

November, 03, 2018

Ross Stores Inc.: ROST

Ala Saidi

Sector: Consumer Discretionary

Industry: Specialty Retail

Current Price: \$100.03

Target Price: \$126.93

Company Description: Ross stores, Inc. operates two brands of off-price retail apparel and home accessories stores. Ross Stores offers name brand and designer apparel, accessories, footwear and home fashions at discount prices.

BUY

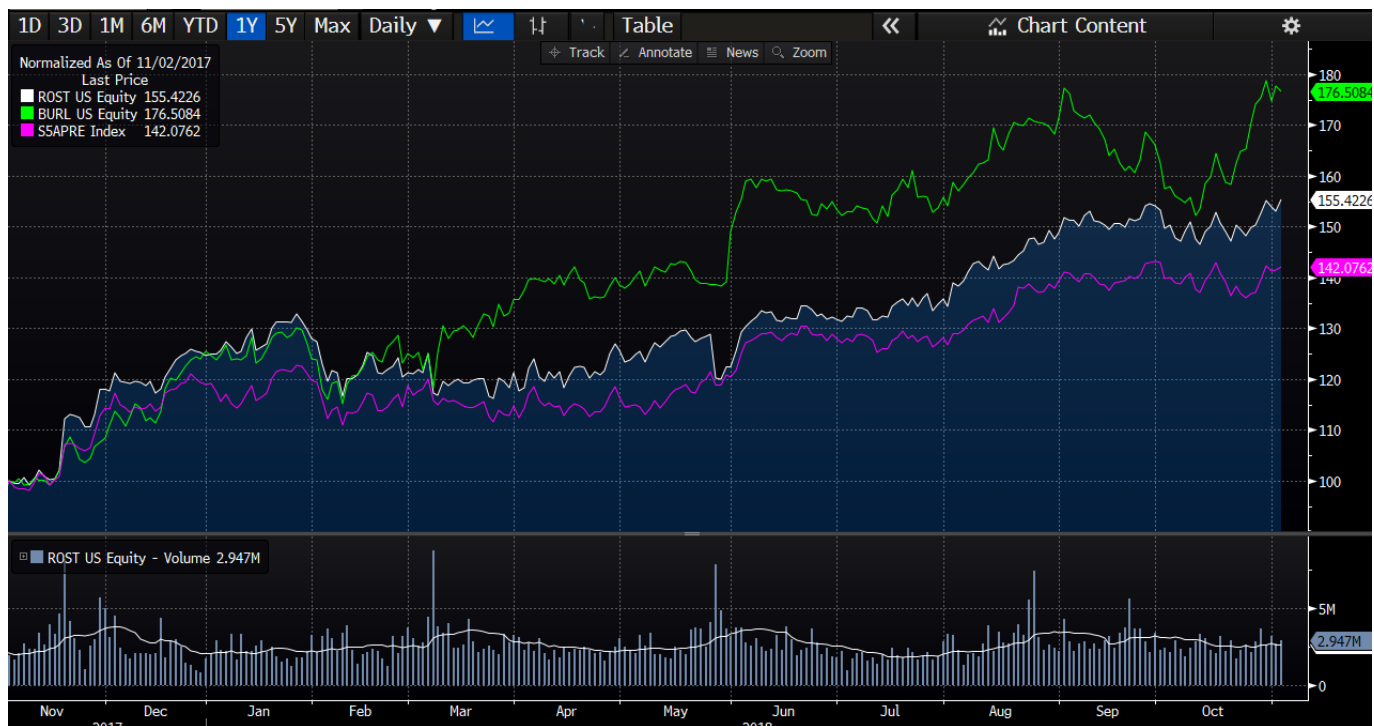
Current Price: \$100.03

Target Price: \$126.93

Market Cap: 37.35B

Average volume: 2.9M

P/E Ratio: 24.27



Thesis:

Ross stores are deemed as a retail treasure and a rarity for its strong sales and earnings growth. ROST showed very strong results during the last quarter and is expected to continue with their revenue and earnings progress mainly due to their long-term store growth potential that continues to add value to the company.

Catalysts:

- Short Term(within the year): off-price and off-mall nature
 - 100 stores per year (Slow and steady)
- Long Term (3+): Strong numbers that affirm the company's long term growth narrative.
 - Long-term store growth potential (2600 to 3000 stores)

Company performance within the Industry:



The principal competitive factors in the off-price retail apparel and home fashion industry are offering significant discounts on brand name merchandise, offering a well-balanced assortment that appeals to target customers, and consistently providing store environments that are convenient and easy to shop. To execute this concept, ROST continue to make strategic investments in their merchandising organization. Also

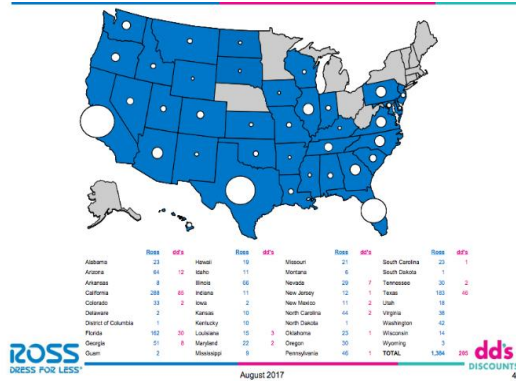
continue to make improvements to their core merchandising system to strengthen their ability to plan, buy, and allocate product based on more local versus regional trends. Nevertheless, the retail apparel market is highly fragmented and competitive. Ross Stores face a challenging macro-economic and retail environment that creates intense competition for business from department stores, specialty stores, discount stores, warehouse stores, other off-price retailers, and manufacturer-owned outlet stores, many of which are units of large national or regional chains that have substantially greater resources. The company also compete to some degree with retailers that sell apparel and home fashions through catalogs or online. The retail apparel and home-related businesses may become even more competitive in the future. However, Ross Stores Inc. is outperforming in the industry and versus its competitors where if we compare by Net Income we can see that during the 2nd Quarter 2018 Net Income grew year-to-year by 23.02% for ROST while most of the player have experienced a contraction in NI by - 59.44%

Business Overview:



Ross Stores, Inc. is an S&P 500, Fortune 500, and NASDAQ 100 (ROST) Company headquartered in Dublin, California, with fiscal 2018 revenues of \$14.7 billion. Ross Stores provide the globe best brands and latest styles where the firm work directly with manufacturers to negotiate their deals. The company's culture believes in "no frills" therefore no window displays, mannequins or fancy fixtures and decorations in their stores believing that this allow them to pass more savings to their customers. The Company operates Ross Dress for Less® ("Ross"), the largest off-price apparel and home fashion chain in the United States with 1,483 locations in 38 states, the District of Columbia, and Guam as of October 15, 2018. Ross offers first quality, in-season, name brand and designer apparel, accessories, footwear, and home fashions for the entire family at savings of 20% to 60% off department and specialty store regular prices every day. The Company also operates 237 dd's DISCOUNTS® in 18 states as of October 15, 2018 that feature a more moderately priced assortment of first quality, in-season, name brand apparel, accessories, footwear, and home fashions for the entire family at savings of 20% to 70% off moderate department and discount store regular prices every day.

Operations:



Ross Stores operates two brands of off-price retail apparel and home fashion stores: Ross Dress for less and dd's DISCOUNTS. Ross does a roaring trade in off-price apparel and home fashion chain, offering first quality, in-season, name-brand, and designer apparel, as well as accessories, footwear and home décor at between 20%-60% off department and specialty store regular prices.

Launched in 2004, dd's DISCOUNTS serves one of the fastest-growing demographic markets in the US. The ultra-low-price spinoff, which offers brand-name apparel at a 20%-70% discount, has grown to almost 237 locations in 18 states including California, Florida and Texas. Similarly, Ross Stores for less has 1,483 Ross Dress for Less stores in 38 states. The stores average 23,200 sf, and they are located in strip shopping centers in urban and suburban neighborhoods. The retailer operates six distribution-processing facilities: three in California, two in South Carolina and one in Pennsylvania. These distribution centers are the sole source of its stores merchandise. In addition, the discounter owns and leases three other warehouse facilities for pack-away storage. To distribute merchandise to stores on a regular basis. Ross Stores enlists the help of third party cross-docks.

Long term plan:

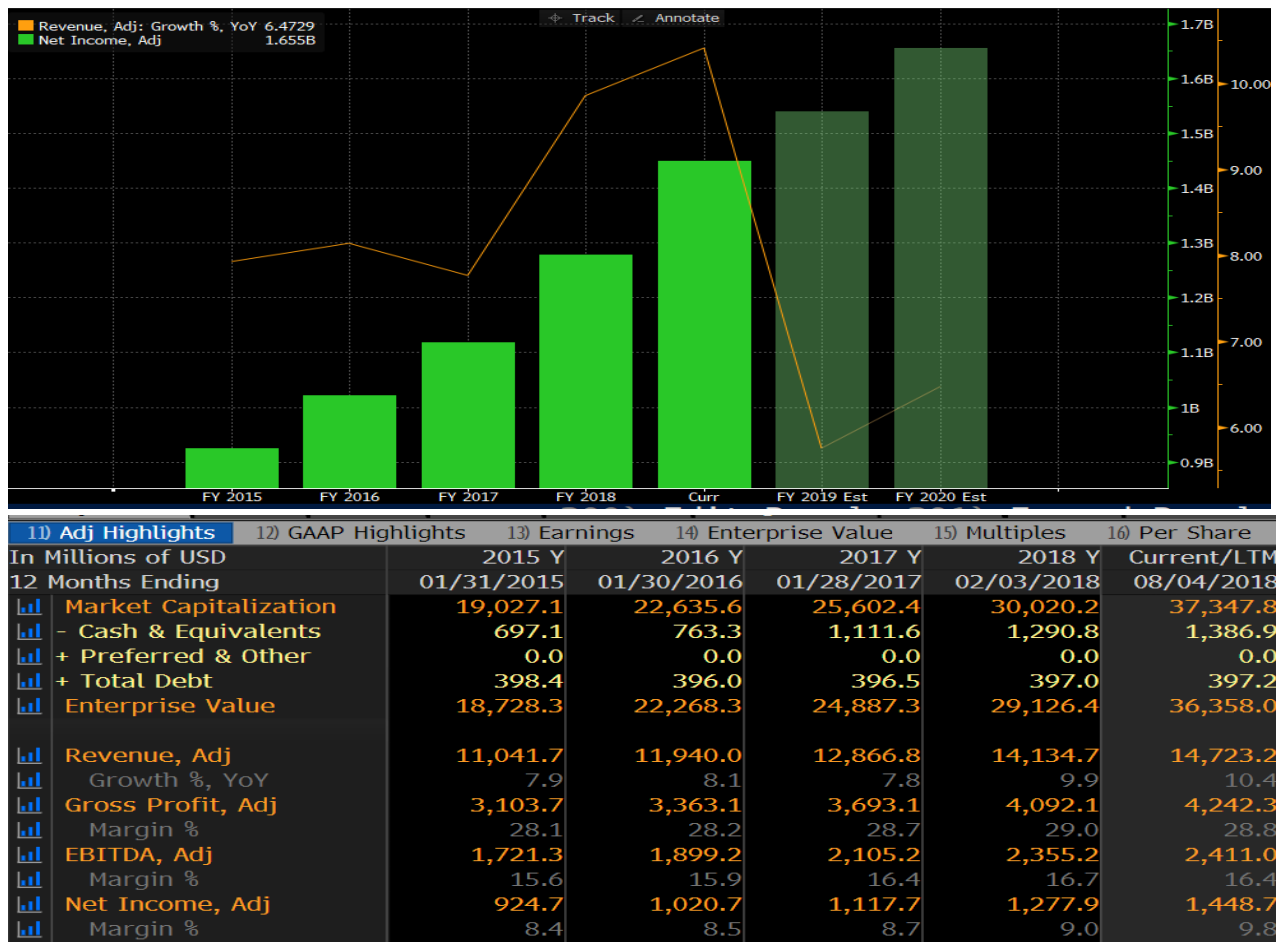
Ross Stores announces the recent opening of 30 Ross Dress for Less Ross and ten dd's DISCOUNTS stores across 19 different states in September and October. These new locations complete the Company's store growth plans for fiscal 2018 with the addition of 99 new stores.

"This fall, we continued to expand our Ross and dd's footprints across our existing markets as well as expansion in our newer market – the Midwest," said Jim Fassio, President and Chief Development Officer. "We now operate nearly 1,500 Ross and over 230 dd's DISCOUNTS locations. Looking ahead, we continue to believe there is plenty of opportunity to further expand our store base for both chains given consumers' ongoing focus on value. As such, we recently updated our longer-term growth store potential to reflect our confidence that Ross can grow to 2,400 locations and dd's can become a chain of 600 stores."

Financial Performance:

Ross Stores annual sales have risen more than 40% since 2011 thanks to rapid store expansion and steady same-store sales growth between 3%-7% yearly. Its annual profits have kept pace with top line growth over the period as the chain has managed to slow its overhead cost growth. The fast-growth chain's sales jumped 8% to \$12.9B a \$1B gain, during the fiscal year 2017 again that was mainly due store growth. Comparable store sales have also increased by 4%. The net income was up to 8.7% to

\$1.1B due to the lower cost of goods sold, mainly offset by higher selling, general and administrative expenses. Cash from operating activities also grew by 14% to \$1.6B in reflect to higher net income. Followed by year 2018 where Ross Stores have continued to perform well the revenue grew to 10% resulting sales of \$14.12B, net income similarly rose to 9% - \$1.3B.

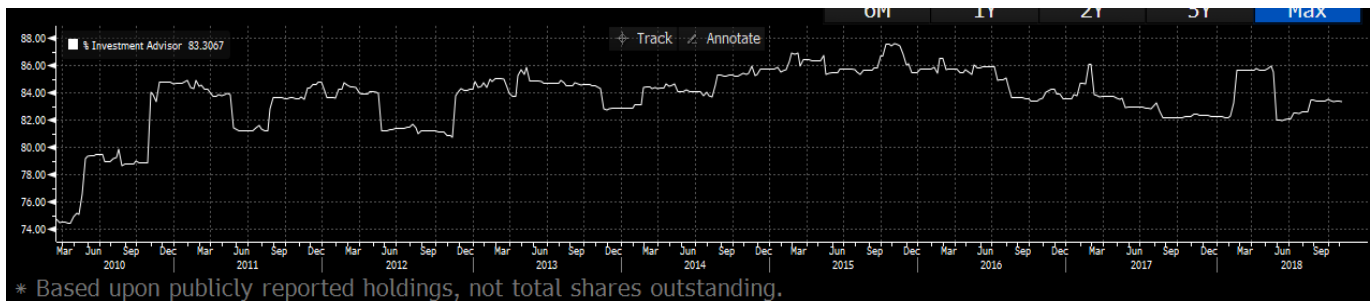


Ownerships:

Institutions own 99.48% of Ross Stores Float. Investment advisors own 83.31% of the float with Vanguard Group Inc. being the top holder 9.70%. BlackRock Inc. come on the second place owning 7.01 % of the float. Followed by FMR LLC who also own a big portion of

6.28%. Pension Fund own 4.51% of the total float. While hedge fund have, approximately 3.88% compared to 5.03% last year.

54) Ownership Type	10/29/17	Curr	Change	
41) Investment Advisor	82.28	83.31	+1.03	▲
42) Pension Fund	4.18	4.51	+0.33	▲
43) Hedge Fund Manager	5.03	3.88	-1.15	▼
44) Individual	2.23	2.18	-0.05	▼
45) Bank	1.84	1.8	-0.04	▼
46) Government	1.89	1.38	-0.51	▼
47) Insurance Company	0.95	1.38	+0.43	▲
48) Sovereign Wealth Fund	0.96	1.05	+0.09	▲
49) Corporation	0.27	0.25	-0.02	▼



Sales/Earnings outlook:

Looking at the company's performance, ROST has continued on showing progress. Last results of Q2 2018 were positive. Earnings per share for the first weeks of Q2 were at \$1.04, up from \$0.82 compared to the same time last year 2017. Net earnings have grown from \$317M to \$389M in 2018. Total sales for the second quarter have increased by 9% to \$3.7 billion comparable to stores sales that grew 5% compared to Q2 2017. The growth was on top of the same-store sales gain of 4% for Q4 2017. Q2 2018, there was an obvious strength across merchandise categories and geographic markets. So better than expected operating margin of 13.8% was down from last year as higher merchandise gross margin and leverage on occupancy and buying costs were more than offset by a combination of unfavorable timing of pack away-related expenses, higher freight costs, and this year's wage investments. For both Q1 and



Q2 of 2018, EPS were \$2.15 up from \$1.64 last year.

Similarly, sales rose 9% to \$7.3B just for the first two quarters of year 2018. Ending Q2, inventories were up by 6% prior to the year before. Average in-store inventories were similarly up by 4% while the Pickaway as a percentage of total inventories was 44% compared to 46% last year. In addition to that dd's DISCOUNTS had a very strong sales growth which led to a solid growth in the operating profit year-to-date. Resulting of the total year

performance, revenue there is a revenue growth of 10.4% at \$14.7B compared to \$12.8B in 2017. The year-to-year revenue is expected to keep increasing for the up-coming years with a slower pace growth. Ross Stores will have a forecasted revenue growth of 5.8% in 2019 with a revenue of \$14.9B followed by a 6.5% growth in 2020 with a revenue of \$15.9B and a 6.6% revenue growth in 2021 with a revenue of \$16.96B followed by a growth of 8% in year 2022 with a revenue reaching \$18.3B. CEO - Ms. Rentler said, "While we are encouraged by our recent strong sales and earnings results, we again face our own challenging multi-year comparisons as well as a very competitive retail environment. As a result, although we hope to do better, we continue to take a prudent approach to forecasting our business in 2018." The results of 2018 have continued to exceed expectation similarly to the forecasted revenue growth for the next years that looks very positive. Ross Stores however remain in a very competitive environment. Yet, there is a big potential on strengthening of the off-price sector and to perform well within this sector. The company is focusing on long term growth with a target of opening 3,000 store

locations that can have a potential of 80% increase over ROST current base





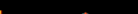



Condensed Consolidated Statements of Earnings

(\$000, except stores and per share data, unaudited)	Three Months Ended		Six Months Ended	
	August 4, 2018	July 29, 2017	August 4, 2018	July 29, 2017
Sales	\$ 3,737,926	\$ 3,431,603	\$ 7,326,545	\$ 6,738,032
Costs and Expenses				
Cost of goods sold	2,666,983	2,420,942	5,189,202	4,750,908
Selling, general and administrative	554,581	498,276	1,079,004	973,095
Interest (income) expense, net	(1,393)	2,341	(1,896)	5,510
Total costs and expenses	3,220,171	2,921,559	6,266,310	5,729,513
Earnings before taxes	517,755	510,044	1,060,235	1,008,519
Provision for taxes on earnings	128,351	193,505	252,579	370,962
Net earnings	\$ 389,404	\$ 316,539	\$ 807,656	\$ 637,557
Earnings per share				
Basic	\$ 1.05	\$ 0.83	\$ 2.17	\$ 1.66
Diluted	\$ 1.04	\$ 0.82	\$ 2.15	\$ 1.64

11) Adj Highlights	12) GAAP Highlights	13) Earnings	14) Enterprise Value	15) Multiples	16) Per Share	17) Stock Value	
In Millions of USD	2014 Y	2015 Y	2016 Y	2017 Y	2018 Y	Current/LTM	2019 Y Est
12 Months Ending	02/01/2014	01/31/2015	01/30/2016	01/28/2017	02/03/2018	08/04/2018	01/31/2019
Market Capitalization	14,493.4	19,027.1	22,635.6	25,602.4	30,020.2	37,347.8	
- Cash & Equivalents	435.2	697.1	763.3	1,111.6	1,290.8	1,386.9	
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0	0.0	
+ Total Debt	150.0	398.4	396.0	396.5	397.0	397.2	
Enterprise Value	14,208.2	18,728.3	22,268.3	24,887.3	29,126.4	36,358.0	
Revenue, Adj	10,230.4	11,041.7	11,940.0	12,866.8	14,134.7	14,723.2	14,948.2
Growth %, YoY	5.2	7.9	8.1	7.8	9.9	10.4	5.8
Gross Profit, Adj	2,869.4	3,103.7	3,363.1	3,693.1	4,092.1	4,242.3	4,272.1
Margin %	28.0	28.1	28.2	28.7	29.0	28.8	28.6
EBITDA, Adj	1,549.2	1,721.3	1,899.2	2,105.2	2,355.2	2,411.0	2,387.9
Margin %	15.1	15.6	15.9	16.4	16.7	16.4	16.0
Net Income, Adj	837.3	924.7	1,020.7	1,117.7	1,277.9	1,448.7	1,540.1
Margin %	8.2	8.4	8.5	8.7	9.0	9.8	10.3

Competition:

The principal competitive factors in the off-price retail apparel and home fashion industry are offering significant discounts. As mentioned before, Ross Stores are performing really well in comparison to their competitors and industry peers. Comparing ROST to other brands financially, we can see that the company has a positive 1-year revenue growth with an average of 9.85% and a 1 years EPS of 17.64%.

Segment		Revenue %			Metric	ROST	Low	Comp Range	High	
Specialty Apparel Stores 		100%				Est P/E Current Yr	24.27	8.81		39.58
						Sales Growth Yoy ...	9.85	-2.20		25.35
						EBITDA Margin (%)	16.66	6.29		22.75
						Inv. to Sales Spre...	-3.33	-13.54		6.17
<div> ROST US  Median</div>										
Overview	Comp Sheets	Markets	EPS Preview	Ownership	Credit	Custom				
Equity Valuation	CDS Spreads	Op Stats	Profitability	Balance Sheet	ESG					
Name (BICS Best Fit)	Sales Growth Yoy (%)	EBITDA Margin (%)	5Y CAGR Sales (Qtr %)	Sales Growth (Qtr %)	Same Store Sales	Sales Spread (Qtr %)	Inv. to Sales Spread	# of Locations (Qtr)	Advertising Expenses (Ann)	Rent Expense (Ann)
Median	7.91%	11.99%	5.23%	9.92%	3.00%	4.52	-3.33	1.48k	87.15M	293.30M
100) ROSS STORES INC	9.85%	16.66%	7.94%	8.93%	5.00%	3.93	-3.33	1.68k	76.40M	532.40M
101) BURLINGTON STORES INC	9.28%	11.39%	9.15%	9.92%	2.90%	7.02	6.17	651.00	82.30M	314.29M
102) TJX COMPANIES INC	8.08%	12.87%	7.69%	11.65%	6.00%	5.65	4.76	4.19k	412.40M	1.59B
103) BIG LOTS INC	1.36%	7.88%	0.69%	0.21%	1.60%	-1.39	5.18	1.42k	92.00M	330.70M
104) DULUTH HOLDINGS INC -...	25.35%	9.42%	--	28.33%	--	--	-7.52	39.00	--	5.50M
105) TAILORED BRANDS INC	-2.20%	11.99%	4.93%	-3.21%	1.70%	-4.91	-13.54	1.48k	--	254.50M
106) CANADIAN TIRE CORP-C...	5.95%	12.61%	2.87%	3.16%	--	--	-3.39	1.70k	--	--
107) GUESS? INC	7.91%	6.29%	0.21%	13.65%	3.00%	10.65	-7.12	1.66k	36.30M	272.30M
108) URBAN OUTFITTERS INC	1.98%	11.33%	5.52%	13.69%	13.00%	0.69	-10.82	618.00	134.63M	269.80M

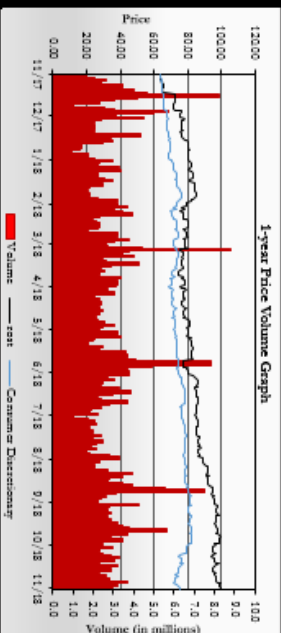
Conclusion:

Ross stores are deemed as a retail treasure and a rarity for its strong sales and earnings growth. The discount chain that competes with stores like Marshalls and TJ Maxx continues to post very strong results. Due to their out performance over the last few years and outstanding performance on the company's most recent quarter with the overall sales growing to \$14.7B and same-store sales rising by 5% on top of the 4% growth last year. And also due to their long term plan of opening more stores and growing their expansion in different locations. In addition to their bare-bones philosophy that allows them to pass savings up to 60% on their customers make them a winner in the Industry. The company has indeed a big potential in the market. Therefore, I recommend ROST stock a buy. The company has gained 1.64% in the last trading day, raising from \$98.42 to \$100.03. The price has risen in 6 of the last 10 days up by 5.64%. Over the last two weeks the volume has increased along with the price which is a positive technical sign and in total of 0.32M shares were traded over night. In total of 2.94M shares were bought and sold for \$294M. The stock is a Golden Star Signal and I expect it to have further gains in both short-term and long-term.

Ross Stores, Inc. (rosto)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Ala Saidi
11/3/2018Current Price:
Dividend Yield:\$100.03
0.9%Intrinsic Value
Target Price\$115.62
\$126.21Target 1 Year Return: 27.07%
Probability of Price Increase: 100%

Ross Stores, Inc., together with its subsidiaries, operates off-price retail apparel and home fashion stores under the Ross Dress for Less and dd's DISCOUNTS brands in the United States.

Description

General Information

Sector: Consumer Discretionary
Industry: Specialty Retail
Last Guidance: May 8, 2018
Next earnings date: November 20, 2018

Market Assumptions

Estimated Equity Risk Premium: 5.10%
Effective Tax Rate: 21%

Market Data

Market Capitalization	\$37,347.77
Daily Volume (mil)	2.95
Shares outstanding (mil)	373.37
Diluted Shares outstanding (mil)	378.17
% Shares held by institutions	90%
% Shares held by hedge funds	3%
% Shares held by insiders	2.17%
Short Interest	180%
Days to cover short interest	193
52-week high	\$101.20
52-week low	\$62.85
Volatility	21.72%

Quarter ending	Past Earnings Surprises	EBITDA	Market and Credit Scores	Industry and Segment Information
7/29/2017	Revenue	7.88%	Recommendation (STARs) Value--3	LTM Revenues by Geographic Segm LTM Revenues by Business Segments
10/28/2017	1.85%	7.42%	Recommendation (STARs) Description--Ho	United States--100%
2/3/2018	3.10%	5.24%	Quality Ranking Value--A+	Off-Price Retailing--100%
3/9/2018	1.47%	-0.70%	Quality Ranking Description--Highest	..
8/4/2018	2.20%	1.10%	Short Score--0	..
Mean	2.19%	1.10%	Market Signal Probability of Default % (Non-Ratings)--0%	..
Standard error	10%	5.1%	CreditModel Score (Non-Ratings)--a-	Peers

Management	Position	Total Compensation Growth	Stock Price Growth During Tenure	Peers
Balmut, Michael	Executive Chairman	-100% per annum over 4y	11.61% per annum over 4y	The TJX Companies, Inc.
Bentley, Barbara	CEO & Director	-100% per annum over 4y	11.61% per annum over 4y	L Brands, Inc.
O'Sullivan, Michael	President, COO & Director	-100% per annum over 4y	11.61% per annum over 4y	The Gap, Inc.
Hartshorn, Michael	Executive VP, CFO & Principal Accounting Officer	-100% per annum over 3y	13.33% per annum over 3y	Burlington Stores, Inc.
Braunton, Bernard	President of Merchandising- Ross Dress for Less	-100% per annum over 1y	22.03% per annum over 1y	Foot Locker, Inc.
Fassio, James	President & Chief Development Officer	-100% per annum over 1y	22.03% per annum over 1y	Peers

Profitability	Profitability	Profitability	Profitability	Profitability
Return on Capital (GAAP)	32.32%	25.22%	11.79%	Bargaining Power of Suppliers--MIDDLE TIER
Operating Margin	12%	9.97%	11.86%	Overall Position among Peers--MIDDLE TIER
Revenue/Capital (GAAP)	2.79	2.53	1.06	Threat of New Competitors--LOWEST TIER
ROE (GAAP)	57.3%	55.0%	15.8%	Threat of Substitutes--HIGHEST TIER
Net margin	11.3%	10.4%	6.0%	Intensity of Existing Rivalry--MIDDLE TIER
Revenue/Book Value (GAAP)	5.079092781	5.30	2.63	Bargaining Power of Customers--MIDDLE TIER
Invested Funds	25.2%	15.8%	15.8%	Overall Position among Peers--MIDDLE TIER
Cash/Capital	0.4%	0.7%	10%	Threat of New Competitors--LOWEST TIER
Operating Assets/Capital	74.4%	82.2%	73.6%	Intensity of Existing Rivalry--MIDDLE TIER
Goodwill/Capital	0.0%	0.0%	0.8%	Bargaining Power of Suppliers--MIDDLE TIER
Capital Structure	100% (LTM)	100% (LTM)	100% (LTM)	Overall Position among Peers--MIDDLE TIER
Total Debt/Market Capitalization	0.44	0.62	0.62	Threat of Substitutes--HIGHEST TIER
Cost of Debt	4.5%	5.1%	5.0%	Intensity of Existing Rivalry--MIDDLE TIER
CGFS Rating (F-score, Z-score, and default Probab	AAA	AAA	AAA	Bargaining Power of Suppliers--MIDDLE TIER
WACC	9.7%	11.0%	10.6%	Overall Position among Peers--MIDDLE TIER

Forecast Assumptions	Explicit Period (15 years)	Continuing Period	Valuation	Sensitivity Attribution Analysis
Revenue Growth CAGR	8%	2.5%	Intrinsic Value Distribution--Probability (U'guide)=100%	Revenue
Average Operating Margin	14%	12%		Operating costs
Average Net Margin	11%	8%		Capital expenditures
Growth in Capital CAGR	18%	3%		Discount Rate
Growth in Claims CAGR	1%	3%		
Average Return on Capital	18%	9%		
Average Return on Equity	22%	9%		
Average Cost of Capital	9%	9%		
Average Cost of Equity	9%	9%		

