

Overview

- Ross Stores, Inc. is an off-price apparel and home fashion chain
- Ticker: ROST
- Current Price: \$119.80

Business Segments

- **Merchandising**
 - This strategy incorporates a combination of off-price buying techniques to purchase advance-of-season, in season, and past-season merchandise for both Ross and dd's DISCOUNTS. Selling nationally recognized name brands sold at compelling discounts is an important determinant to Ross' success.
- **Purchasing**
 - Ross has a large network of merchandise vendors and manufacturers for both Ross and dd's DISCOUNTS and adequate sources of first-quality merchandise to meet their requirements. They purchase the vast majority of their merchandise directly from manufacturers and have not experienced difficulty in sourcing sufficient merchandise inventory.
- **Pricing**
 - This segment focuses on selling brand name merchandise at Ross that is priced 20% to 60% below most department and specialty store regular prices.

Economic Moats

- **Economies of Scale**

- Ross employs the competitive advantage of Economies of Scale through their purchasing strategy that consists of purchasing merchandise at lower prices and marking them up less than a department or specialty store, which enables them to offer customers consistently low prices and compelling value.

- **Intangible Assets**

- Ross also utilizes the competitive advantage of Intangible Assets through their strong supplier relations of about 8,300 different merchandise vendors.

Recent News

- Nov. 17 Ross announced a regular quarterly cash dividend of \$0.285 per common share, payable on December 31, 2021.
- Sep. 29 Ross appointed Adam Orvos to Executive VP and CFO

Adam Orvos was formerly the Group Senior Vice President of Supply Chain Administration.

- Oct. 11 Ross completed their 2021 growth plan

In September and October Ross opened 18 Ross Dress for Less and 10 dd's DISCOUNTS stores across 15 different states. The new locations completed the Company's store growth plans for fiscal 2021 with the addition of 65 new stores.

Q3 Earnings Highlight

- Net Income \$385million
- EPS \$1.09

- Comparable store sales up 14%
- Total sales for the quarter rose 19% to \$4.6 billion

Results and Financials

- Children and men's were the best performing categories
- Ross completed expansion program for 2021 with the addition of 18 new Ross and 10 dd's DISCOUNTS in third quarter
- Operating margin of 11.4% was well above our guidance range
- Cost of goods sold grew by 85 basis points in the quarter.
- SG&A for the period grew 15 basis points as leverage from the strong sales gain was offset by COVID expenses and higher incentive costs given our better-than-expected third quarter results.



Q4 Forecast

- Management believes that since the consumer is even more focused on value and convenience. That they've gained market share during the pandemic and are confident about our future prospects for further gains given the significant number of retail closures and bankruptcies.
- COVID-related costs are projected to negatively impact EBIT margin by approximately 30 basis points in the period.
- Ross is forecasting comparable store sales to be up 7% to 9% with earnings per share projected in the range of \$0.83 to \$0.93 for the 13 weeks ending January 29, 2022.
- Net interest expense is estimated to be about \$18 million.
- weighted average diluted shares outstanding are projected to be about 352 million.
- Ross is now forecasting full year comparable store sales gains of 12% to 13%.
- Earnings per share to be in the range of \$4.65 to \$4.75 compared to \$4.60 in 2019.

Valuation

Sensitivity Analysis: Expected Total RoR Range					
P/E ratio	EPS	\$4.40	Estimated EPS growth rate		
			9%	13%	16%
	15		5.4%	10.8%	15.7%
	20		11.5%	17.2%	22.4%
	25		16.4%	22.4%	27.9%

Management in the earnings call predicts that same store sales will grow at roughly 12-13% compared to 2019. Historically speaking, Ross usually is able grow their earnings at a much faster rate than their sales, and as such a base case analysis for the projected earnings rate can be determined at 13%. With this in mind, after running a sensitivity analysis, the expected return can range from 5.4% to 27.9%. Ross is still recovering from the effects of COVID, as such the growth from 2020 is phenomenal but compared to 2019, it looks weaker. However, I believe once Ross has fully recovered there are a lot more growth opportunities available for Ross.

5 year EPS projection										Projecte d total P/ E return price	5 year upsid e	Expected total annualize d return
	Current	2021	2022	2023	2024	2025	15	\$145.45	30%			5.4%
	EP		\$6.6	\$7.1								
	S \$4.40	0	9	\$7.84	\$8.55	\$9.32	20	\$192.03	72%			11.5%
	5yr growth estimate	50%	9%	9%	9%	9%	25	\$238.61	114%			16.4%
Base case	Current	2021	2022	2023	2024	2025	15	\$186.49	67%			10.8%
	EP		\$7.3	\$8.3	\$10.6	\$12.0						
	S \$4.40	9	5	\$9.44	7	5	20	\$246.75	121%			17.2%
	5yr growth estimate	68%	13%	13%	13%	13%	25	\$307.01	175%			22.4%
	Current	2021	2022	2023	2024	2025	15	\$231.56	107%			15.7%
	EP		\$8.3	\$9.6	\$11.1	\$12.9	\$15.0					
	S \$4.40	2	5	9	8	6	20	\$306.85	175%			22.4%
	5yr growth estimate	89%	16%	16%	16%	16%	25	\$382.13	242%			27.9%



Conclusion

Ross is an amazing company with strong vendor connections and an even stronger business foundation. While Ross isn't considered a battleship when compared to the holdings in our portfolio, it is definitely a strong contender in the discount retail industry. Despite being closed for almost a full quarter due to COVID, the financials are beginning to reach and exceed pre-covid numbers. When the 10-Q for quarter 3 is released, we could take a closer look at the financials of Ross and be able to determine if they are currently at a good price to add more to our portfolio. For the time being, our current position is to continue holding Ross.