

Ross Stores, Inc. (ROST)

\$92.51 (As of 08/10/20)

Price Target (6-12 Months): **\$97.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/04/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: C

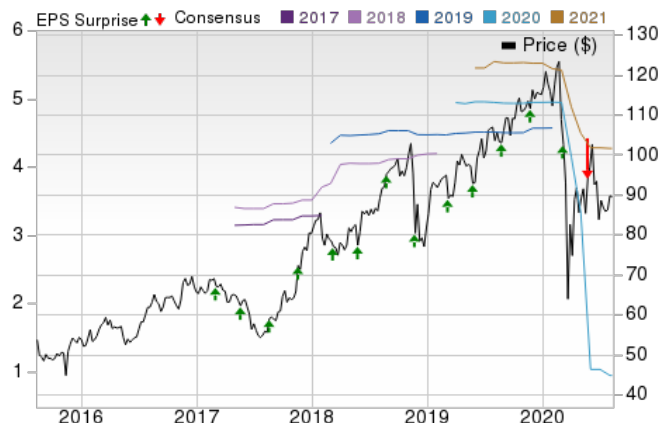
Growth: F

Momentum: D

Summary

Shares of Ross Stores have lagged the industry in the past three months. The stock's dismal run on the bourses can be attributable to drab first-quarter fiscal 2020 results, wherein both top and bottom lines declined year over year. Results were affected by temporary store closures, including all Ross Dress for Less and dd's DISCOUNTS stores stemming from the ongoing coronavirus pandemic. Further, the company withdrew its top and bottom line view for fiscal 2020 and the second quarter due to uncertain COVID-19 impacts. However, its store reopening efforts seem encouraging. It re-opened roughly 700 stores as on May 14 in a phased manner. It is also on track to open 39 new stores this fall and 66 stores in fiscal 2020. Apart from this, it reported decline in costs with COGS down 30% and SG&A expense down 25.6% in the fiscal first quarter.

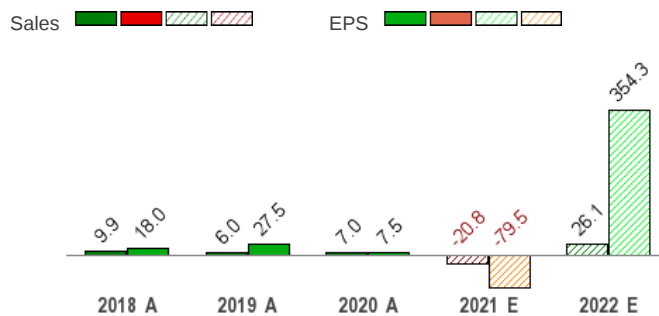
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.16 - \$56.30
20 Day Average Volume (sh)	3,043,025
Market Cap	\$32.9 B
YTD Price Change	-20.5%
Beta	0.79
Dividend / Div Yld	\$1.14 / 1.2%
Industry	Retail - Discount Stores
Zacks Industry Rank	Bottom 19% (206 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2,800.0%
Last Sales Surprise	-11.8%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	08/20/2020
Earnings ESP	-5.7%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,991 E	3,796 E	4,189 E	4,900 E	16,015 E
2021	1,843 A	2,570 E	3,734 E	4,535 E	12,700 E
2020	3,797 A	3,980 A	3,849 A	4,413 A	16,039 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.70 E	\$1.04 E	\$1.15 E	\$1.47 E	\$4.27 E
2021	-\$0.29 A	-\$0.27 E	\$0.85 E	\$1.21 E	\$0.94 E
2020	\$1.13 A	\$1.14 A	\$1.03 A	\$1.28 A	\$4.58 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

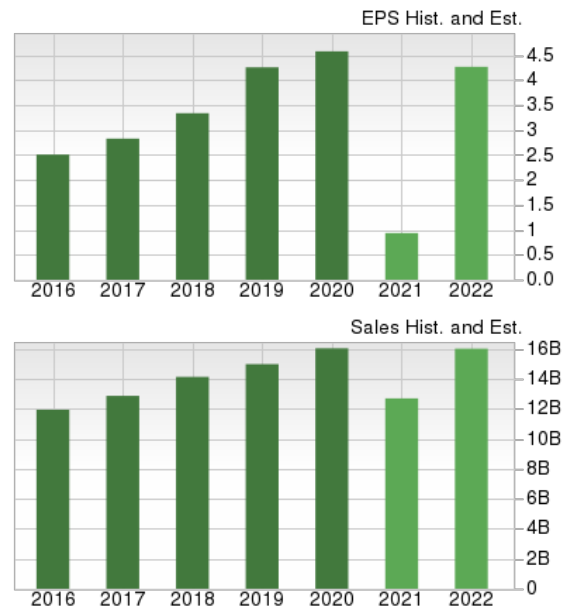
Based in Dublin, CA, Ross Stores Inc. operates as an off-price retailer of apparel and home accessories, primarily in the United States. The company operates its stores under the Ross Dress for Less (Ross) and dd's DISCOUNTS names. The company's stores are located mostly in community and neighborhood shopping centers in heavily populated urban and suburban areas.

Ross Stores primarily offers in-season, branded, and designer apparel, footwear, accessories and other home-related merchandise for everyone in the family. This format primarily targets middle-income households. Prices offered at Ross are generally 20% to 60% below the regular prices of most department and specialty stores.

dd's DISCOUNTS features more moderately-priced first-quality, in-season, name brand apparel, accessories, footwear, and home fashions for the entire family. These stores target moderate-income households. The dd's DISCOUNTS stores offer products at a 20% to 70% lesser price than the moderate department and discount stores.

Ross Stores remains focused with its store expansion initiatives over the years. Further, the company's efforts to expand base by making efforts to increase penetration in the existing as well as new markets. In this regard, it opened 26 stores across nine different states in February and March. During the quarter, the company opened 20 Ross and seven dd's DISCOUNTS stores, bringing the total store count to 1,832.

As of May 2, 2020, Ross Stores operated 1,832 outlets, including 1,566 Ross Dress for Less stores and 266 dd's DISCOUNTS stores.



Reasons To Buy:

▲ **Store Re-opening Plans:** Ross Stores remains on track with its phased store re-opening plan. Ross Stores re-opened roughly 700 stores on May 14 in a phased manner. Going forward, it plans to re-open more stores gradually in sync with health guidelines and government regulations, such as ensuring proper sanitation of stores and workspaces, providing personal protective equipment to store associates and practicing social distancing norms. Further, the company intends to re-open its distribution center network in the next few weeks. Additionally, it remains on track to re-open the corporate offices in the coming months.

▲ **Store Expansion Plan:** Ross Stores has consistent with the execution of its store expansion plans over the years. The company's store expansion efforts are focused on continually increasing penetration in the existing as well as new markets. The company opened 26 stores across nine different states in February and March. During the quarter, the company opened 20 Ross and seven dd's DISCOUNTS stores, bringing the total store count to 1,832. Furthermore, management noted that it doesn't expect to open any new store in the second quarter due to the rising uncertainty in consumer demand and shopping patterns. That said, it anticipates opening 39 new stores this fall and 66 stores in fiscal 2020. The company currently operates 1,566 Ross stores and 266 dd's DISCOUNTS stores across 39 states, the District of Columbia and Guam. Earlier, it projected to expand the Ross chain of stores to 2,400 locations alongside operating about 600 dd's DISCOUNTS stores over the long term.

▲ **Lower Costs Bodes Well:** After rising for the past few quarters, Ross Stores' cost of goods sold (COGS) fell 30% to \$1,890 million during the first quarter of fiscal 2020. Moreover, selling, general and administrative (SG&A) expenses decreased 25.6% to \$415.3 million. As a percentage of sales, SG&A expenses decreased 780 bps.

▲ **Financial Flexibility:** Ross Stores' cash and cash equivalents at the end of first-quarter fiscal 2019 increased 97.6% sequentially to \$2,669.5 million. This included \$800 million drawn on its revolving credit facility to meet the short term cash crunch during the coronavirus pandemic. Notably, the company's cash position remains sufficient to fund short term obligations of about \$1,375.8 million as of Feb 1, 2020. Though long-term debt of \$4,917.4 million (including non-current operating lease liabilities) increased 68.2% sequentially, the company had liquidity of \$3 billion and cash balance of \$500 million May 2. This makes it well placed to overcome this pandemic situation.

To further preserve financial liquidity, the company took several steps including the aforementioned drawing on its revolving credit facility, completing a \$2.0 billion public bond offering, suspending share repurchases and aggressive costs cutting. Consequently, it now expects capital expenditure for fiscal 2020 to be roughly \$420 million, down from the previously guided view of \$730 million. Concurrent with the earnings release, the company also suspended its quarterly dividend program and reduced new store openings for fiscal 2020.

Ross Stores is displaying a robust comps trend in the past few quarters on strong performance across categories and regions. Comps rose 4% in fourth-quarter fiscal 2019 on higher traffic and basket size.

Reasons To Sell:

- ▼ **Soft Q1 Results:** Shares of Ross Stores gained 6.8% in the past three months, underperforming the industry's growth of 13.3%. The company reported drab first-quarter fiscal 2020 results, wherein both top and bottom lines declined year over year. Results were affected by temporary store closures, including all Ross Dress for Less and dd's DISCOUNTS stores stemming from the ongoing coronavirus pandemic. Moreover, it reported operating loss for the first time in 30 years. In response to the ongoing COVID-19 outbreak and its unpredictable impacts, the company withdrew its top and bottom line guidance for fiscal 2020 and the second quarter.
 - ▼ **Stock Appears Overvalued:** Considering price-to-earnings (P/E) ratio, Ross Stores looks pretty overvalued compared with the market at large. The stock has a trailing 12-month P/E ratio of 26.94x compared with 20.91x for the S&P 500. The company's trailing 12-month P/E ratio is above the median level of 25.37x and below the high level of 32.52x, skated in the past year.
 - ▼ **Macroeconomic Factors May Affect Discretionary Sales:** Ross Stores' customers remain sensitive to macroeconomic factors, including credit availability, unemployment levels, interest rate hikes and increase in fuel and energy costs, which may negatively impact their discretionary spending, and in turn the company's growth and profitability. Any unfavorable changes in trade policy may result in higher prices for its customers and may negatively impact their budgets and consequently their discretionary spending.
 - ▼ **Competitive Pressure:** Ross operates in a highly fragmented retail apparel market and faces intense competition from other well-established department stores, specialty stores, discount stores, warehouse stores, other off-price retailers, and manufacturer-owned outlet stores. Many of the company's competitors have larger number of stores, greater market presence, more brand recognition and financial resources that may make it difficult for the company to compete.
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Ross Stores first-quarter fiscal 2020 results were hurt by temporary store closures due to the ongoing coronavirus pandemic. Consequently, it withdrew its view for the second quarter and fiscal 2020.

Last Earnings Report

Ross Stores Wider-Than-Expected Q1 Loss, Sales Lag Estimate

Ross Stores reported drab first-quarter fiscal 2020 results, wherein both the top and bottom lines declined year over year. Results were affected by temporary store closures, including all Ross Dress for Less and dd's DISCOUNTS stores stemming from the ongoing COVID-19 situation, along with operating loss reported for the first time in the last 30 years. Loss of sales from closed stores for almost half of the first quarter and one-time charge related to non-cash inventory hurt operating margin.

Further, management refrained from providing top and bottom line guidance for the second quarter and fiscal 2020 owing to the unprecedented impacts of COVID-19, including fluctuating consumer demand and weak store productivity.

However, the company re-opened roughly 700 stores on May 14 in a phased manner. Going forward, it plans to re-open more stores gradually in sync with health guidelines and government regulations.

Quarter Ending **04/2020**

Report Date	May 21, 2020
Sales Surprise	-11.77%
EPS Surprise	-2,800.00%
Quarterly EPS	-0.29
Annual EPS (TTM)	3.16

Q1 Highlights

Ross Stores posted loss of 29 cents per share against earnings of \$1.13 per share reported in the prior-year quarter. Further, the figure came in wider than the Zacks Consensus Estimate of a loss of a penny.

Total sales plunged 51.5% to \$1,834 million and lagged the Zacks Consensus Estimate of \$2,088 million.

Cost of goods sold or COGS fell 30% to \$1,890 million. Selling, general and administrative (SG&A) expenses decreased 25.6% to \$415.3 million. As a percentage of sales, SG&A expenses decreased 780 bps.

Store Update

During the quarter, the company opened 20 Ross and seven dd's DISCOUNTS stores, bringing the total store count to 1,832 outlets. Management noted that it doesn't expect to open any new store in the second quarter due to the rising uncertainty in consumer demand and shopping patterns. That said, it anticipates opening 39 new stores this fall season and 66 stores in fiscal 2020.

Financials

Ross Stores ended the quarter with cash and cash equivalents of \$2,669.5 million, long-term debt of \$2,285.6 million, and total shareholders' equity of \$2,817.4 million. Prior to the suspension of the share repurchase program in light of the ongoing pandemic, the company bought back 1.2 million shares worth \$132 million. Moving ahead, it does not intend to repurchase any shares for the rest of fiscal 2020.

COVID-19 Updates

In wake of the COVID-19 outbreak, management has undertaken some financial measures like withdrawing \$800 million from its current revolving credit facility, suspending the share repurchase program, lowering costs and capital spending. Notably, capital expenditure for fiscal 2020 is now envisioned to be roughly \$420 million, down from the previously guided view of \$730 million. Also, the company furloughed most of its store and distribution associates along with certain other employees on Apr 5.

However, it has a liquidity of \$3 billion and cash balance of \$500 million which makes it well placed to overcome this hurdle. Apart from these, it has now decided to suspend its quarterly dividend and lower new store openings for fiscal 2020.

Valuation

Ross Stores shares are down 20.5% in the year-to-date period and nearly 10% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 4.3% and 26.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 23.5% and 39.9%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 34.27X forward 12-month earnings, which compares to 29.11X for the Zacks sub-industry, 33.43X for the Zacks sector and 22.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 39.79X and as low as 12.15X, with a 5-year median of 23.46X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$97 price target reflects 35.93X forward 12-month earnings.

The table below shows summary valuation data for ROST

Valuation Multiples - ROST					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	34.27	29.11	33.43	22.81
	5-Year High	39.79	29.98	34.75	22.81
	5-Year Low	12.15	20.97	23.23	16.43
	5-Year Median	23.46	23.48	24.9	18.6
P/S F12M	Current	2.28	1.5	1.25	3.67
	5-Year High	2.66	1.5	1.25	3.67
	5-Year Low	1.26	1.19	0.92	2.81
	5-Year Median	2.37	1.39	1.05	3.31
EV/EBITDA TTM	Current	21.38	25.64	19.5	12.66
	5-Year High	23.51	25.64	19.75	12.68
	5-Year Low	9.5	15.34	12.72	8.29
	5-Year Median	17.82	19.01	15.29	11.37

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 19% (206 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Dollar General Corporation (DG)	Outperform	2
Big Lots, Inc. (BIG)	Neutral	3
Burlington Stores, Inc. (BURL)	Neutral	4
Costco Wholesale Corporation (COST)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Target Corporation (TGT)	Neutral	3
Walmart Inc. (WMT)	Neutral	4
The TJX Companies, Inc. (TJX)	Underperform	5

Industry Comparison Industry: Retail - Discount Stores				Industry Peers		
	ROST	X Industry	S&P 500	DG	DLTR	TJX
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	3	5
VGM Score	F	-	-	A	A	F
Market Cap	32.93 B	17.59 B	23.56 B	48.66 B	23.19 B	67.70 B
# of Analysts	11	11	14	16	9	13
Dividend Yield	1.23%	0.37%	1.71%	0.74%	0.00%	0.00%
Value Score	C	-	-	B	B	D
Cash/Price	0.08	0.08	0.07	0.05	0.08	0.06
EV/EBITDA	14.09	14.47	13.39	20.63	13.27	14.86
PEG Ratio	9.60	4.43	2.92	1.74	2.16	8.90
Price/Book (P/B)	11.69	5.95	3.18	6.75	3.56	14.29
Price/Cash Flow (P/CF)	16.56	15.50	12.69	21.73	11.02	16.43
P/E (F1)	99.88	26.83	22.16	21.77	21.02	93.48
Price/Sales (P/S)	2.34	0.95	2.55	1.64	0.96	1.84
Earnings Yield	1.02%	3.12%	4.33%	4.59%	4.76%	1.06%
Debt/Equity	1.75	1.67	0.77	1.65	1.24	3.19
Cash Flow (\$/share)	5.59	6.38	6.94	8.90	8.87	3.44
Growth Score	F	-	-	A	A	F
Hist. EPS Growth (3-5 yrs)	14.75%	12.69%	10.41%	14.79%	18.19%	8.07%
Proj. EPS Growth (F1/F0)	-79.54%	-13.22%	-6.51%	31.93%	-2.31%	-77.36%
Curr. Cash Flow Growth	4.53%	9.68%	5.26%	9.68%	-55.39%	19.07%
Hist. Cash Flow Growth (3-5 yrs)	11.61%	8.54%	8.55%	9.69%	19.78%	7.38%
Current Ratio	1.75	1.34	1.34	1.44	1.15	2.20
Debt/Capital	63.58%	62.49%	44.59%	62.32%	55.43%	76.12%
Net Margin	6.63%	3.41%	10.13%	6.69%	3.35%	4.57%
Return on Equity	35.71%	23.39%	14.59%	29.33%	18.69%	31.29%
Sales/Assets	1.46	1.51	0.51	1.29	1.22	1.52
Proj. Sales Growth (F1/F0)	-20.82%	5.95%	-1.54%	15.11%	6.35%	-18.17%
Momentum Score	D	-	-	B	B	C
Daily Price Chg	3.43%	0.99%	0.91%	-1.02%	1.30%	1.93%
1 Week Price Chg	-0.26%	2.97%	2.30%	2.57%	3.36%	6.66%
4 Week Price Chg	9.07%	7.84%	8.54%	3.66%	5.88%	12.21%
12 Week Price Chg	2.07%	9.24%	13.68%	6.17%	24.37%	13.59%
52 Week Price Chg	-10.43%	8.62%	3.71%	43.21%	7.41%	8.92%
20 Day Average Volume	3,043,025	1,435,142	2,015,804	1,597,291	1,648,465	5,515,704
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.05%	1.67%	0.36%	0.11%	0.00%
(F1) EPS Est 12 week change	-42.86%	-3.80%	2.27%	18.00%	-2.33%	-56.70%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.67%	0.70%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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