16	$183.80	$214.21	$257.19

EBITDA margin					*Revenue Growth*
$267.56	7.00%	7.50%	8.00%	8.50%	9.00%
6.50%	$82.56	$84.77	$87.02	$89.31	$91.64
8.50%	$168.88	$173.05	$177.29	$181.61	$186.01
10.50%	$255.20	$261.32	$267.56	$273.91	$280.37
12.50%	$341.52	$349.60	$357.83	$366.21	$374.74
14.50%	$427.85	$437.88	$448.10	$458.50	$469.10

The DCF implies a share price for Burlington of $267.56, which is higher than the current trading price (12/12/19) of $225.57. Therefore, the DCF suggests that Burlington is slightly undervalued by 15.69% discount, from an absolute valuation perspective.

Overall, both relative and absolute valuation methods suggest that Burlington is a strong company, which may be undervalued in the short-term.

Target Price vs. Actual Trading Price

Section citations: (Cox, 2019; Flores, Lopez, & Krogstad, 2019; Marks, 2018; McDonald, 2019; Wang, 2019; Zacks Equity Research, 2019)

We believe Burlington is a buy. Our Discounted Cash Flow showed it to be undervalued. Burlington is currently trading at $225.57 (as of 12/12/19). We believe its target price lies at $267.56.

We believe Burlington's stock price will rise for a few reasons. In November, Burlington had all-around beats and guidance raises. The company's Q3 report surpassed expectations, with earnings per share at $1.55 (compares to expectations of $1.40). The company increased profits and revenues by 25% and 8.6% accordingly, which met Wall Street's expectations. In another impressive statistic, the Q3 report showed an increase in same-store sales by 2.7%. While Burlington's shares have increased at 32.93% over the last year, the S&P 500 has increased at approximately 25% (Bloomberg).

Besides these impressive quantitate statistics, we feel Burlington is set to continue its growth due to the economic climate and historic rates of low unemployment. Currently, the U.S. economy is booming, with 266,000 jobs added in November alone, and unemployment is at about

3.6%. Although in times of economic expansion, the middle class may move to consume more high quality and high-priced retail products, Burlington has increased its revenues in this economic climate. People are spending more, yet seem to continue to search out good deals. This may be due to the fact that Burlington's 18 to 34-year-old age range of customers is their fastest-growing customer segment. With the crippling student loan debt of many in this category, many of them, even in this time of economic expansion, may be seeking off-price retail. Additionally, Burlington's Hispanic customer demographic is its fastest-growing ethnicity category. The Latino population of the U.S. accounts for 52% of all U.S. population growth from 2008 to 2018. If Burlington is able to hold onto the growth in their 18 to 34 aged customers in addition to the U.S. Hispanic population group, we believe Burlington will continue to see growth. Lastly, if an economic downturn occurs, discounted retailers are protected. There have been concerns about a possible negative economic activity, yet even if this situation does occur, we feel Burlington will still be able to thrive due to its off-price model.

Risks/Counterpoints to Thesis

We assume that Burlington's off-price retail model will continue to thrive in this economic time of expansion. However, if expansion continues and more middle-class workers choose to indulge in a more luxury retail experience, Burlington could see decreases in their sales and profits.

Additionally, there seems to be mixed public sentiment and news coverage on the quality of Burlington stores; for example, Business Insider did a report citing their store as dark, unorganized, and difficult to navigate. With the popularity of stores like Target, whose store redesign plans have seen a great public reaction, Burlington may not have the shopping experience that other stores can provide customers. For example, Target has partnered with Starbucks and Pizza Hut to provide an enhanced shopping experience for customers. Additionally, Macy's store redesign plan has partnered with Apple and the Cheesecake Factory to enhance the Macy's shopping experience. With other stores creating a solid shopping experience for customers, Burlington may fall beyond its peers, especially in this thriving economy where most citizens have a bit more money to spend.

Burlington lags behind its competitors in the digital space by not offering a mobile app for customers to shop on, which limits its potential revenues.

Catalysts

Vendor Counts

Burlington's network of approximately 5,100 brands is an essential part of their wide variety of products available to consumers. The magnitude of Burlington allows it to bargain with their suppliers, and secure better prices on a variety of products. Furthermore, lower prices directly translate to higher demand and increased market share. The company holds a majority of vendors to exclusive agreements, often barring them from supplying a rival company with a particular product.

Localized Assortment

A localized assortment strategy is when retailers optimize inventory based on each store's location. For example, a store in New Jersey will have inventory that better suits New Jersey customers, whereas a store in California will have inventory that better suits California customers. Burlington embarking on this localized strategy can be a catalyst for their stock price because it implies that the company is understanding the nuances of its many customers and attempting to better cater to their needs in a way that is unique from e-commerce companies like Amazon.com. This point of difference will continue to drive in-store sales while limiting competition from online retailers, boosting our stock price in the long-term.

Diversifying Product Offerings

Burlington is focusing on expanding their product offerings, and is marketing themselves accordingly, to continue showing customers they are "more than just coats". Specifically, Burlington is expanding its home and beauty offerings to make business less weather sensitive. This strategy has been successful thus far, as home products, such as decor, have increased to account for 15% of total revenues. While apparel and accessories still dominate their revenue composition, we feel their emphasis on marketing themselves as a one-stop retail shop will continue to result in growth for the company.

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