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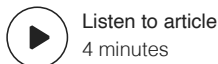
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3 Off-Price Retailers That Look Like Bargains in the Stock Market's Wreckage

By [Teresa Rivas](#) [Follow](#) Updated May 20, 2022 9:40 pm ET / Original May 20, 2022 9:13 pm ET



T.J. Maxx's parent TJX reported earnings that were above Wall Street expectations.
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Two of the three major off-price retailers posted quarterly earnings this week, with dramatically different results. That leaves Burlington Stores [BURL -14.95%](#) ▼, which reports May 26. There are three key factors that could determine how Burlington's stock reacts.

In an otherwise brutal week for retail, TJ Maxx parent TJX (ticker: TJX) reported an [earnings beat](#), despite light sales. That was a welcome reversal from other big players, whose higher revenue failed to flow through to the bottom line due to margin-crunching supply-chain and freight costs.

[Ross Stores stock \(ROST\)](#) lost more than 20% on Friday—its worst day since 1993—as earnings, revenue, same-store sales, and guidance all came in [well below expectations](#).

"TJX was the exception in that they're protecting margins right now, even at the expense of sales," says BMO Capital Markets analyst Simeon Siegel.

By contrast, Walmart [WMT +0.11% ▲](#) (WMT) and Target [TGT +1.26% ▲](#) (TGT) reported higher sales than expected, but lower profit and margins. The pair noted that consumers, especially at the lower end of the income scale, are pulling back from discretionary categories as the cost of essentials rises.

Still, that's not the whole story, and TJX wasn't the sole bright spot, as [upbeat results from Foot Locker \(FL\) and Deckers Outdoor \(DECK\) proved Friday](#). While some less-affluent shoppers are undeniably feeling pinched, others have shifted their consumption to pandemic-delayed experiences, or are merely pausing after stocking up on goods.

"I don't know that the slowdown is a drop in the ability to spend; it feels more like a breather given how people already spent," says Siegel.

Therein lies the opportunity for off-price retail. If these companies can leverage their reputation for value at a time when consumers are spending selectively on nonessentials—think dresswear over the basics everyone already bought—and offer compelling merchandise, they can take market share despite a challenging backdrop for retail.

That means that several metrics beyond top- and bottom-line results will be in focus when Burlington (BURL), which closed Friday at \$150.71, reports.

The first is margins—whether Burlington was able to protect them like TJX, or was hurt by high costs that spiraled in the quarter. Burlington has been somewhat optimistic about this, and Joe Van Cavage, vice president and portfolio manager at Intrepid Capital Funds, says it wouldn't surprise him if the company delivers "a little better on gross margins," although the situation has shifted rapidly since retailers provided guidance in the prior earnings season.

The second thing investors will be looking at is inventory. In their rush to ensure they had enough products to sell, companies like Target over-ordered merchandise at a time of high transportation costs and changing consumer spending. In contrast, TJX has proven adept in its ability to "shift what's in their stores based on what consumers

are buying," says Sarah Kanwal, an equity analyst at Crestwood Advisors. "Nobody can do it quite like they can."

Burlington has had some inventory wobbles in the past, but if it can show that it has been able to thread the needle this time, that would go a long way in rebuilding investor confidence. Indeed, confidence will likely be the third deciding factor. If management can strike a less dour tone than peers, or provide a better-than-feared updated outlook, that could ease some investor worries about the second half of the year.

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Ultimately, investors have had a hair-trigger response to selling retailers this earnings season amid broader market carnage. This year, Burlington stock is down 48%, Ross is off 37%, and TJX has declined 24% "When almost every company has to recalibrate expectations, every earnings becomes a catalyst," says Siegel. "But that doesn't mean they won't be in a good position later."

It may be hard for investors to take the long view with so much red clouding their vision. They would be wise to do so.

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