

Ross Stores, Inc.

Industry: Retail (Apparel)

NASDAQ: ROST
Current price: \$27.32
Target price: \$35.88
Potential gain: 31.32%
Target portfolio: Initiative
Analyst: Joshua Li

Targeting value, ROST is a safe play in a downward economy

- Number two off-price retailer after TJX Companies
- Targets value customers in the middle-to-upper middle income households, offering brand name merchandizes at 20% to 60% discounts
- About 41% of ROST's units are located in California, generating approximately 45% of sales
- As of Feb 3, 2001, ROST has 409 stores in 17 states, with an average size of 22,500ft²



Source: UT Library Online

Orange: present stores
Blue: planned for 2001

ROST understands the importance SCM – a key focus of its business

Current system	Buyers <ul style="list-style-type: none"> Have an average experience of 14 years, giving ROST strong relationships with its vendors Buying offices are located in NYC and LA – the two largest apparel markets 	Purchasing <ul style="list-style-type: none"> Usually made directly from manufacturers Made later in the buying cycle, allowing the company to take advantage of “closeout” and “packaway” 	Distribution <ul style="list-style-type: none"> Delivery is made to one of two* distribution centers New merchandise is typically received five times each week <p><i>* one more to open in 2002</i></p>
	Developments <ul style="list-style-type: none"> Over the past several years merchandizing staff has increased four-fold to allow more product scouting in the market 	<ul style="list-style-type: none"> Regionalized merchandise buying and allocation system Financial services system 	<ul style="list-style-type: none"> Implemented a new transportation management system in 2001 to optimize loads and routing

The stock is undervalued according to DCF, with a potential upside of 30+%

Assumptions <ul style="list-style-type: none"> Required rate of return: 9.5% Hyper-growth rate: 10.0% Perpetual growth rate: 4.0% 	Intrinsic value <ul style="list-style-type: none"> Intrinsic value of equity \$2,870,529 Intrinsic value per share \$35.88 Share price as of close of 9/27 \$28.85 Upside potential 24.35%
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Sensitivity analysis									
		Hyper-growth rate							
Perpetual	2%	3%	4%	5%	6%	7%	8%	9%	10%
3%	\$21.17	\$22.27	\$23.41	\$24.61	\$25.86	\$27.17	\$28.54	\$29.96	\$31.45
4%	\$23.99	\$25.25	\$26.57	\$27.96	\$29.40	\$30.92	\$32.50	\$34.15	\$35.88
5%	\$28.05	\$29.56	\$31.14	\$32.79	\$34.52	\$36.33	\$38.22	\$40.20	\$42.26
6%	\$34.43	\$36.32	\$38.31	\$40.38	\$42.56	\$44.83	\$47.21	\$49.70	\$52.31

Source: IAG estimates

Compared to its peers, ROST is financially solid and has good momentum

- ROST has performed much better than its peers, doubling in price since last year
- Market valuation is still relatively cheap
- The high current ratio and low debt ratio displays the financial stability of the firm



Competition analysis

	ROST	Sears	Target	TJX	unit
Price	28.85	34.66	31.36	30.70	\$
Market cap	2,308.40	11,254.83	28,276.47	8,420.92	\$MM
52-week high	31.00	47.8	40.43	37.00	\$
52-week low	12.688	27.75	22.19	21.13	\$
% of 52-high	93.06%	72.51%	77.57%	82.97%	%
% above 52-low	127.38%	24.90%	41.32%	45.29%	%
Price/Earnings (ttm)	16.16	16.80	21.89	16.38	x
Price/Book (mrq)	4.58	1.86	4.02	6.97	x
Price/Sales (ttm)	0.83	0.28	0.74	0.87	x
Profit margin (ttm)	5.10%	1.80%	3.40%	5.30%	%
Return on assets (ttm)	14.28%	1.99%	6.56%	16.46%	%
Return on equity (ttm)	31.44%	10.88%	20.11%	46.11%	%
Current ratio (mrq)	1.54	2.38	1.26	1.56	x
Debt/Equity (mrq)	0.13	4.22	1.08	0.58	x

mrq = most recent quarter
ttm = trailing twelve months
Source: MSN, Yahoo!

Going forward, ROST should continue to outperform the market

- Comparable sales up 9% in August, well-above analysts' expectations
- On track to grow its store base by 10% this year; these stores are proving to be more productive than last year's levels – expansion plans are going well
- Rebalancing of inventory will continue to increase price point and attract more customers
- Has benefited from back-to-school season, and will benefit from holiday season as consumers will continue to focus on value
- About \$84MM still remains in the repurchase program
- Management is confident: they increased their quarterly dividend in January