



Ben Spivey

Cade Crockett

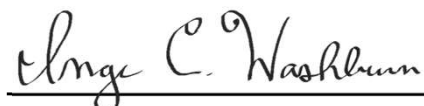
Steven Traphagen

04/13/24

<b>Current Price:</b>	<b>\$94.74</b>
<b>Target Price:</b>	<b>\$106-\$114</b>
<b>Upside:</b>	<b>8% IRR</b>

- I. TJX demonstrates competitive operational efficiency and profitability with a history of strong earnings and margins.
- II. TJX's leading position in the off-price retail sector allows it to maintain significant barriers to entry by leveraging a large network of global vendors.
- III. TJX's brick-and-mortar model and off-price dominance creates a broad economic moat and insulation from digital competition.

**Order Type:** Limit #1 - \$1000 at \$85  
**Allocation:** Limit #2 - \$1500 at \$80

  
PHIG President

PHIG Director

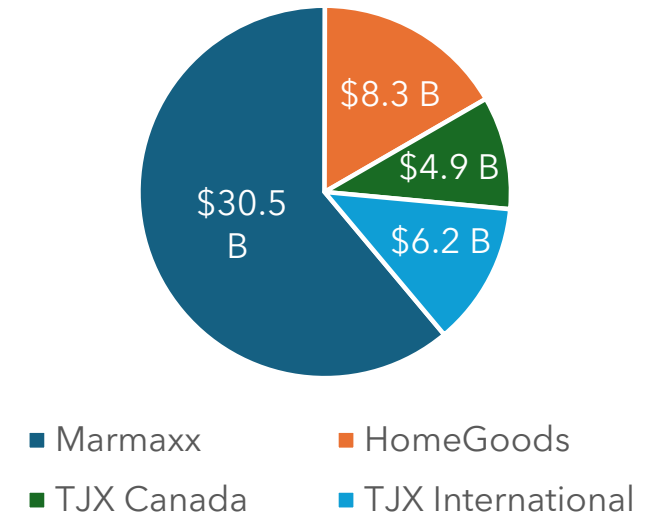
VP of Finance

# Company Overview

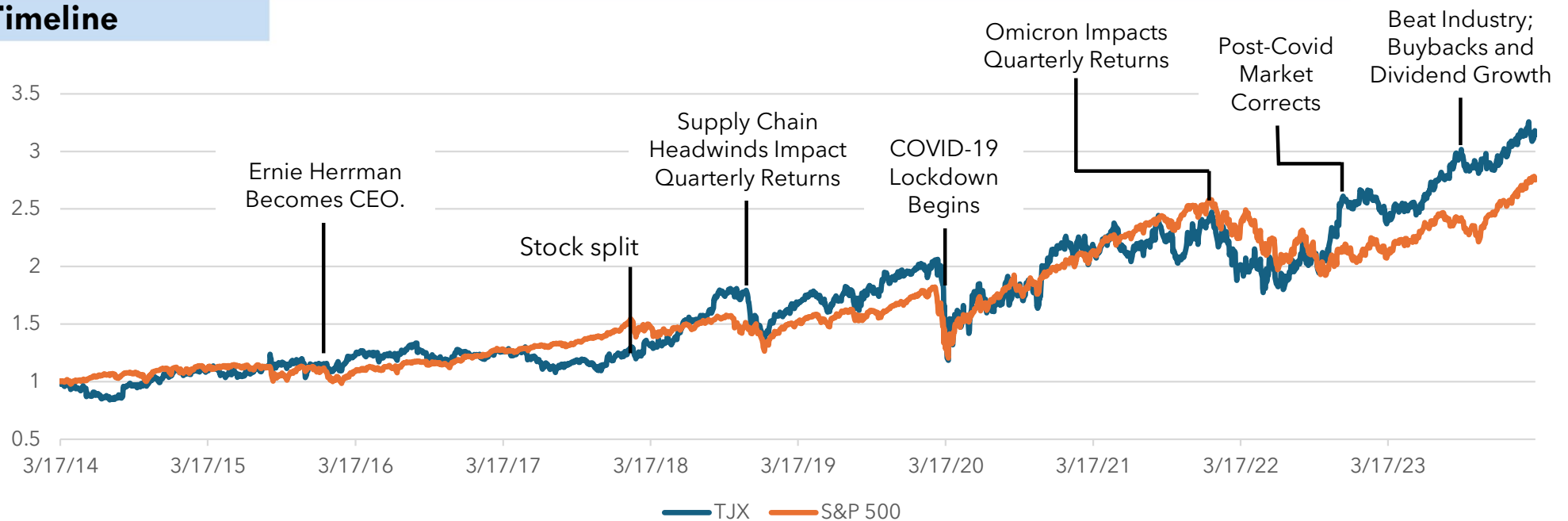
## Key Highlights

- **TJX Overview:** TJX sells **off-price retail** (the selling of branded or designer items at significantly lower prices than full-price stores) creating a **treasure hunt experience** for clients by purchasing industry oversupply to sell at **20-60% below retail** price.
- **Segment Overview:** TJX has 4 main segments: Marmaxx (T.J. Maxx, Sierra, Marshalls), HomeGoods, TJX Canada, and TJX International. The Marmaxx segment alone accounts for 50% of the off-price market.
- **Core Strategies:** TJX prioritizes **operational competency**, maintaining a low-cost structure through its cost-effective procurement strategy and open floor layouts allowing quick inventory turnover and same-store sale growth.
- **Customer Base:** TJX caters to value-conscious consumers seeking brand-name merchandise. 72% of consumers report being more thoughtful on what they spend their money, and 64% report increased loyalty to a brand when they feel connected.

## TJX Segments by Revenue

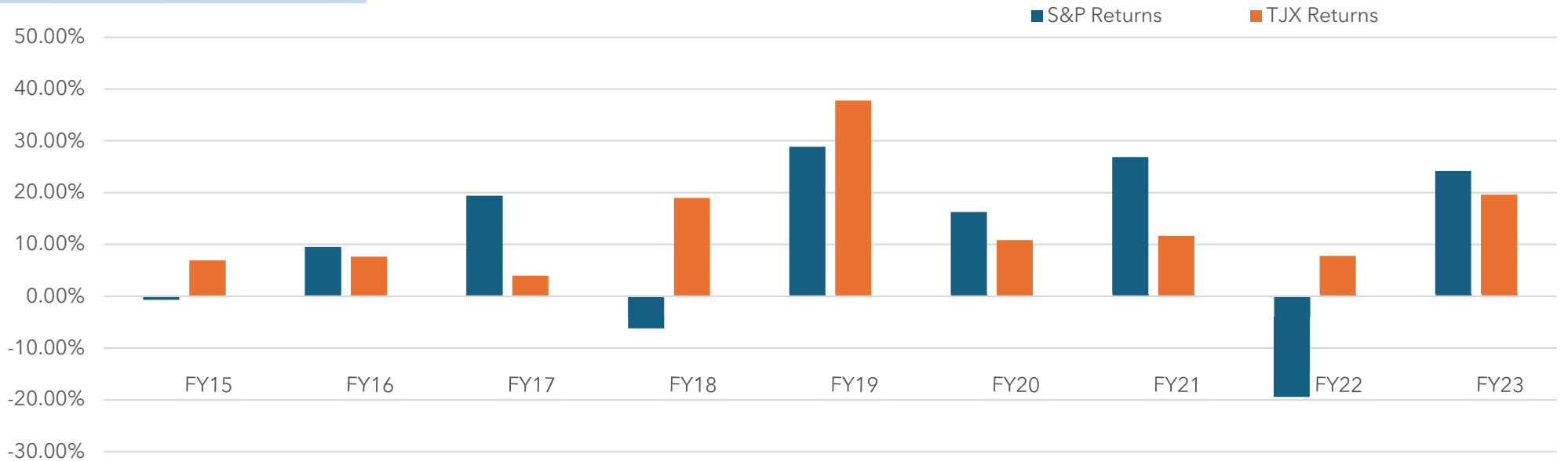


## Timeline



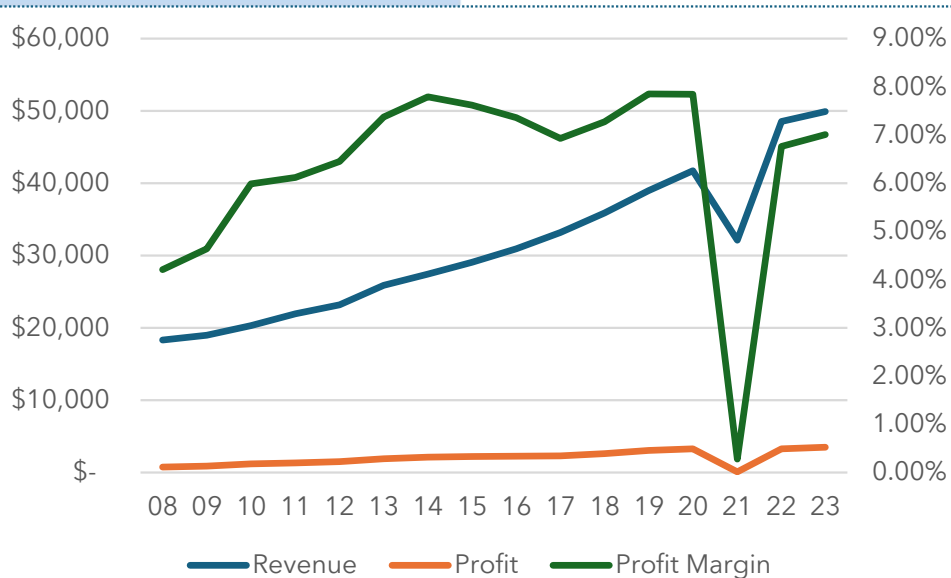
# Financial Overview

## Historical Performance



Note: Dividend Payouts Included

## Revenue and Profit



Dollars are in millions.

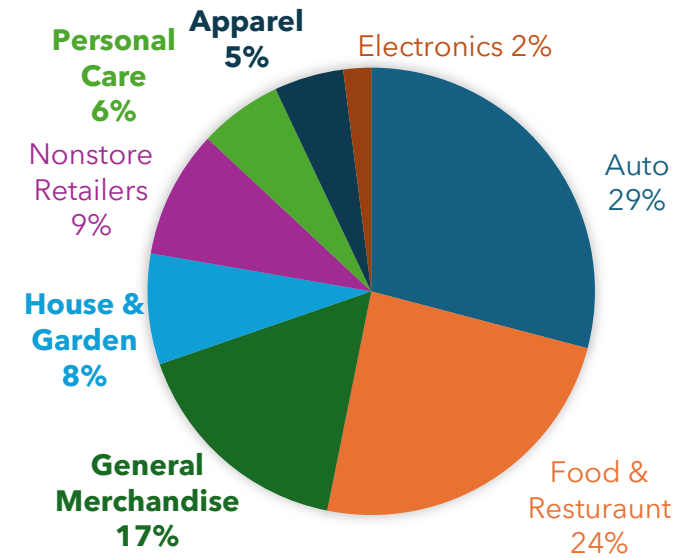
## Summary

- Marmaxx has grown comparable sales growth by an annual average of 4.1% from fiscal years 2011 to 2020 outpacing the average annual retail sales growth at alternative clothing and accessory stores of 2.8%.
- Overall, TJX has experienced an annual 7% sales growth rate since 2014.
- The profit margin dipped in 2021 due to reduced profit from store closures and consumer sentiment during the pandemic. TJX continued to experience muted operating costs and purchased excess inventory during this time.
- 2.9% of the profit margin dip was caused by debt extinguishment.

# Industry Analysis

## Industry Overview

- A McKinsey report suggests that off-price retail growth will be 5x higher than that of the overall market between 2025 and 2030.
- The same study said that a younger generation of buyers is increasingly attracted to in-person discounters.
- Discount Retailers in 2023 signed the most leases and contributed around 2,300 store openings; in off-price retail, TJX opened 146 stores.
- TJX is well-positioned to capture market share from competitors facing challenges. The bankruptcy of Bed Bath & Beyond and the planned store closures by Macy's are anticipated to benefit TJX's merchandise margins due to increased vendor dependency (Herrman).



## Porter's Five Forces

Competitive Rivalry	New Entrants	Power of Suppliers	Power of Buyers	Substitutes
<b>High</b>	<b>Moderate</b>	<b>Low</b>	<b>Moderate</b>	<b>Low</b>
<ul style="list-style-type: none"> <li>▪ TJX competes against discount retailers (Walmart), department stores (Macy's or Nordstrom), and off-price retail (Ross/Burlington)</li> <li>▪ Online competition threatens brick and mortar retail.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Rise of ecommerce has lowered barriers to entry in e-commerce.</li> <li>▪ TJX's expansive brick-and-mortar presence and established relationships with vendors limits competitor ability to enter the market (TJX has 68% of total market sales).</li> </ul>	<ul style="list-style-type: none"> <li>▪ Off-price retail primarily buys surplus inventory from suppliers.</li> <li>▪ Suppliers prefer selling to off-price brick-and-mortar retailers to minimize brand-name dilution online.</li> <li>▪ TJX leverages long-term partnership and buying power to keep power of suppliers low.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Primary customers of off-price retail are value conscious customers.</li> <li>▪ Highly competitive prices lower customer's buying power.</li> <li>▪ Since TJX sells brands which are widely available, it must maintain low prices to compete with discounters.</li> </ul>	<ul style="list-style-type: none"> <li>▪ TJX can differentiate its offering from other off-price retailers by selling unique and exclusive products.</li> <li>▪ The ability to sell higher-quality products and lower prices is difficult for competitors to emulate.</li> <li>▪ E-commerce could increase threat of substitution.</li> </ul>

# Strategic Advantage

## Business Strategy

<input type="checkbox"/> <b>Product Leadership</b> <i>Leapfrog of New Products: Innovation</i>	<input type="checkbox"/> <b>Operational Excellence</b> <i>Unmatched Focus; Quality, Price &amp; Ease</i>	<input type="checkbox"/> <b>Customer Intimacy</b> <i>1:1 Bonding; Specific Customer Needs</i>
<input type="checkbox"/> <b>Product Differentiation</b> <i>Unique Features, Product, and/or Service</i>	<input checked="" type="checkbox"/> <b>Operational Competency</b> <i>Std Product, Good Quality, Capable Delivery</i>	<input type="checkbox"/> <b>Customer Responsive</b> <i>Loyalty thru Broad Marketing/Service Focus</i>

## Advantage: Strategic Dimensions & Distinctives *(Economic Moat)*

- **Dominant Market Share:** With a 50% share of the off-price retail market TJX has formidable barriers to entry:
  - **Economies of Scale:** With established market dominance in terms of market share and profit generation (TJX gross profit nearly triples ROST), TJX can leverage its buying power to gain procurement advantages. For example, TJX's vast global network of more than 21,000 vendors and over 1,200 procurement specialists dwarfs Ross's 8,000 vendor network.
  - **Switching Cost Advantages:** For customers, the convenience and familiarity of TJX's stores, along with the allure of exclusive off-price merchandise, make it less likely for them to switch to other retailers.
- **Resilience to Online Competition** due to the nature of the industry, supplier preferences, and consumer trends.
  - **Off-price retail resists** online expansion due to challenges posed by a diverse and quickly rotating inventory, (shallow SKU depth) created by opportunistic buying. TJX excels in this space with an average inventory turnover time of less than 2 months as compared to the industry average of 3.5-4.0. While competitive in brick and mortar, it makes it difficult and unnecessary to advertise/list goods online.
  - **Vendors** in off-price retail prefer to sell excess inventory to physical locations to avoid online brand dilution because the high turnover rate in stores reduces the footprint of excess product offerings on the market.
  - **Consumer preferences** favor an in-person, treasure hunt experience, emphasizing an ability to confirm brand quality and the chance to discover a great deal. TJX invests in e-commerce as 'complementary' to physical locations and consumer behavior confirms the approach with online sales accounting for less than 3% of total sales. TJX remains the only off-price retailer in e-commerce, highlighting room for growth.

# Investment Summary

## Investment Thesis

- We recommend **TJX as a buy**.
  - Discounted cashflow analysis, relative valuation, and analyst research all show TJX to be undervalued. This is largely due to market concern over TJX's lack of e-commerce penetration.
  - TJX's continued emphasis on brick-and-mortar expansion rather than e-commerce development will continue to drive profit and margin growth over the next several years, leading to a correction in its valuation. Gradual e-commerce expansion will enable growth of off-price market share.
  - TJX position in the off-price retail market enables it to take advantage of macroeconomic trends such as a value-conscious consumer and increased vendor needs to sell inventory to brick and mortar widening its economic moat.
    - An impressive operating and profit margin, dominant market share, and consistent same store sales growth all highlight TJX's competitive advantage over other off-price retailers.

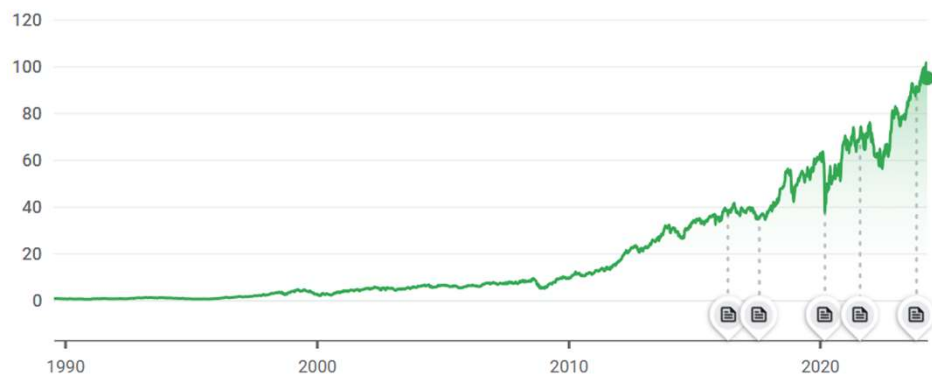
## Historical Valuation

**\$94.74** ↑ 15,957.63% +94.15 MAX

Apr 12, 9:52:02 AM UTC-4 · USD · NYSE · Disclaimer

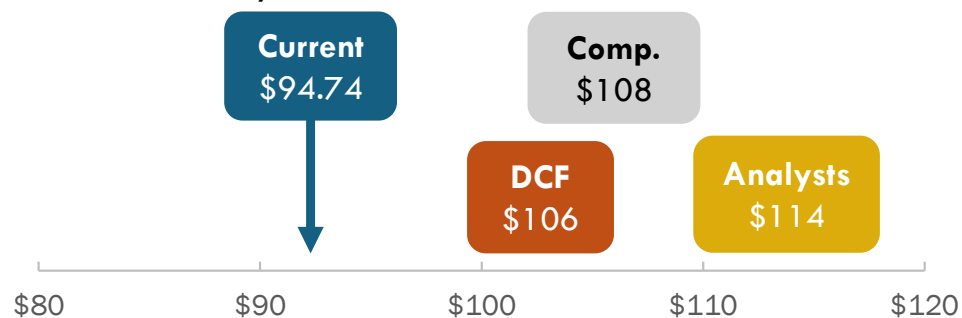
1D 5D 1M 6M YTD 1Y 5Y MAX

Key events



## Target Prices

- TD Cowen, Citi, JP Morgan, and Bank of America analysts have all remained bullish on TJX stock as of early March 2024
- TJX remains undervalued despite significant growth in the last two years



# Appendix: TJX Companies (TJX)

- 1) Relative Valuation
- 2) DCF
- 3) Margin Comparison
- 4) Ecommerce

# Relative Valuation

## TJX Relative Valuation

Company	Market Data 2024				Financials (LTM)			Valuation (LTM)		
	Share Price	Shares Outstanding	Equity Value	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
THE TJX COMPANIES, INC. (XNYS:TJX)	98.06	1,133	111,280	101,851	49,936	5,747	3,498	2.0x	17.7x	31.8x
ROSS STORES, INC. (XNAS:ROST)	147.09	335	48,857	41,665	18,696	2,385	1,512	2.2x	17.5x	32.3x
BURLINGTON STORES, INC. (XNYS:BURL)	190.11	64	14,070	18,773	8,703	654	230	2.2x	28.7x	61.2x
FIVE BELOW, INC. (XNAS:FIVE)	157.48	55	11,130	12,046	3,076	451	262	3.9x	26.7x	42.5x
High								2.1x	17.6x	32.1x
75th Percentile								2.1x	21.3x	41.8x
Average								2.6x	22.7x	41.9x
Median								2.2x	22.2x	37.4x
25th Percentile								2.1x	17.7x	32.2x
Low								2.0x	17.5x	31.8x
<b>Valuation (Medians)</b>								<b>EV/Revenue</b>	<b>EV/EBITDA</b>	<b>P/E</b>
Implied Enterprise Value								109,500	127,675	128,696
Net Debt								- 2,118	- 2,118	- 2,118
Implied Market Value								111,618	129,793	130,814
Shares Outstanding								1,141	1,141	1,141
<b>Implied Value Per Share</b>								<b>97.82</b>	<b>113.75</b>	<b>114.65</b>
								<b>Average:</b>	<b>108.74</b>	



# DCF Base Case

UNLEVERED FREE CASHFLOW CALC		HISTORICAL				Projected					Terminal Value
Co: TJX		2020	2021	2022	2023	1	2	3	4	5	Terminal Value
Ticker: (NYSE: TJX)		2020	2021	2022	2023	2024	2025	2026	2027	2028	2028
Revenue ***	\$	41,717	\$ 32,137	\$ 48,550	\$ 49,936	\$ 53,706	\$ 57,761	\$ 62,122	\$ 66,812	\$ 71,856	
% Revenue Growth		25.8%	-29.8%	33.8%	2.8%	7.6%	7.6%	7.6%	7.6%	7.6%	
Less COGS	\$	(29,846)	\$ (24,534)	\$ (34,714)	\$ (36,149)	\$ (39,176)	\$ (42,133)	\$ (45,315)	\$ (48,736)	\$ (52,415)	
Gross Profit	\$	11,871	\$ 7,603	\$ 13,836	\$ 13,787	\$ 14,530	\$ 15,628	\$ 16,807	\$ 18,076	\$ 19,441	
% Margin		28.5%	23.7%	28.5%	27.6%	27.1%	27.1%	27.1%	27.1%	27.1%	
Less Operating Expenses (Excludes D&A)	\$	(6,588)	\$ (6,150)	\$ (8,213)	\$ (8,040)	\$ (7,833)	\$ (8,598)	\$ (9,247)	\$ (9,945)	\$ (10,696)	
Less Non-Recurring Items	-	-	-	-	-	-	-	-	-	-	
EBITDA	\$	5,283	\$ 1,141	\$ 5,381	\$ 5,747	\$ 6,697	\$ 7,030	\$ 7,560	\$ 8,131	\$ 8,745	
% Margin		12.7%	3.5%	11.1%	11.5%	12.5%	12.2%	12.2%	12.2%	12.2%	
Less D&A	\$	(867)	\$ (871)	\$ (868)	\$ (887)	\$ (873)	\$ (873)	\$ (873)	\$ (873)	\$ (873)	
Plus Unusual Income/Expense Items	-	-	-	-	-	-	-	-	-	-	
EBIT	\$	4,416	\$ 270	\$ 4,513	\$ 4,860	\$ 5,824	\$ 6,156	\$ 6,687	\$ 7,258	\$ 7,872	
% Margin		10.6%	0.8%	9.3%	9.3%	9.7%	9.7%	9.7%	9.7%	9.7%	
Less Taxes	\$	(1,134)	\$ 1	\$ (1,115)	\$ (1,192)	\$ (1,464)	\$ (1,548)	\$ (1,682)	\$ (1,826)	\$ (1,981)	
Net Operating Profit (after tax)	\$	3,272	\$ 90	\$ 3,283	\$ 3,662	\$ 4,344	\$ 4,592	\$ 4,989	\$ 5,416	\$ 5,875	
Plus D&A	\$	867	\$ 871	\$ 868	\$ 887	\$ 873	\$ 873	\$ 873	\$ 873	\$ 873	
Less Change in NWC	\$	1,385	\$ 3,308	\$ (1,349)	\$ (640)	\$ 107	\$ 578	\$ 263	\$ 107	\$ 321	
Less CapEx	\$	(1,223)	\$ (568)	\$ (1,045)	\$ (1,475)	\$ (1,317)	\$ (1,416)	\$ (1,523)	\$ (1,638)	\$ (1,761)	
Unlevered Free Cash Flows	\$	4,301	\$ 3,701	\$ 1,757	\$ 2,434	\$ 4,008	\$ 4,628	\$ 4,602	\$ 4,759	\$ 5,307	\$ 5,307

DISCOUNTED CASHFLOWS						Projected					Terminal Value
Co: TJX		2020	2021	2022	2023	1	2	3	4	5	Terminal Value
Ticker: (NYSE: TJX)		2020	2021	2022	2023	2024	2025	2026	2027	2028	2028
Terminal Value											
Unlevered Free Cash Flow			No input needed			4,008	4,628	4,602	4,759	5,307	5,307
Discount Factor						1	1	1	1	1	1
Discounted Cash Flows						3,655	3,849	3,491	3,291	3,348	3,348

# DCF Valuation

Equity Value Per Share: Multiple Method						
WACC						
		8.65%	9.15%	9.65%	10.15%	10.65%
16.0x	\$	100.86	98.79	96.78	94.82	92.92
17.0x	\$	105.96	103.77	101.65	99.58	97.57
18.0x	\$	111.05	108.76	<b>106.52</b>	104.34	102.22
19.0x	\$	116.15	113.74	111.39	109.10	106.88
20.0x	\$	121.25	118.72	116.26	113.86	111.53

Item	Assumption	Justification
Average Sales Growth	7.55%	Analyst estimate, CAGR growth projections
Beta	0.86	Historical (5-year)
Risk Free Rate	4.60%	10-yr. Treasury Bond
Market Rate	10.70%	S&P 10-yr.
EV/EBITDA Multiple	18.00	Mean of industry average and analyst multiple

# DCF Base and Weight

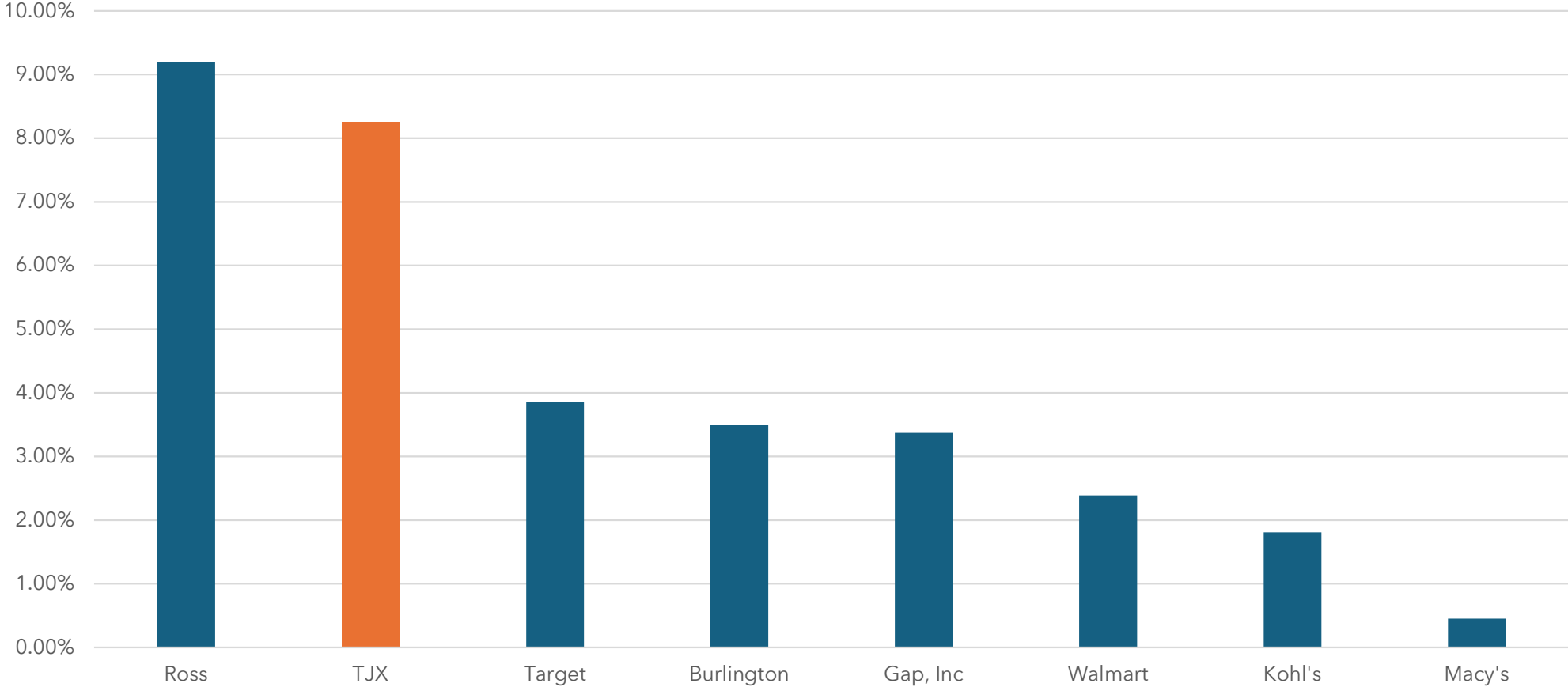
WACC Calculation	
<b>WACC</b>	<b>9.65%</b>
<b>Cost of Equity</b>	<b>9.8%</b>
Risk Free Rate	4.6%
Beta (TJX 5yr)	0.86
Market Rate (S&P 10-yr)	10.7%
<b>Cost of Debt</b>	<b>0.4%</b>
<b>Net Debt</b>	<b>(2,088)</b>
Current portion of long-term debt	500
Long-term debt (excluding current)	2,859
Cash & Cash Equivalents	5,447
<b>Total Debt</b>	<b>1,706</b>
Accounts payable	3,794
<b>Interest expense</b>	<b>6</b>
<b>Market Value of Debt</b>	<b>1,706</b>
Interest expense	6
Cost of debt	0.4%
Weighted average maturity	5
Total Debt	1,706
<b>Market Value of Equity</b>	<b>106,975</b>
Stock	THE TJX COMPANIES
Stock price	\$ 94.42
Shares outstanding	1,132,974,000
<b>Corporate Tax Rate</b>	<b>24.5%</b>
Tax expense	1,192
Earnings before tax	4,854
<b>Debt + Equity</b>	<b>108,681</b>

Terminal Value: Exit Multiple Method	
EBITDA (Final Period)	8,745
EBITDA Exit Multiple	18
<b>Terminal Value</b>	<b>157,409</b>
<b>Present Value of TV</b>	<b>99,286</b>
<b>Present Enterprise Value</b>	<b>116,919</b>
Terminal Value % of EV	135%

Share Price Calc: Exit Multiple	
<b>Implied Enterprise Value</b>	<b>116,919</b>
Less: Debt	-1,706
Less: Preferred Stock	0
Less: Minority Interest	0
Plus: Cash	5,447
<b>Implied Equity Value</b>	<b>120,660</b>
<b>Total Shares Outstanding</b>	<b>1,133</b>
<b>Implied Equity Value/Share</b>	<b>\$106.50</b>
Current Value/Share	94.42
<b>Upside:</b>	<b>\$12.08</b>
	<b>11%</b>

# Profit Margins of Competitors Compared

Comparison of Average Profit Margins for Last 10 Years



# E-commerce and TJX

We believe that consumer demand, source supplier preferences, and TJX's competitive environment will allow the company to maintain growth and relevancy, even as e-commerce is emphasized by the broader retail industry.

## Consumer Demand

- Consumers hold online bargains to a higher level of scrutiny than ones they can physically see and touch.
- Consumers perceive brick-and-mortar discount retail with a higher level of trust and excitement than ecommerce alternatives. IW0
- YPulse, Emarketer, and PYMNTS found that young shoppers, especially Gen Z, love TJ Maxx and physical discount stores in general. IW1

## Source Suppliers

- Source suppliers do not desire to flood the online market with their surplus goods; they desire to retain brand value. IW2
- Source suppliers prefer liquidating surplus through brick-and-mortar stores because B&M is a more discreet outlet than online liquidation.
- TJX's strategy of minimal depth per SKU allows manufacturers to retain their brand value. IW3
- TJX has independent brand value that further protects source supplier brand value. IW4

## Competitive Environment

- TJX's brick-and-mortar competitors also maintain minimal online presence.
- The physical discount retail industry is not threatened by ecommerce because of consumer demand and source supplier preferences.
- TJX is IW5

## Slide 13

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**IW0**

These can be backed up by #s. Please reference a source if you say this

Inge C Washburn, 2024-04-11T01:22:24.593

**IW1**

Love can be quantified in this situation. What does it mean, in revenue/profit/etc. that young shoppers love TJMaxx and physical discount stores? That does not seem to square with the general movement towards ecommerce.

Inge C Washburn, 2024-04-11T01:23:18.703

**IW2**

Good points

Inge C Washburn, 2024-04-11T01:23:36.526

**IW3**

Is "minimal depth per SKU" a phrase you came up with?

Inge C Washburn, 2024-04-11T01:24:29.186

**IW4**

I want #s on this.

Inge C Washburn, 2024-04-11T01:24:44.401

**IW5**

Preferences for...

Inge C Washburn, 2024-04-11T01:25:05.327