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

### Current system

#### Buyers
- 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
- Usually made directly from manufacturers
- Made later in the buying cycle, allowing the company to take advantage of "closeout" and "packaway"

#### Distribution
- Delivery is made to one of two* distribution centers
- New merchandise is typically received five times each week

* one more to open in 2002

### Developments

#### Over the past several years merchandizing staff has increased four-fold to allow more product scouting in the market

#### Regionalized merchandise buying and allocation system

#### Financial services system

#### Implemented a new transportation management system in 2001 to optimize loads and routing

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

### Assumptions

- Required rate of return: 9.5%
- Hyper-growth rate: 10.0%
- Perpetual growth rate: 4.0%

### Intrinsic value

- 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%

### Sensitivity analysis

<table>
<thead>
<tr>
<th>Perpetual</th>
<th>Hyper-growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2%</td>
</tr>
<tr>
<td>3%</td>
<td>$21.17</td>
</tr>
<tr>
<td>4%</td>
<td>$23.99</td>
</tr>
<tr>
<td>5%</td>
<td>$28.05</td>
</tr>
<tr>
<td>6%</td>
<td>$34.43</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>metric</th>
<th>ROST</th>
<th>Sears</th>
<th>Target</th>
<th>TJX</th>
<th>unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$28.85</td>
<td>$34.66</td>
<td>$31.36</td>
<td>$30.70</td>
<td>$</td>
</tr>
<tr>
<td>Market cap</td>
<td>2,308.40</td>
<td>11,254.83</td>
<td>29,279.47</td>
<td>8,420.92</td>
<td>$MM</td>
</tr>
<tr>
<td>52-week high</td>
<td>31.00</td>
<td>47.80</td>
<td>40.43</td>
<td>37.00</td>
<td>$</td>
</tr>
<tr>
<td>52-week low</td>
<td>12.89</td>
<td>27.75</td>
<td>22.19</td>
<td>21.15</td>
<td>$</td>
</tr>
<tr>
<td>% of 52-high</td>
<td>93.06%</td>
<td>75.81%</td>
<td>77.07%</td>
<td>82.87%</td>
<td>%</td>
</tr>
<tr>
<td>% of 52-low</td>
<td>127.38%</td>
<td>24.90%</td>
<td>41.32%</td>
<td>45.29%</td>
<td>%</td>
</tr>
<tr>
<td>Price/Earnings (ttm)</td>
<td>16.16</td>
<td>16.80</td>
<td>21.89</td>
<td>16.56</td>
<td>x</td>
</tr>
<tr>
<td>Price/Book (mrq)</td>
<td>4.58</td>
<td>1.86</td>
<td>4.02</td>
<td>6.97</td>
<td>x</td>
</tr>
<tr>
<td>Price/Sales (ttm)</td>
<td>0.83</td>
<td>0.28</td>
<td>0.74</td>
<td>0.87</td>
<td>x</td>
</tr>
<tr>
<td>Profit margin (ttm)</td>
<td>5.10%</td>
<td>1.80%</td>
<td>3.40%</td>
<td>5.30%</td>
<td>%</td>
</tr>
<tr>
<td>Return on assets (ttm)</td>
<td>14.28%</td>
<td>7.00%</td>
<td>6.88%</td>
<td>18.49%</td>
<td>%</td>
</tr>
<tr>
<td>Return on equity (ttm)</td>
<td>31.44%</td>
<td>7.00%</td>
<td>20.14%</td>
<td>46.13%</td>
<td>%</td>
</tr>
<tr>
<td>Debt/Equity (ttm)</td>
<td>0.13</td>
<td>5.22</td>
<td>1.08</td>
<td>0.98</td>
<td>x</td>
</tr>
</tbody>
</table>

**Note:**
- **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