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UMass **Amherst**



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# TJX Companies

(NASDAQ: TJX)

*Recommendation: BUY*



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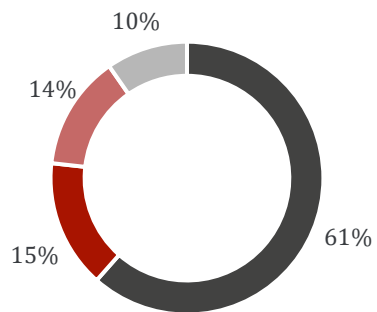
June 9<sup>th</sup>, 2020

# Company and Industry Overview

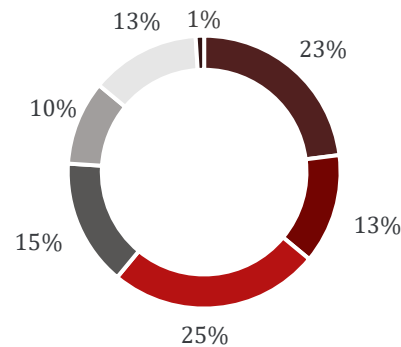
## Company Overview

TJX Companies, Inc. is the leading off-price retailer both in the U.S. and globally. They operate 4 business segments of *Marmaxx*, *HomeGoods*, *TJX International*, and *TJX Canada*. TJX offers customers an assortment of constantly changing apparel and home fashions that it acquires through its opportunistic buying strategy and flexible model. All of its brand-name and designer merchandise is priced at a discount of 20-60% below full price retail.

## 2019 Revenue Breakdown



■ Marmaxx ■ HomeGoods  
■ TJX International ■ TJX Canada



■ Northeast ■ Midwest ■ South ■ West  
■ Canada ■ Europe ■ Australia

## Industry Drivers

### Tailwinds

**Recessionary Budget Orientation:** customers will demand cheap clothing alternatives  
**Super-centralization:** stores are beginning to offer everything in one, convenient location  
**Prioritized Customer Experience:** greater user friendliness attracts business

### Family Apparel



### Headwinds

**Recessionary Environment:** significant decreases in consumer spending adds extreme pressure on companies  
**Online Competition:** brick and mortar stores must offer increased incentives to consumers  
**Restricted Openings:** uncertainty regarding in person shopping

## COVID-19 Impact

### Timeline

March 19<sup>th</sup>

- Halted operations in 9 countries

May 9<sup>th</sup>

- Reopened websites with order capacity

July 1<sup>st</sup>

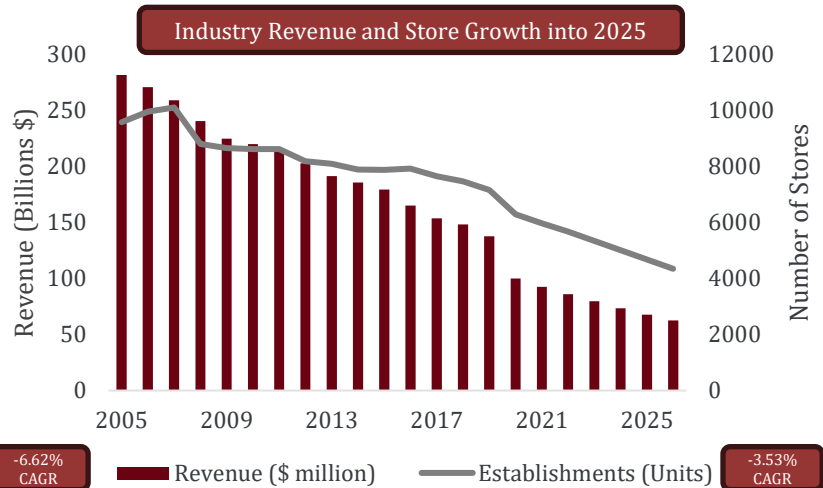
- Worldwide Openings

### Adjustments

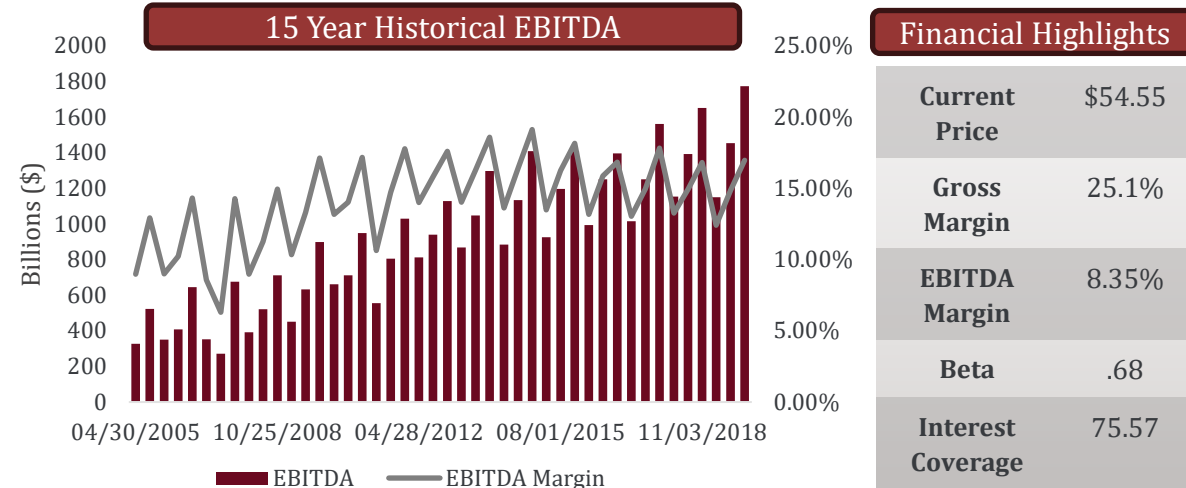
- Required face masks
- Available protective shields
- New return processes
- Mass clearance

# Investment Rationale

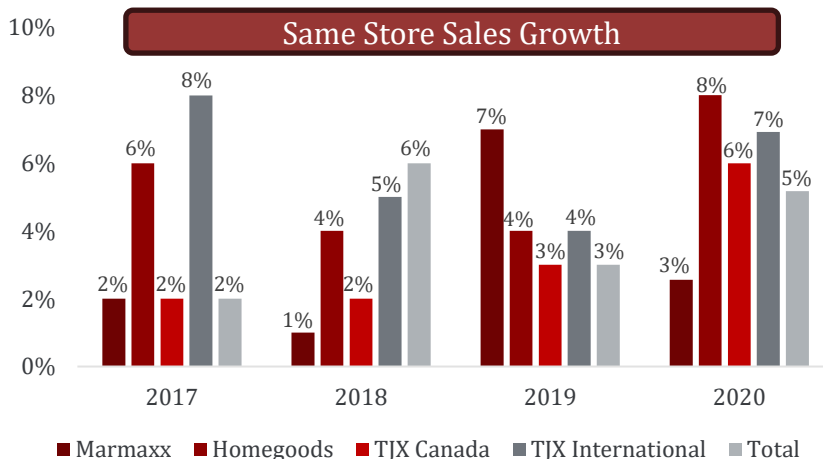
## Favorable Long-Term Industry Trends



## Organic Growth Demonstrates Mature Business Model



## Continued Expansion Drives Long Term Success



- Opening of 239 new stores in 2019 allow for greater end market reach
- Northeast store focus in the US allows for greater margin of safety

## Experienced Management

Executive Chairman	Chief Executive Officer	Founder and Advisor
<p><b>Carol Meyrowitz</b> has been with TJX since 2005 and began as chairmen in 2015. She is a seasoned member of the company team and has ranked among Forbes 100 most powerful women for four years. During her time as President from 2007 to 2017, TJX's profits have increased nearly 3x and its stock has return 370%.</p>	<p><b>Ernie Herrman</b> has been with TJX since 2008 and began as CEO in 2016. Since his time at the company, he has emphasized expansion into international markets and made significant changes to the company's supply chain in order to cut down on costs. He has spent most of career with TJX and plans to stay with them into the long term.</p>	<p><b>Bernard Cammarata</b> is the founder and current Executive Advisor for the TJX Board of Directors. Founding the company in 1987, he has been responsible for the growth the company has experienced and continues to be involved with the management team serving on the board.</p>

# Conclusion

## Potential Risks to Thesis



Prolonged stay-at-home orders by multiple states, especially in the eastern United States



Localized rules for non-essential businesses closures directly affects the operations of TJX



Unclear in person shopping outlook due to COVID 19 social distancing guidelines

## Catalysts and Investment Recommendation

*Entry Point:*  
Post poor Q1 2020 earnings on May 21<sup>st</sup>

*Exit Point: \$80.88*  
Early 2024 as Coronavirus recession dissipates

- Financial success in recessionary environment like 2008
- Customer preference towards discounted products due to increasing unemployment and decreased disposable income
- Department store underperformance leads to better deals with vendors and favorable consumer pricing

## Competitors

Name	Mkt Cap (B)	P/E	Fwd P/E	EV/EBITDA	Inv. Turnover	ROIC	Net debt/EBITDA
<b>TJX</b>	53.59	40.62x	32.36x	25.47x	6.32	24.89%	1.55x
<b>Tier 1</b>							
Ross Stores	30.04	38.81x	37.74x	25.71x	5.97	29.86%	0.85x
Burlington	11.19	323.87x	384.62x	82.93x	4.88	18.51%	3.85x
Nordstrom	2.44	5.70x	10.15x	9.62x	5.10	12.22%	2.39x
<b>Tier 2</b>							
The Gap, Inc.	2.83	12.85x	13.93x	9.02x	4.78	4.57%	5.20x
Kohl's	2.72	48.78x	6.78x	7.76x	3.46	6.71%	5.78x
Macy's	1.64	4.34x	2.93x	4.82x	2.90	5.60%	3.55x
<b>Mean</b>	<b>14.92</b>	<b>67.85x</b>	<b>69.79x</b>	<b>23.62x</b>	<b>4.77</b>	<b>14.62%</b>	<b>3.31x</b>
<b>Median</b>	<b>2.83</b>	<b>38.81x</b>	<b>13.93x</b>	<b>9.62x</b>	<b>4.88</b>	<b>12.22%</b>	<b>3.55x</b>

## DCF and Sensitivity Analysis

Exit Multiple Approach	
Terminal Year EBITDA	5492
Terminal Value EBITDA Multiple	25.1x
Terminal Value	137948
Present Value of Terminal Value	85497
Present Value of Stage 1 Cash Flows	12762
Enterprise Value	98260

Valuation	
Enterprise Value	98260
Less: Net Debt	980
Equity Value	99240
Diluted Shares Outstanding	1227
Equity Value per Share	\$80.88
Implied Upside/Downside	48.3%

	EV/EBITDA										
	22.6x	23.1x	23.6x	24.1x	24.6x	25.1x	25.6x	26.1x	26.6x	27.1x	27.6x
8.6%	46.34%	49.13%	51.91%	54.69%	57.48%	60.26%	63.04%	65.83%	68.61%	71.39%	74.17%
9.07%	43.64%	46.37%	49.09%	51.81%	54.54%	57.26%	59.98%	62.71%	65.43%	68.15%	70.88%
9.57%	41.01%	43.68%	46.34%	49.01%	51.67%	54.34%	57.00%	59.67%	62.33%	65.00%	67.66%
10.1%	38.45%	41.06%	43.66%	46.27%	48.88%	51.49%	54.10%	56.71%	59.32%	61.92%	64.53%
10.6%	35.95%	38.50%	41.06%	43.61%	46.16%	48.72%	51.27%	53.82%	56.38%	58.93%	61.48%
11.1%	33.51%	36.01%	38.51%	41.01%	43.51%	46.01%	48.51%	51.01%	53.51%	56.01%	58.51%
11.57%	31.14%	33.59%	36.04%	38.48%	40.93%	43.38%	45.82%	48.27%	50.72%	53.17%	55.61%
12.07%	28.83%	31.22%	33.62%	36.02%	38.41%	40.81%	43.20%	45.60%	48.00%	50.39%	52.79%
12.57%	26.57%	28.92%	31.27%	33.61%	35.96%	38.30%	40.65%	43.00%	45.34%	47.69%	50.04%