

Ross Stores, Inc. (ROST)

\$87.22 (As of 08/21/20)

Price Target (6-12 Months): **\$92.00**

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:B

Value: B

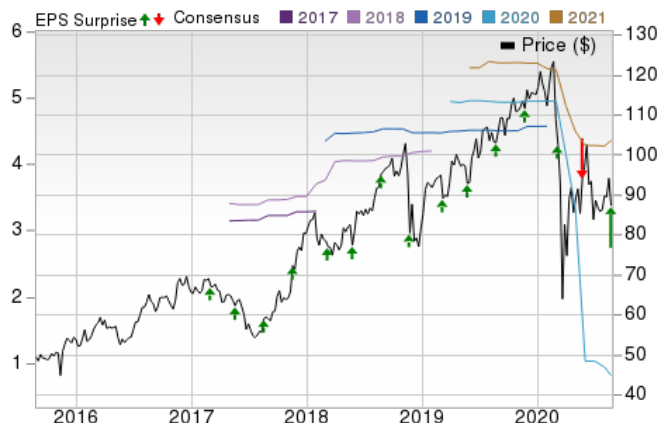
Growth: B

Momentum: D

Summary

Shares of Ross Stores have underperformed the industry in the past three months. The stock's dismal run on the bourses can be attributable to second-quarter fiscal 2020 results, wherein both top and bottom lines declined year over year. Results were affected by temporary COVID-19-related store closures, including all Ross Dress for Less and dd's DISCOUNTS stores. Going ahead, management noted that business trends are likely to remain drab during the fiscal third quarter due to the COVID-19 impacts on demand and economy. As a result, management refrained from providing top and bottom-line guidance for fiscal 2020. However, its store reopening efforts seem encouraging. The company continues to expect opening 39 new stores this fall and 66 in fiscal 2020. Apart from these, declining costs for the past two quarters act as upsides.

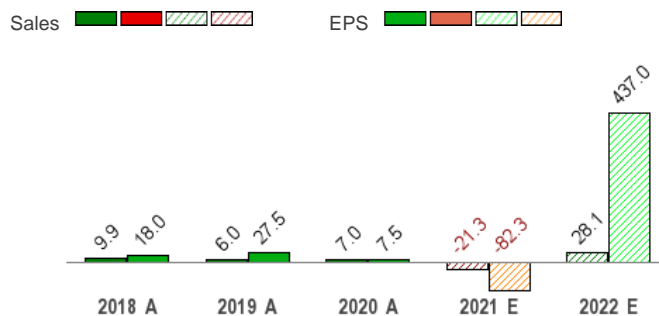
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$124.16 - \$56.30
20 Day Average Volume (sh)	2,583,822
Market Cap	\$31.0 B
YTD Price Change	-25.1%
Beta	0.79
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Retail - Discount Stores
Zacks Industry Rank	Top 19% (49 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	58.1%
Last Sales Surprise	2.6%
EPS F1 Est- 4 week change	-8.3%
Expected Report Date	NA
Earnings ESP	-8.8%
P/E TTM	46.2
P/E F1	107.7
PEG F1	10.4
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	2,991 E	3,796 E	4,189 E	4,900 E	16,166 E
2021	1,843 A	2,685 A	3,721 E	4,418 E	12,624 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	\$0.72 E	\$1.13 E	\$1.15 E	\$1.44 E	\$4.35 E
2021	-\$0.29 A	-\$0.13 A	\$0.77 E	\$1.06 E	\$0.81 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 08/21/2020. The reports text is as of 08/24/2020.

Overview

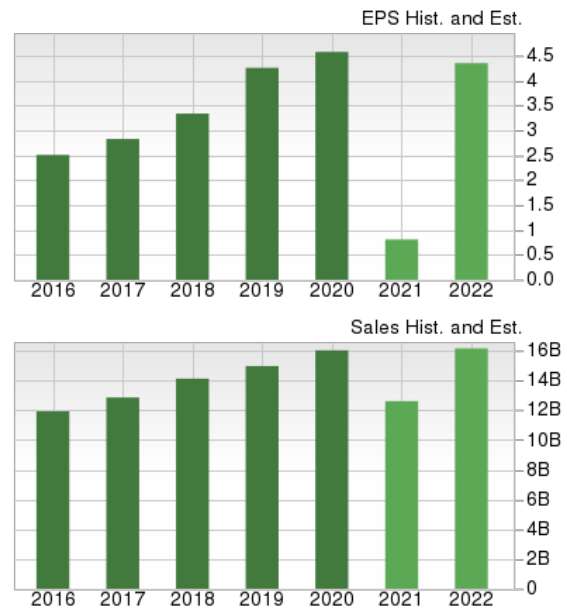
Based in Dublin, CA, Ross Stores Inc. operates as an off-price retailer of apparel and home accessories, primarily in the United States. The company operates its stores under the Ross Dress for Less (Ross) and dd's DISCOUNTS names. The company's stores are located mostly in community and neighborhood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

As of Aug 1, 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 Efforts:** Ross Stores started store re-opening efforts with governments easing restrictions gradually. The company re-opened roughly 700 stores on May 14 in a phased manner. Also, it remains committed to follow the 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's distribution center network resumed operations from the end of May. Going ahead, sales from reopened stores might be able to provide some cushion to the company's top line in the near term.

Ross Stores' phased store reopening efforts seems encouraging. Also, its plans to expand stores despite the adverse impacts of COVID-19 pandemic as well as declining costs bode well.

▲ **Store Expansion Plan:** Ross Stores has been 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. Although management didn't open any new store in the second quarter due to the rising uncertainty in consumer demand and shopping patterns, it continues to anticipate opening 39 new stores this fall and 66 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:** Ross Stores' has been witnessing a decline in costs for the past two quarters. Cost of goods sold (COGS) fell 26.9% to \$2,080.1 million during the second quarter of fiscal 2020. Although selling, general and administrative (SG&A) as a percentage of sales expanded 450 basis points, SG&A expenses decreased 12.2% to \$519.5 million. Prior to this, COGS and SG&A expenses declined 30% and 25.6%, respectively, in the fiscal first quarter. Persistence of this trend is likely to favorably impact the company's bottom line in the near future.

▲ **Financial Flexibility:** Ross Stores' cash and cash equivalents at the end of second-quarter fiscal 2020 increased 42.1% sequentially to \$3,793 million. Further, the company's cash position remains sufficient to fund short term obligations of about \$802.5 million as of Aug 1, 2020. Moreover, long-term debt of \$4,887.5 million (including non-current operating lease liabilities) fell 0.6% sequentially. Apart from these, it has a liquidity of \$4.3 billion with a cash balance of \$3.8 billion and a revolving credit facility of \$500 million, which is likely to keep it afloat amid the pandemic.

Reasons To Sell:

▼ **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 46.15x compared with 24.07x for the S&P 500. The company's trailing 12-month P/E ratio is above the median level of 25.59x and below the high level of 51.39x, scaled in the past year

Ross Stores' second-quarter fiscal 2020 results were hurt by temporary store closures due to the COVID-19 pandemic and related costs.

▼ **Soft Q2 Results:** Shares of Ross Stores declined 6.8% in the past three months, underperforming the industry's growth of 11.6%. Although Ross Stores reported better-than-expected second-quarter fiscal 2020 results, both top and bottom lines declined year over year. Results were affected by temporary COVID-19-related store closures, including all Ross Dress for Less and dd's DISCOUNTS stores. Further, costs related to COVID-19 and negative timing of packaway remained concerns. Moreover, comparable store sales have fallen 12% between the date of the reopening of these stores and the end of the fiscal second quarter. Although it witnessed slightly improved sales trends driven by pent-up demand and higher markdowns, the metric was hurt by depleted store inventory levels.

Going ahead, management expects business trends to remain drab during the fiscal third quarter with comparable store sales down mid-teens year over year for the first two and a half weeks. Further, it continues to remain uncertain about the COVID-19 impacts on demand and economy. As a result, management refrained from providing top and bottom-line guidance for fiscal 2020.

▼ **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.

Last Earnings Report

Ross Stores' Q2 Loss Narrower Than Expected, Sales Beat

Ross Stores reported better-than-expected second-quarter fiscal 2020 results. However, both top and bottom lines declined year over year. Results were affected by temporary COVID-19-related store closures, including all Ross Dress for Less and dd's DISCOUNTS stores. Further, loss of sales, as only 75% of stores were open, weighed on operating margin. Moreover, costs related to COVID-19 and negative timing of packaway remained concerns.

Going ahead, management noted that business trends are likely to remain drab during the fiscal third quarter with comparable store sales down mid-teens year over year for the first two and a half weeks.

However, the company started reopening its stores in a phased manner from May 14th and by the end of June, most of its stores were operational. Comparable store sales have fallen 12% between the date of the reopening of these stores and the end of the fiscal second quarter. Although, it witnessed improved sales driven by pent-up demand and higher markdowns, the metric was hurt by depleted store inventory levels. That said, it continues to remain uncertain about the COVID-19 impacts on demand and economy. As a result, management refrained from providing top and bottom-line guidance for fiscal 2020.

Q2 Highlights

Ross Stores posted a loss of 13 cents per share against earnings of \$1.14 per share reported in the prior-year quarter. However, the figure was narrower than the Zacks Consensus Estimate of a loss of 31 cents.

Total sales plunged 32.5% to \$2,684.7 million but surpassed the Zacks Consensus Estimate of \$2,617 million. Further, sales were hurt by adverse COVID-19 impacts such as shifting consumer demand, mostly in California, Florida, Texas and Arizona, which accounts for 50% of its store base.

Cost of goods sold or COGS declined 26.9% to \$2,080.1 million. Selling, general and administrative (SG&A) expenses decreased 12.2% to \$519.5 million while the metric as a percentage of sales expanded 450 basis points (bps).

Store Update

During the quarter, the company did not open any new stores. It continues to anticipate opening 39 stores this fall season and 66 in fiscal 2020.

Financials

Ross Stores ended the quarter with cash and cash equivalents of \$3,793 million, long-term debt of \$2,285.6 million and total shareholders' equity of \$2,286.3 million. Earlier, the company had already suspended the share repurchase program in light of the ongoing pandemic. Moving ahead, it does not intend to repurchase any shares for the rest of fiscal 2020.

Apart from these, it has a liquidity of \$4.3 billion and a revolving credit facility of \$500 million, which is likely to keep it afloat amid the pandemic.

Quarter Ending **07/2020**

Report Date	Aug 20, 2020
Sales Surprise	2.59%
EPS Surprise	58.06%
Quarterly EPS	-0.13
Annual EPS (TTM)	1.89

Valuation

Ross Stores shares are down 25.1% in the year-to-date period and nearly 16.5% for the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 6.2% and 31.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 18.7% and 42.1%, respectively.

The S&P 500 index is up 5.4% in the year-to-date period and 18.4% in the past year.

The stock is currently trading at 27.97X forward 12-month earnings, which compares to 27.93X for the Zacks sub-industry, 33.24X for the Zacks sector and 22.85X 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 20.92X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$92 price target reflects 29.5X 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	27.97	27.93	33.24	22.85
	5-Year High	39.79	29.98	34.77	22.85
	5-Year Low	12.15	17.93	19.08	15.25
	5-Year Median	20.92	20.11	23.47	17.58
P/S F12M	Current	2.13	1.51	1.27	3.71
	5-Year High	2.66	1.51	1.27	3.71
	5-Year Low	1.26	0.96	0.82	2.53
	5-Year Median	1.98	1.15	0.97	3.05
EV/EBITDA TTM	Current	28.2	26.08	19.98	12.89
	5-Year High	31.17	26.32	20.01	12.89
	5-Year Low	9.1	11.02	10.68	8.25
	5-Year Median	12.75	14.16	12.97	10.91

As of 08/21/2020

Industry Analysis Zacks Industry Rank: Top 19% (49 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Dollar General Corporation (DG)	Outperform	2
Target Corporation (TGT)	Outperform	1
Big Lots, Inc. (BIG)	Neutral	1
Burlington Stores, Inc. (BURL)	Neutral	4
Costco Wholesale Corporation (COST)	Neutral	3
Dollar Tree, Inc. (DLTR)	Neutral	3
Walmart Inc. (WMT)	Neutral	3
The TJX Companies, Inc. (TJX)	Underperform	4

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	4
VGM Score	B	-	-	A	A	A
Market Cap	31.04 B	18.24 B	23.62 B	50.08 B	23.79 B	61.91 B
# of Analysts	7	10	14	17	9	13
Dividend Yield	0.00%	0.00%	1.65%	0.72%	0.00%	0.00%
Value Score	B	-	-	B	B	B
Cash/Price	0.08	0.08	0.07	0.05	0.07	0.06
EV/EBITDA	13.33	13.48	13.29	21.13	13.54	13.43
PEG Ratio	10.39	3.55	3.03	1.80	2.04	17.25
Price/Book (P/B)	11.02	6.53	3.11	6.95	3.65	13.28
Price/Cash Flow (P/CF)	15.61	14.75	12.69	22.36	11.31	15.02
P/E (F1)	108.02	22.53	21.51	22.53	19.84	181.09
Price/Sales (P/S)	2.43	0.97	2.43	1.69	0.99	1.84
Earnings Yield	0.93%	3.46%	4.46%	4.44%	5.04%	0.56%
Debt/Equity	1.75	1.67	0.76	1.65	1.24	2.86
Cash Flow (\$/share)	5.59	6.38	6.93	8.90	8.87	3.44
Growth Score	B	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	14.75%	12.69%	10.44%	14.79%	18.19%	8.07%
Proj. EPS Growth (F1/F0)	-82.31%	-6.79%	-5.53%	31.21%	6.21%	-89.31%
Curr. Cash Flow Growth	4.53%	9.68%	5.20%	9.68%	-55.39%	19.07%
Hist. Cash Flow Growth (3-5 yrs)	11.61%	8.54%	8.52%	9.69%	19.78%	7.38%
Current Ratio	1.75	1.34	1.33	1.44	1.15	1.51
Debt/Capital	63.58%	62.49%	44.50%	62.32%	55.43%	74.08%
Net Margin	4.25%	2.86%	10.13%	6.69%	3.35%	2.11%
Return on Equity	21.59%	20.79%	14.67%	29.33%	18.69%	13.62%
Sales/Assets	1.30	1.42	0.51	1.29	1.22	1.34
Proj. Sales Growth (F1/F0)	-21.29%	6.42%	-1.54%	16.23%	6.42%	-18.18%
Momentum Score	D	-	-	D	F	C
Daily Price Chg	-0.27%	0.69%	-0.15%	0.57%	1.41%	0.06%
1 Week Price Chg	5.17%	4.00%	1.09%	1.67%	2.44%	4.36%
4 Week Price Chg	-0.59%	3.97%	1.64%	3.80%	4.13%	-3.20%
12 Week Price Chg	-11.24%	5.39%	6.72%	8.05%	2.72%	-4.44%
52 Week Price Chg	-18.79%	5.93%	1.00%	42.36%	3.18%	-5.83%
20 Day Average Volume	2,583,822	1,332,434	1,873,576	1,562,647	1,573,892	7,519,673
(F1) EPS Est 1 week change	-2.12%	-0.20%	0.00%	0.26%	-0.40%	-3.47%
(F1) EPS Est 4 week change	-8.34%	-0.10%	1.79%	0.35%	-0.55%	-4.58%
(F1) EPS Est 12 week change	-9.91%	3.34%	3.35%	17.42%	6.76%	-24.85%
(Q1) EPS Est Mthly Chg	-3.66%	-0.21%	0.42%	0.26%	-0.69%	-6.24%

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	B
Growth Score	B
Momentum Score	D
VGM Score	B

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.

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