The TJX Companies

Consumer Discretionary
NYSE: TJX
Market Outperform | Buy

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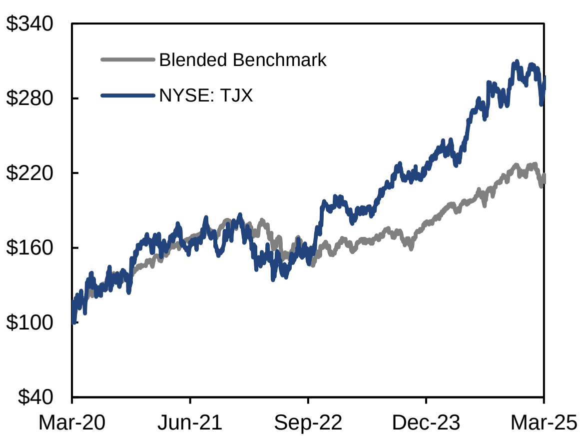
Return on Investment	
Current Share Price	$121.80
Target Price	$135.00
Dividend Yield	1.27%
Implied Return	12%
Conviction Rating	2

Market Profile	
52-Week Range	$92.35 - $128.00
Market Capitalization (US$B)	$133
Net Debt (US$B)	$7
Enterprise Value (US$B)	$140
Beta (5-Year Monthly)	0.96

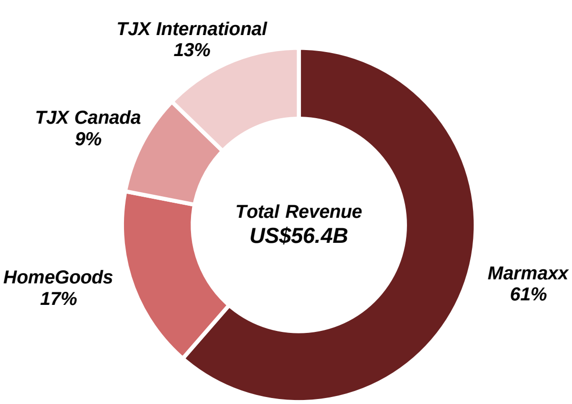
Metrics	2025A	2026E	2027E
Revenue (US$B)	$56	$60	$63
EBITDA (US$B)	$8	$10	$11
EPS	$4.26	$5.94	$6.74
EV/EBITDA	17.7x	14.4x	12.8x

Historical Trading Performance (Indexed to $100)



Source: S&P Capital IQ

Figure 1: FY2025 Revenue Segmentation



Source: Company Filings

Business Description

The TJX Companies (NYSE: TJX) is the world's largest off-price retailer (OPR) with over 5,000 locations globally. The Company provides customers with brand-name merchandise, designer apparel, footwear, accessories, and home furnishings at significant price discounts compared to department and specialty stores. TJX operates through four main segments: (1) Marmaxx, (2) HomeGoods, (3) TJX Canada, and (4) TJX International. The Company owns and operates additional brands, including HomeSense, Marshalls, Sierra, TJ Maxx, and Winners.

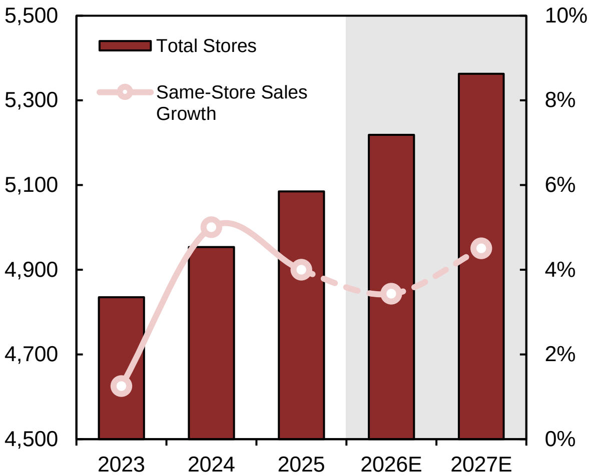
Industry Overview

The North American off-price retail industry is highly concentrated among three main players: Burlington Stores (NYSE: BURL), Ross Stores (NASDAQ: ROST), and TJX, with the Company holding the largest market share at ~64%. Success within the off-price industry is driven by an OPR's ability to acquire inventory through contracts with brands at a markdown to the original retail price. This strategy is enabled by brands needing to move inventory due to factors such as overstocking, seasonal closeouts, and cancelled orders from other department stores and retailers. OPRs subsequently re-sell this inventory to consumers at discounts, ranging from 20 - 60% off from regular store pricing. OPRs face favourable purchasing environments when department and specialty stores struggle due to economic volatility, unfavourable weather, fashion shifts, supply distributions, and overproduction. Due to scarce products and constant merchandise overhauls, OPRs price goods at a market-clearing price to maintain low clearance inventory while creating value and a "treasure hunt" experience for their customers. As demand uncertainty increases, OPRs benefit from disruptions in the retail industry and perform well during slow economic times, showcasing the defensive nature of the business. During economic downturns, consumers with less discretionary income increasingly turn to OPRs. Conversely, in favourable economic conditions, OPRs continue to attract high traffic volumes due to their offering of the same high-quality brand merchandise at competitive prices.

During and after the COVID-19 pandemic, the retail industry shifted towards Direct-to-Consumer (DTC) business models aiming to eliminate intermediaries to drive ticket prices higher. However, these brands did not see an increase in their gross or EBIT margins, as the incremental costs of advertising and distribution offset the higher unit prices. In doing so, these brands incurred additional risks related to inventory turnover and brand dilution, as the internalized marketing efforts failed to boost sales volume or enhance brand perception. The unsuccessful transition to DTC underpinned the continued demand for intermediaries such as OPRs and department stores, shifting the perception of intermediaries from competitors to allies.

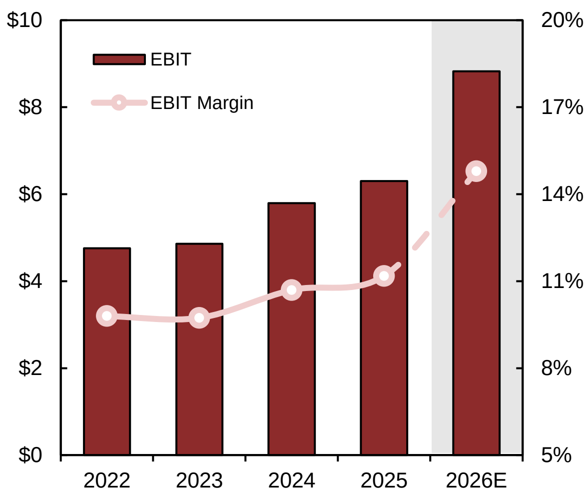
The OPR industry is expected to experience increased consumer spending driven by the deterioration in consumer sentiment. With recent economic uncertainties due to tariffs and inflation, the consumer confidence index reached a 12-year low of 92.9. OPRs are particularly well-positioned to capitalize on this bearish sentiment due to their strong value proposition to low-income and younger consumer markets. These demographics are drawn to the (cont.)

Figure 2: LHS Stores vs RHS Same-Store Sales Growth



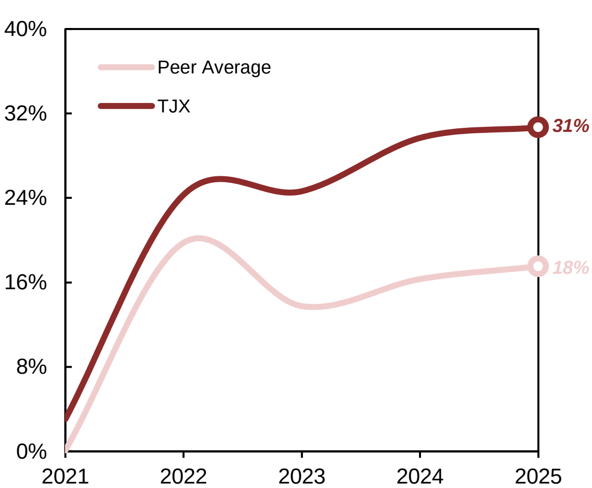
Source: Company Filings, CPMT Estimates

Figure 3: LHS EBIT (US$B) vs RHS EBIT Margin



Source: Company Filings, CPMT Estimates

Figure 4: ROIC vs Peer Average



Source: Bloomberg

significant discounts and variety offered by OPRs, making them a defensive and attractive option in both favorable and challenging economic conditions. Consumer spending habits for these demographics are increasingly diverging between value and premium, with the shift in shopping behavior driven by the influence of digital and social media. This consumer pursuit of value will continue to be a tailwind for the industry.

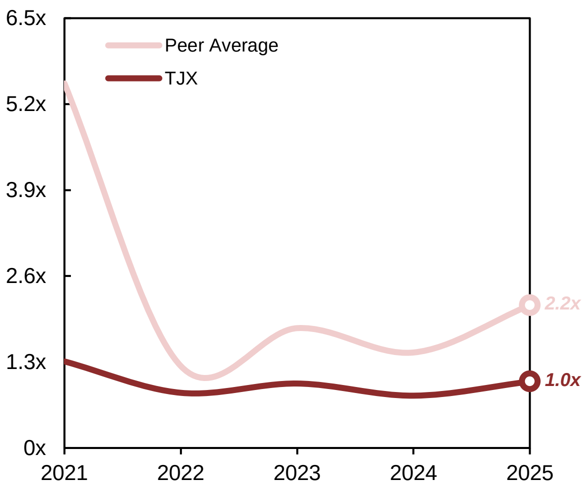
Mandate Fit

Quality Management: Ernie Herrman has served as the Company's President and CEO since 2016. He has held various leadership roles within TJX since joining in 1989. Herrman has been pivotal in driving the Company's strategic initiatives, including the expansion into international markets, diversifying the Company's revenue mix. Additionally, Herrman navigated TJX through several challenging economic environments, including the global financial crisis and the COVID-19 pandemic, by implementing merchandising and inventory purchasing strategies that ensured both short-term stability and long-term growth. As of FY2024, at-risk compensation for the CEO and NEOs was ~90% and ~83%, respectively.

Competitive Advantage: TJX's competitive advantage stems from its diversified supply chain, low-cost structure, high inventory turnover, and strong customer retention. The Company has a diverse vendor list of over 21,000 suppliers, allowing TJX to purchase inventory quickly and benefit from strong vendor sourcing relationships. This allows the Company to operate with minimal staffing, primarily focused on sales and cashiering, unlike its peers who require staff for design, production, and fulfillment. This results in greater operating income per sqft and lower operational costs. This is evidenced by TJX's US$162 operating income per sqft and EBIT margin of 11.2%, compared to the peer averages of US$102 and 9.6%, respectively. This differs from traditional retailers, who often rely on fixed pricing models and predictable inventory, aiming for consistent stock assortments, resulting in fewer opportunities for consumer excitement. In contrast, the breadth of products offered across the various brands within the Company's ecosystem leads to a more comprehensive shopping experience compared to traditional retailers and OPR peers. TJX's size and scale provide the Company with the flexibility to purchase a greater variety of unique merchandise. This further amplifies the sense of urgency and excitement that compels customers to explore the store frequently, as reflected by TJX's average inventory turnover ratio of 6.3x, compared to the peer average of 5.8x. Additionally, the Company's dominant market position and brand reputation make TJX a more attractive candidate to win retail space in high foot traffic areas relative to peers, further contributing to higher inventory turnover.

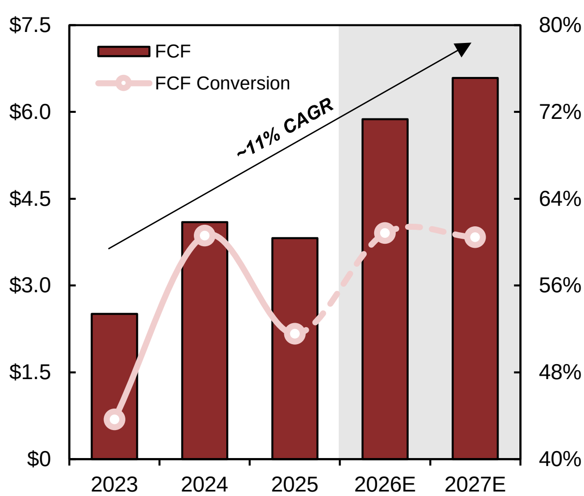
The Company's sticky customer base is partially attributable to the TJX credit card that incentivizes shoppers to shop within the Company's ecosystem. The card allows customers to accumulate points and receive discounts on future purchases at any of the TJX-owned companies, cultivating long-term engagement with the brand. Additionally, the Company is an omni-channel retailer, allowing customers to shop both online and in-store, a feature not offered by its OPR peers. This provides the Company with an additional growth runway for e-commerce platform expansion. Historically, as of FY2024, the e-commerce segment accounted for only ~1% of revenue but has since increased to ~3% in FY2025, achieving a three-year CAGR of 8%. The presence of an e-commerce platform also allows TJX to better capitalize on holiday and event sales relative to peers by enabling the Company to reach a broader audience and offer more convenient shopping options.

Figure 5: Net Debt/EBITDA vs Peer Average



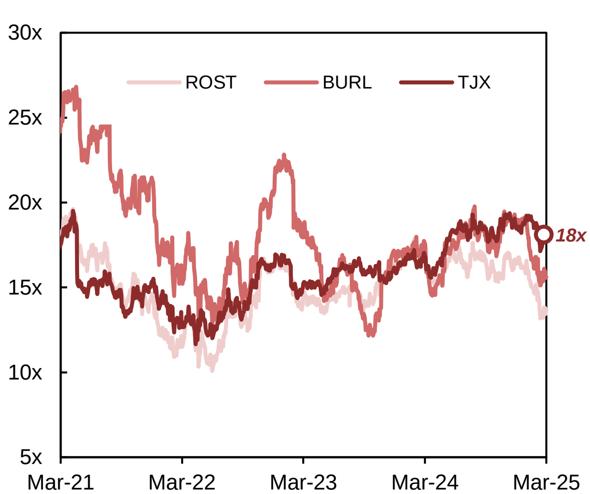
Source: Bloomberg

Figure 6: LHS FCF (US$B) vs RHS FCF Conversion



Source: Company Filings, CPMT Estimates

Figure 7: NTM EV/EBITDA vs Peers



Source: S&P Capital IQ

Strong Balance Sheet: TJX has Net Debt of US$7.4B and a Net Debt/EBITDA ratio of 1.0x, compared to the peer average of 2.2x. The Company has favourable debt commitments, with 65% of its debt maturing after 2027 at an average rate of ~3%. TJX's US$1.5B credit facility also remains undrawn, with an interest rate 90bps above SOFR, providing the Company with ample liquidity. TJX currently holds credit ratings of BBB+ and A2 from S&P and Moody's, respectively.

Growing Free Cash Flow: TJX's strong ROIC and dominant market share have resulted in a three-year FCF CAGR of 17%, representing an average FCF conversion rate of 56%, compared to the peer average of 38%. This is primarily due to the Company's strategic investment in new stores, focusing on high-return locations and avoiding over-expansion,. This results in a lower capex as a % of CFO ratio at 32%, compared to the peer average of 56%. During FY2025, TJX generated US$4.2B in FCF, returning ~90% to shareholders in the form of dividends and share repurchases. Management remains committed to long-term dividend growth and has grown its dividend per share at a 10-year CAGR of 14%.

Risks

TJX's top-line growth is heavily susceptible to inflation due to the Company's reliance on consumer spending and resiliency. Although TJX is defensive in nature, the Company's sales are not immune to economic downturns and rising inflation. Moreover, the retail landscape will continue to get more competitive, putting pressure on TJX's ability to maintain margins. Additionally, the difficulty in penetrating new international markets may inhibit the Company's growth runway. Although TJX has successfully expanded into Europe and Australia, further international growth may be challenging due to market saturation, local competition, and varying consumer preferences. Lastly, while the online channel offers avenues for growth, the potential for increased operating costs in logistics and advertising as the Company scales its platform may pose a threat to its e-commerce margins.

Investment Thesis and Valuation

TJX was valued at US$135 using a 10-year DCF with a WACC of 7.7%. The terminal value was determined through a 50/50 blend of (1) the Gordon Growth method, using a terminal growth rate of 2.0%, and (2) an EV/EBITDA exit multiple of 18x.

The CPMT favours TJX's dominant market position and diverse product offerings, which have allowed the Company to achieve superior earnings metrics and same-store sales growth compared to peers. TJX's scale will enable it to continue growing its market share and expand its customer base through loyalty programs and the ability to cross-sell products across the Company's ecosystem. TJX's low-cost operating model and diversified supply chain allow the Company to refresh inventory quickly and at attractive margins. With its global distribution network and robust e-commerce platform, the CPMT is confident that TJX is better positioned than peers to penetrate international markets and capitalize on global demand. The Fund favours the Company's defensive nature and consistent stability in contrast to more cyclical and competitive retailers. In the last year, TJX saw significant multiple expansion, with the Company solidifying a premium due to its superior margins, strong FCF generation, and effective inventory management. The CPMT is confident TJX will deliver on its growth expectations, and as such, the Fund believes that the Company meets the requirements to be considered as a highly attractive investment opportunity.