

Ross Stores Inc

Recommendation



Equity Analyst **T. Amobi, CPA, CFA**

Price

\$55.56 (as of Aug 11, 2017 4:00 PM ET)

12-Mo. Target Price

\$70.00

Report Currency

USD

Investment Style

Large-Cap Growth

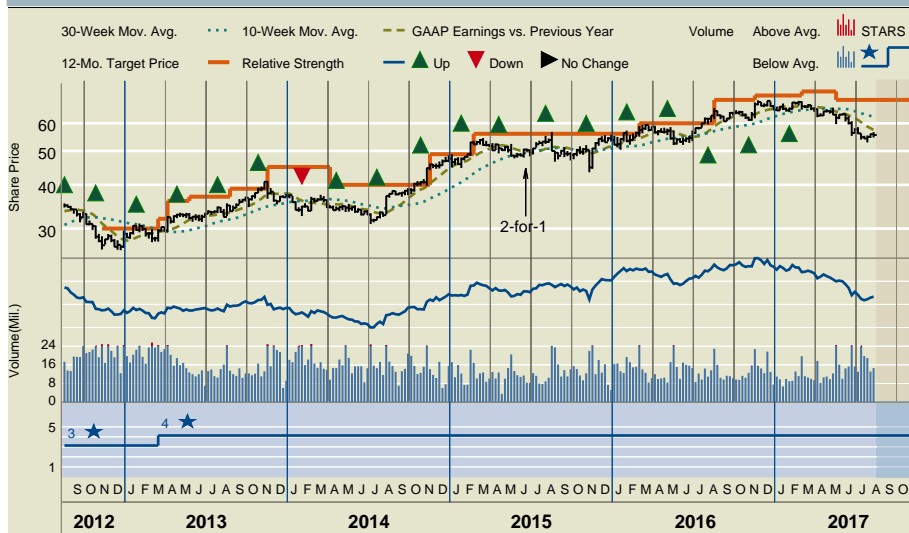
GICS Sector Consumer Discretionary
Sub-Industry Apparel Retail

Summary This off-price retailer offers in-season branded apparel and other merchandise at over 1,300 stores in 33 states, the District of Columbia and Guam.

Key Stock Statistics (Source CFRA, S&P Global Market Intelligence, Vickers, company reports)

| | | | | | | | |
|--------------------------|-----------------------|---------------------------|--------------|-----------------------------|-----------------|-------------------------|-------------|
| 52-Wk Range | \$69.81– 52.91 | Oper. EPS 2018E | 3.15 | Market Capitalization(B) | \$11.428 | Beta | 0.76 |
| Trailing 12-Month EPS | \$2.92 | Oper. EPS 2019E | 3.49 | Yield (%) | 1.15 | 3-Yr. Proj. EPS CAGR(%) | 12 |
| Trailing 12-Month P/E | 19.0 | P/E on Oper. EPS 2018E | 17.6 | Dividend Rate/Share | \$0.64 | S&P Quality Ranking | A+ |
| \$10K Invested 5 Yrs Ago | \$17,369 | Common Shares Outstg. (M) | 205.7 | Institutional Ownership (%) | NM | | |

Price Performance



Past performance is not an indication of future performance and should not be relied upon as such.

Analysis prepared by Equity Analyst **T. Amobi, CPA, CFA** on Jun 05, 2017 10:04 AM, when the stock traded at **\$63.74**.

Highlights

- With the additional benefit of a 53rd week, total sales are projected to rise 7.8% in FY 18 (Jan.), slightly above the higher end of ROST's target range of 6% to 7%. This assumes a projected 1% to 2% increase in comparable store sales on a 52-week basis, perhaps on stable customer traffic and moderately higher average ticket prices. Also, we note ROST's plans to add about 70 Ross and 20 dd's DISCOUNTS locations in FY 18 (versus a planned closure of about 10 stores), further expanding its domestic base of over 1,500 retail locations by the end of the year. We see sales up 4.7% in FY 18.
- We project operating margins of 14.1% in FY 18 (within management's target range of 13.9% to 14.1% and little changed versus 14.0% in FY 17) as slightly higher merchandise margins are mostly offset by some deleverage of operating costs and higher employee wages. ROST has recently maintained aggressive pricing in order to sustain its value proposition in a promotional retail environment.
- After higher interest expense, and with a recently replenished two-year \$1.75 billion buy-back plan, we see EPS of \$3.15 in FY 18, \$3.49 in FY 19, versus FY 17 operating EPS of \$2.83.

Investment Rationale/Risk

- After a somewhat encouraging 3% increase in comparable store sales for an Apr-Q period that also benefited from improved merchandise margins, the company alluded to an uncertain retail environment even as it slightly raised its full-year EPS target range. Still, with its attractive value pricing and convenient off-mall store locations, the company has benefited from cost-conscious consumers in the off-price channel. By holding lean inventories and tailoring its assortments to local demand, we see ROST enhancing its customer shopping experience and improving margins through faster inventory turns and lower markdowns, while also balancing its total return initiatives.
- Risks to our recommendation and target price include adverse shifts in consumer spending and buying preferences; merchandise availability; intensifying price competition; and a lack of international diversification.
- Our 12-month target price is \$70, on P/E of 22.2X our FY 18 estimate, a notable premium versus apparel retail peers that seems to us partly warranted by potentially sustainable market share gains in the off-price retail channel. The stock recently offered a 1.0% dividend yield.

Analyst's Risk Assessment

| | | |
|------------|---------------|-------------|
| LOW | MEDIUM | HIGH |
|------------|---------------|-------------|

Our risk assessment reflects favorable growth prospects for both the Ross Stores and dd's DISCOUNTS chains, offset by our concerns over how expected apparel inflation will impact consumer spending.

Revenue/Earnings Data

| Revenue (Million \$) | 1Q | 2Q | 3Q | 4Q | Year |
|----------------------|-------|-------|-------|-------|--------|
| 2017 | 3,089 | 3,181 | 3,087 | 3,510 | 12,867 |
| 2016 | 2,938 | 2,968 | 2,783 | 3,251 | 11,940 |
| 2015 | 2,681 | 2,730 | 2,599 | 3,033 | 11,042 |
| 2014 | 2,540 | 2,551 | 2,398 | 2,741 | 10,230 |
| 2013 | 2,357 | 2,341 | 2,263 | 2,761 | 9,721 |
| 2012 | 2,075 | 2,089 | 2,046 | 2,398 | 8,608 |

Earnings Per Share (\$)

| | | | | | |
|------|------|------|------|------|------|
| 2017 | 0.73 | 0.71 | 0.62 | 0.77 | 2.80 |
| 2016 | 0.69 | 0.63 | 0.53 | 0.66 | 2.51 |
| 2015 | 0.57 | 0.57 | 0.47 | 0.60 | 2.21 |
| 2014 | 0.54 | 0.49 | 0.40 | 0.51 | 1.94 |
| 2013 | 0.47 | 0.41 | 0.36 | 0.54 | 1.77 |
| 2012 | 0.37 | 0.32 | 0.32 | 0.43 | 1.43 |

Fiscal year ended Jan. 31. Next earnings report expected: Mid August. EPS Estimates based on CFRA Operating Earnings; historical GAAP earnings are as reported in Company reports.

Dividend Data

| Amount (\$) | Date Decl. | Ex-Div. Date | Stk. of Record | Payment Date |
|-------------|------------|--------------|----------------|--------------|
| 0.135 | Aug 17 | Aug 31 | Sep 2 | Sep 30 '16 |
| 0.135 | Nov 16 | Dec 5 | Dec 7 | Dec 30 '16 |
| 0.160 | Feb 28 | Mar 8 | Mar 10 | Mar 31 '17 |
| 0.160 | May 17 | Jun 2 | Jun 6 | Jun 30 '17 |

Dividends have been paid since 1994. Source: Company reports.

Past performance is not an indication of future performance and should not be relied upon as such.

Ross Stores Inc

Business Summary June 05, 2017

CORPORATE OVERVIEW. Ross Stores operated, as of January 28, 2017, 1,533 off-price retail stores that feature first-quality, in-season apparel, shoes, fragrances, and apparel-related accessories, as well as home furnishings and jewelry under the Ross (1,340) and dd's DISCOUNTS (193) names. Both chains target value-conscious 25- to 54-year-old men and women, with Ross targeting mainly middle-income households and dd's DISCOUNTS more moderate income households. Ross stores average 28,600 sq. ft. of selling space, and are located in 36 states (mainly warm weather), the District of Columbia and Guam. dd's DISCOUNTS stores average 23,300 sq. ft. of selling space, and are located in 15 states. Nearly all stores occupy leased facilities and are situated in neighborhood or strip shopping centers in heavily populated urban and suburban areas.

The company believes it derives a competitive advantage by offering a wide assortment of quality brand-name and fashion merchandise in an easy-to-shop environment at prices generally 20% to 60% below those charged by most department and specialty stores at Ross, and 20% to 70% below moderate department and discount store regular prices at dd's DISCOUNTS. Working with more than 7,900 vendors and manufacturers, ROST purchases later in the buying cycle than department and specialty stores, and can take advantage of supply/demand imbalances. The vast majority of merchandise is acquired through opportunistic purchases of cancellations and overruns. Most orders have one delivery, and generally exclude promotional and markdown allowances and return privileges, enabling buyers to obtain significant discounts on in-season purchases.

PRIMARY BUSINESS DYNAMICS. As a growth retailer, the company increases sales by opening new stores and new retail concepts and by same-store sales (or comp) increases. In FY 17 (Jan.), the company posted a 4% increase in comp sales, extending a streak of comp sales growth of 4% in FY 16 and 3% in FY 15, after increases of 3% and 6% in FY 14 and FY 13, respectively. ROST emphasizes its ROSS-Dress for Less theme via television, direct mail, radio and newspaper advertising. Shipments of new merchandise typically arrive three to six times a week at the stores. FY 17 sales were distributed as follows: ladies' 28%, home accents and bed and bath 25%, men's 13%, accessories, lingerie, fine jewelry and fragrances 13%, shoes 12% and children's 8%.

A key driver of margins, in our opinion, has been the opportunistic buying of packaway goods: end-of-season items held for sale the following year. The company regards packaway purchases (mainly fashion basics) as an effective way to increase the percentage of prestige and national brands in its merchandise assortments. ROST's labor costs are also generally lower than full-price department stores and specialty retailers due to the self-service focus.

We think the company, with a presence in 36 states, has ample opportunity for geographic expansion and market share gains. During FY 17, ROST opened 71 net new Ross stores, and 22 net new dd's stores. In FY 18, the company plans to add approximately 70 new Ross and 20 new dd's DISCOUNTS location. The dd's brand targets the needs of lower-income households, which ROST thinks is one of the fastest-growing demographic markets in the U.S., with moderately priced assortments of first quality in-season name brand apparel, footwear, accessories and home fashions. We are not concerned about cannibalization between the company's two retail chains given the different mix of brands and price points. ROST thinks its long-term projected store potential is 2,500 locations in the U.S.; 2,000 Ross stores and 500 dd's.

FINANCIAL TRENDS. Over the period from FY 13 to FY 17, the company generated a five-year compound annual growth rate (CAGR) of 8.4% in revenues and 11.1% in operating income. Meanwhile, its operating margins also improved through the period, to 14.0% in FY 17 (versus 13.1% in FY 13). However, its return on equity (ROE) was 42.8% in FY 17 versus 48.3% in FY 13.

Corporate Information

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investor.relations1@ros.com

Website
<http://www.rossstores.com>

Officers

| | |
|--|---|
| Chrmn M. Balmuth | SVP, CFO & Chief Acctg Officer M.J. Hartshorn |
| CEO B. Rentler | CTO M.K. Kobayashi |
| Pres & COO M.B. O'Sullivan | |

Board Members

| | |
|----------------|------------------|
| M. Balmuth | K. G. Bjorklund |
| N. A. Ferber | S. D. Garrett |
| S. D. Milligan | M. B. O'Sullivan |
| G. P. Orban | L. S. Peiros |
| G. L. Quesnel | B. Rentler |

Domicile
Delaware

Founded
1957

Employees
78,600

Stockholders
841

Ross Stores Inc

Quantitative Evaluations

| | | | | | | |
|------------------------|----|--------|---|---|---|---------|
| Fair Value Rank | 5+ | 1 | 2 | 3 | 4 | 5 |
| | | LOWEST | | | | HIGHEST |

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

| | | |
|-------------------------------|----------------|--|
| Fair Value Calculation | \$73.30 | Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that ROST is Undervalued by \$17.74 or 31.9%. |
|-------------------------------|----------------|--|

| | |
|--|--|
| Investability Quotient Percentile | 100 |
| | LOWEST = 1 HIGHEST = 100 |
| | ROST scored higher than 100% of all companies for which a Report is available. |

| | | | |
|-------------------|-----|---------|------|
| Volatility | LOW | AVERAGE | HIGH |
|-------------------|-----|---------|------|

| | | |
|-----------------------------|----------------|--|
| Technical Evaluation | BEARISH | Since June, 2017, the technical indicators for ROST have been BEARISH. |
|-----------------------------|----------------|--|

| | | | | |
|-------------------------|----|-------------|---------|-----------|
| Insider Activity | NA | UNFAVORABLE | NEUTRAL | FAVORABLE |
|-------------------------|----|-------------|---------|-----------|

Expanded Ratio Analysis

| | 2016 | 2015 | 2014 | 2013 |
|--------------------------------|-------|-------|-------|-------|
| Price/Sales | 2.23 | 2.04 | 1.99 | 1.72 |
| Price/EBITDA | 14.04 | 13.07 | 13.13 | 11.46 |
| Price/Pretax Income | 16.54 | 15.15 | 15.14 | 13.20 |
| P/E Ratio | 26.12 | 24.33 | 24.29 | 21.22 |
| Avg. Diluted Shares Outstg (M) | 406.4 | 418.1 | 431.6 | 445.6 |

Figures based on calendar year-end price

Key Growth Rates and Averages

| Past Growth Rate (%) | 1 Year | 3 Years | 5 Years | 9 Years |
|----------------------|--------|---------|---------|---------|
| Sales | 8.14 | 7.18 | 8.59 | 9.14 |
| Net Income | 10.38 | 9.20 | 12.54 | 19.04 |

Ratio Analysis (Annual Avg.)

| | | | | |
|-----------------------------|-------|-------|-------|-------|
| Net Margin (%) | 8.55 | 8.37 | 8.17 | 7.01 |
| % LT Debt to Capitalization | 13.81 | 11.88 | 10.52 | 10.97 |
| Return on Equity (%) | 42.96 | 43.49 | 45.05 | 41.08 |

Company Financials Fiscal Year Ended Jan. 31

| Per Share Data (\$) | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Tangible Book Value | NA | 6.14 | 5.49 | 4.70 | 4.00 | 3.29 | 2.82 | 2.35 | 1.94 | 1.81 |
| Cash Flow | NA | 3.19 | 2.77 | 2.42 | 2.18 | 1.78 | 1.49 | 1.20 | 0.85 | 0.70 |
| Earnings | NA | 2.51 | 2.21 | 1.94 | 1.77 | 1.43 | 1.16 | 0.89 | 0.58 | 0.48 |
| Core Earnings | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |
| Dividends | NA | 0.41 | 0.40 | 0.34 | 0.28 | 0.19 | 0.16 | 0.11 | 0.10 | 0.06 |
| Payout Ratio | NA | 16% | 18% | 18% | 16% | 11% | 11% | 10% | 11% | 13% |
| Calendar Year | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
| Prices:High | NA | 56.68 | 48.10 | 41.00 | 35.41 | 24.58 | 16.65 | 12.63 | 10.39 | 8.79 |
| Prices:Low | NA | 43.47 | 30.92 | 26.52 | 23.53 | 15.04 | 10.58 | 7.02 | 5.31 | 6.11 |
| P/E Ratio:High | NA | 23 | 22 | 21 | 20 | 17 | 14 | 14 | 18 | 19 |
| P/E Ratio:Low | NA | 17 | 14 | 14 | 13 | 11 | 9 | 8 | 9 | 13 |

Income Statement Analysis (Million \$)

| | | | | | | | | | | |
|--------------------|----|--------|--------|--------|-------|-------|-------|-------|-------|-------|
| Revenue | NA | 11,940 | 11,042 | 10,230 | 9,721 | 8,608 | 7,866 | 7,184 | 6,486 | 5,975 |
| Operating Income | NA | 1,899 | 1,721 | 1,549 | 1,457 | 1,223 | 1,067 | 885 | 637 | 542 |
| Depreciation | NA | 275 | 233 | 206 | 185 | 160 | 161 | 159 | 142 | 121 |
| Interest Expense | NA | 13.3 | 3.39 | 0.30 | 7.50 | 11.0 | 9.57 | 9.40 | 11.5 | 10.7 |
| Pretax Income | NA | 1,612 | 1,485 | 1,343 | 1,265 | 1,053 | 897 | 719 | 495 | 425 |
| Effective Tax Rate | NA | 36.7% | 37.7% | 37.7% | 37.8% | 37.6% | 38.2% | 38.4% | 38.3% | 38.6% |
| Net Income | NA | 1,021 | 925 | 837 | 787 | 657 | 555 | 443 | 305 | 261 |
| Core Earnings | NA | NA | NA | NA | NA | NA | NA | NA | NA | NA |

Balance Sheet & Other Financial Data (Million \$)

| | | | | | | | | | | |
|------------------------------------|----|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Cash | NA | 763 | 697 | 435 | 648 | 650 | 837 | 770 | 322 | 264 |
| Current Assets | NA | 2,372 | 2,263 | 1,867 | 2,031 | 1,924 | 2,043 | 1,745 | 1,314 | 1,398 |
| Total Assets | NA | 4,869 | 4,703 | 3,897 | 3,671 | 3,301 | 3,116 | 2,769 | 2,356 | 2,371 |
| Current Liabilities | NA | 1,603 | 1,659 | 1,393 | 1,423 | 1,346 | 1,352 | 1,191 | 955 | 1,011 |
| Long Term Debt | NA | 396 | 398 | 150 | 150 | 150 | 150 | 150 | 150 | 150 |
| Common Equity | NA | 2,472 | 2,279 | 2,007 | 1,767 | 1,493 | 1,333 | 1,157 | 996 | 971 |
| Total Capital | NA | 2,868 | 2,678 | 2,157 | 1,917 | 1,643 | 1,483 | 1,307 | 1,244 | 1,200 |
| Capital Expenditures | NA | 367 | 647 | 551 | 424 | 416 | 199 | 158 | 224 | 236 |
| Cash Flow | NA | 1,295 | 1,158 | 1,043 | 972 | 817 | 715 | 602 | 447 | 382 |
| Current Ratio | NA | 1.5 | 1.4 | 1.3 | 1.4 | 1.4 | 1.5 | 1.5 | 1.4 | 1.4 |
| % Long Term Debt of Capitalization | NA | 13.8 | 14.9 | 7.0 | 7.8 | 9.1 | 10.1 | 11.5 | 12.1 | 12.5 |
| % Net Income of Revenue | NA | 8.6 | 8.4 | 8.2 | 8.1 | 7.6 | 7.1 | 6.2 | 4.7 | 4.4 |
| % Return on Assets | NA | 21.3 | 21.5 | 22.1 | 22.6 | 20.5 | 18.9 | 17.3 | 12.9 | 11.0 |
| % Return on Equity | NA | 43.0 | 43.2 | 44.4 | 48.3 | 46.5 | 44.6 | 41.1 | 31.1 | 27.8 |

Data as originally reported in Company reports.; bef. results of disc opers/spec. items. Per share data adj. for stk. divs.; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

Ross Stores Inc

Sub-Industry Outlook

Our fundamental outlook for apparel retailers is neutral. According to the U.S. Census Bureau, sales at clothing and clothing accessories stores edged up 1.7% in 2015, to \$255.0 billion, versus 0.8%, 3.8%, and 5.5% gains in 2014, 2013, and 2012, respectively. Through the first half of 2016, sales were essentially flat at \$127.4 billion. While consumer spending has benefited from sharply lower gasoline prices, we believe a shift in spending from nondurables to durables (e.g., cars and household goods) and, to some extent luxury goods, has negatively impacted apparel sales. We also see increasing competition for share of customer wallet from international retailers expanding in the U.S.

In the near term, we look for relatively stagnant growth in apparel sales -- potentially through the 2016 holiday selling season and into 2017 -- amid some persisting promotional activity and despite a constant influx of new fashion assortments. We believe off-price retailers are best positioned to gain market share, given their attractive value pricing, frequent inflow of new merchandise, and ability to quickly move in and out of product categories based on customer demand.

Conversely, certain companies that cater to teens and young adults have seemed relatively vulnerable to demographic shifts and intense competition from "fash fashion" retailers, resulting in a major rationalization of their stores base, particularly in North America. Meanwhile, the adults apparel market also remains intensely competitive in a highly promotional retail environment.

Nonetheless, with continued acceleration in direct-to-consumer sales via e-commerce development and a focus on omni-channel initiatives, we believe companies that use customer feedback from social media sites as a tool to

improve their products and services will gain a competitive edge. We also expect apparel retailers to focus their expansion on outlet centers in order to reach cost-conscious consumers who might otherwise not shop their brands and to raise brand awareness among international shoppers.

Given a relatively soft but gradually improving outlook for consumer spending, as well as a relatively promotional retail environment amid some lingering weakness in customer traffic, we believe several companies have planned their inventories cautiously to limit their markdown exposure through the holiday selling season. We also look for apparel retailers to maintain expense discipline in support of higher earnings.

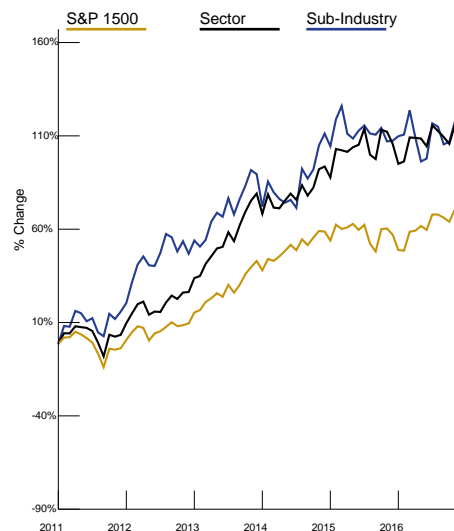
Year to date in 2016 through November 18, the S&P Apparel Retail Index was up 5.5%, versus a 7.7% advance for the S&P 1500 Composite Index. In 2015, the sub-industry index dipped 1.8%, versus a 1.0% decline for the broader market benchmark.

--Tuna N. Amobi, CFA, CPA

Industry Performance

GICS Sector: Consumer Discretionary
Sub-Industry: Apparel Retail

Based on S&P 1500 Indexes
Five-Year market price performance through Aug 12, 2017



NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS)

Past performance is not an indication of future performance and should not be relied upon as such.

Sub-Industry : Apparel Retail Peer Group*: Off-Price Apparel Retailers

| Peer Group | Stock Symbol | Stk.Mkt. Cap. (Mil. \$) | Recent Stock Price(\$) | 52 Week High/Low(\$) | Beta | Yield (%) | P/E Ratio | Fair Value Calc.(\$) | S&P Quality Ranking | IQ %ile | Return on Revenue (%) | LTD to Cap (%) |
|---------------------|--------------|-------------------------|------------------------|----------------------|-------------|------------|-----------|----------------------|---------------------|------------|-----------------------|----------------|
| Ross Stores | ROST | 11,428 | 55.56 | 69.81/52.91 | 0.76 | 1.2 | 19 | 73.30 | A+ | 100 | 8.6 | 13.8 |
| Ascena Retail Group | ASNA | 427 | 2.19 | 9.12/1.65 | 1.45 | Nil | NM | 2.40 | C | 25 | NM | 45.4 |
| Stein Mart | SMRT | 54 | 1.24 | 9.23/1.00 | 1.85 | 24.2 | NM | NA | B- | 77 | 1.7 | 67.6 |
| TJX Companies | TJX | 48,355 | 71.07 | 83.64/66.66 | 0.66 | 1.8 | 20 | 89.00 | A+ | 100 | 7.4 | 27.4 |

NA-Not Available NM-Not Meaningful NR-Not Rated. *For Peer Groups with more than 15 companies or stocks, selection of issues is based on market capitalization.

Ross Stores Inc

Analyst Research Notes and other Company News

May 19, 2017

05:00 pm ET ... CFRA KEEPS BUY OPINION ON SHARES OF ROSS STORES, INC. (ROST 61.07****): We cut our 12-month target price by \$4 to \$70 (1.0% yield) on P/E of 22.2X our FY 18 (Jan.) estimate, still a notable premium vs. peers and its historical averages, on likely further market share gains for the off-price retail channel. Apr-Q EPS of \$0.82 vs. \$0.73, was \$0.02 above consensus estimate. Net sales rose 8%, with new store openings and 3% higher comp sales. Despite improved merchandise margins, EBIT margins narrowed 20 basis points on higher SG&A costs. ROST notes an uncertain retail climate but modestly raises its FY 18 EPS target range, with ongoing share buybacks. /T. Amobi, CPA, CFA

May 18, 2017

05:00 pm ET ... CFRA KEEPS BUY OPINION ON SHARES OF ROSS STORES, INC. (ROST 61.07****): We cut our 12-month target price by \$4 to \$70 (1.0% yield) on P/E of 22.2X our FY 18 (Jan.) estimate, still a notable premium vs. peers and its historical averages, on likely further market share gains for the off-price retail channel. Apr-Q EPS of \$0.82 vs. \$0.73, was \$0.02 above consensus estimate. Net sales rose 8%, with new store openings and 3% higher comp sales. Despite improved merchandise margins, EBIT margins narrowed 20 basis points on higher SG&A costs. ROST notes an uncertain retail climate but modestly raises its FY 18 EPS target range, with ongoing share buybacks. /T. Amobi, CPA, CFA

March 1, 2017

10:43 am ET ... S&P CAPITAL IQ KEEPS BUY OPINION ON SHARES OF ROSS STORES, INC. (ROST 65.95****): We raise our 12-month target price by \$2 to \$74 (0.9% implied yield on 19% dividend increase), on premium P/E of 23.5X our FY 18 (Jan.) estimate vs. peers and historical averages. With a replenished \$1.75 billion 2-year buyback plan, we raise our FY 18 EPS estimate by \$0.09 to \$3.15 and set FY 19's at \$3.49. Q4 EPS of \$0.77 vs. \$0.66, was \$0.02 above Capital IQ consensus estimate. Sales rose 8%, with new store openings, and 4% higher comp sales. Q4 EBIT margins widened 90 basis points. ROST cautiously sees 1% to 2% higher comp sales in FY 18, which could prove conservative. /T. Amobi, CPA, CFA

November 17, 2016

04:57 pm ET ... S&P CAPITAL IQ KEEPS BUY OPINION ON SHARES OF ROSS STORES INC. (ROST 65.53****): We raise our 12-month target price by \$2 to \$72 (0.8% yield), on premium P/E of 23.6X our FY 18 estimate vs. peers and historical averages. We raise FY 17 and FY 18 EPS estimates by \$0.07 and \$0.04 to \$2.80 and \$3.06. Oct-Q EPS of \$0.62 vs. \$0.53, was \$0.05 above our estimate. Amid retail expansion, sales rose 11%, with a stronger-than-expected 7% gain in comp sales, which could bode well for the holiday selling season (despite tough comparisons), even as ROST sees a "very promotional" environment. Still, with improved merchandise margins, EBIT margins gained 55 basis points. /T. Amobi, CPA, CFA

August 18, 2016

05:05 pm ET ... S&P GLOBAL KEEPS BUY OPINION ON SHARES OF ROSS STORES, INC. (ROST 62.88****): We raise our 12-month target price by \$10 to \$70 (0.8% yield), on FY 17 (Jan.) P/E of 25.6X a notable premium vs. peers and 10-year average of 17.5X. With ongoing share buybacks, we raise our FY 17 EPS estimate by \$0.03 to \$2.73, and keep FY 18's at \$3.02. Jul-Q EPS of \$0.71 vs. \$0.63, was \$0.04 higher than our and Capital IQ consensus estimates. Jul-Q sales rose 7%, with comp sales still up a relatively healthy 4%, as ROST seemed to successfully navigate an "uncertain" retail environment, slightly raising its Oct-Q and FY 17 targets. Jul-Q EBIT margins gained 50 basis points. /T. Amobi, CPA, CFA

May 19, 2016

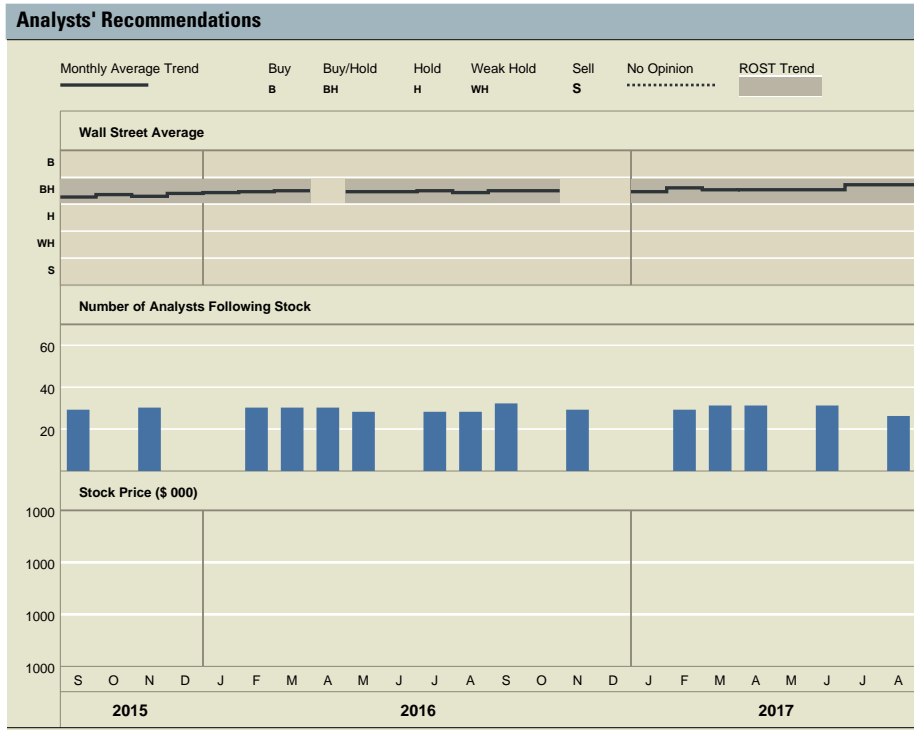
05:24 pm ET ... S&P GLOBAL KEEPS BUY OPINION ON SHARES OF ROSS STORES (ROST 55.52****): We raise our FY 17 and FY 18 EPS estimates by \$0.02 and \$0.06 to \$2.70 and \$3.02. Apr-Q EPS of \$0.73 vs. \$0.69, was \$0.01 shy of our estimate, matched Capital IQ consensus. Sales rose 5%, on 2% higher comp store sales, seen relatively encouraging against difficult comparisons (and uncertain retail/macro environment), and tracking the Q2 and full year outlook for this off-price retailer. EBIT rose 3% as margins narrowed 30 basis points. We keep our 12-month target price of \$60 (1.0% yield), on FY 17 (Jan.) P/E of 22.2X a notable premium vs. peers and 10-year average of 17.5X. /T. Amobi, CPA, CFA

March 1, 2016

05:03 pm ET ... S&P CAPITAL IQ KEEPS BUY OPINION ON SHARES OF ROSS STORES, INC. (ROST 56.23****): We raise our 12-month target price by \$4 to \$60

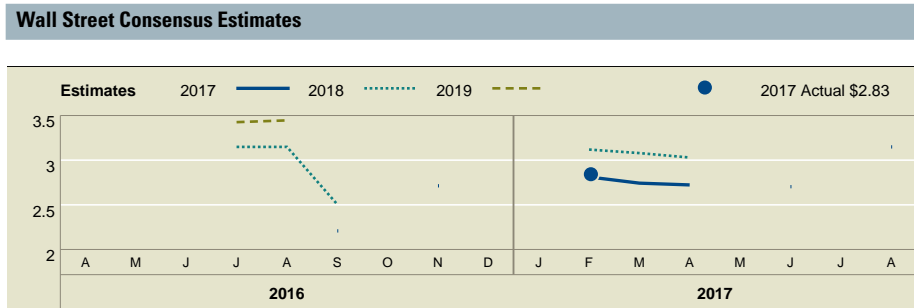
(1.0% yield on 15% dividend hike), on premium FY 17 (Jan.) P/E of 22.4X vs. peers. We trim FY 17 EPS estimate by \$0.04 to \$2.68 (with share buybacks), and set FY 18's at \$2.96. Jan-Q EPS of \$0.66 vs. \$0.60, was \$0.02 above our estimate. Net sales and comps rose 7% and 4%, even as ROST cited a "highly promotional" environment and tough comparisons. EBIT margins dipped 40 basis points. ROST offers a relatively tempered FY 17 outlook for 1%-2% higher comps, citing "uncertain" macro and retail environments, and difficult comparisons. /T. Amobi, CPA, CFA

Ross Stores Inc



Of the total 25 companies following ROST, 25 analysts currently publish recommendations.

| | No. of Recommendations | % of Total | 1 Mo. Prior | 3 Mos. Prior |
|--------------|------------------------|------------|-------------|--------------|
| Buy | 13 | 52 | 15 | 0 |
| Buy/Hold | 3 | 12 | 3 | 0 |
| Hold | 9 | 36 | 9 | 0 |
| Weak Hold | 0 | 0 | 0 | 0 |
| Sell | 0 | 0 | 0 | 0 |
| No Opinion | 0 | 0 | 0 | 0 |
| Total | 25 | 100 | 27 | 0 |



| Fiscal Years | Avg Est. | High Est. | Low Est. | # of Est. | Est. P/E |
|------------------------|--------------|--------------|--------------|--------------|---------------|
| 2019 | 3.46 | 3.93 | 3.28 | 23 | 16.1 |
| 2018 | 3.16 | 3.27 | 3.07 | 25 | 17.6 |
| 2019 vs. 2018 | ▲ 9% | ▲ 20% | ▲ 7% | ▼ -8% | ▼ -9% |
| Q2'19 | 0.86 | 0.90 | 0.82 | 24 | 64.6 |
| Q2'18 | 0.77 | 0.79 | 0.74 | 24 | 72.2 |
| Q2'19 vs. Q2'18 | ▲ 12% | ▲ 14% | ▲ 11% | 0% | ▼ -11% |

A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

Wall Street Consensus Opinion

BUY/HOLD

Companies Offering Coverage

- BMO Capital Markets Equity Research
- BofA Merrill Lynch
- Citigroup Inc
- Cowen and Company
- Credit Suisse
- Deutsche Bank
- Evercore ISI
- Goldman Sachs
- Guggenheim Securities, LLC
- JP Morgan
- Jefferies LLC
- MKM Partners LLC
- Morgan Stanley
- Morningstar Inc.
- Nomura Securities Co. Ltd.
- Northcoast Research
- RBC Capital Markets
- Roe Equity Research, LLC
- SunTrust Robinson Humphrey, Inc.
- Susquehanna Financial Group, LLLP
- Telsey Advisory Group LLC
- UBS Investment Bank
- Wells Fargo Securities, LLC
- William Blair & Company L.L.C.
- Wolfe Research, LLC.

Wall Street Consensus vs. Performance

For fiscal year 2018, analysts estimate that ROST will earn US\$ 3.16. For the 1st quarter of fiscal year 2018, ROST announced earnings per share of US\$ 0.82, representing 26% of the total annual estimate. For fiscal year 2019, analysts estimate that ROST's earnings per share will grow by 9% to US\$ 3.46.

Ross Stores Inc



Glossary

STARS

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (STock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

S&P Capital IQ Quality Ranking

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Capital IQ's earnings and dividend rankings for common stocks, which are designed to encapsulate the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

| | |
|------------------|---------------------|
| A+ Highest | B Below Average |
| A High | B- Lower |
| A- Above Average | C Lowest |
| B+ Average | D In Reorganization |
| NR Not Ranked | |

EPS Estimates

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

Core Earnings

Core Earnings is a uniform methodology for adjusting operating earnings by focusing on a company's after-tax earnings generated from its principal businesses. Included in the definition are employee stock option grant expenses, pension costs, restructuring charges from ongoing operations, write-downs of depreciable or amortizable operating assets, purchased research and development, M&A related expenses and unrealized gains/losses from hedging activities. Excluded from the definition are pension gains, impairment of goodwill charges, gains or losses from asset sales, reversal of prior-year charges and provision from litigation or insurance settlements.

12-Month Target Price

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

CFRA Equity Research

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Abbreviations Used in Equity Research Reports

| |
|---|
| CAGR - Compound Annual Growth Rate |
| CAPEX - Capital Expenditures |
| CY - Calendar Year |
| DCF - Discounted Cash Flow |
| DDM - Dividend Discount Model |
| EBIT - Earnings Before Interest and Taxes |
| EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortization |
| EPS - Earnings Per Share |
| EV - Enterprise Value |

| |
|---|
| FCF - Free Cash Flow |
| FFO - Funds From Operations |
| FY - Fiscal Year |
| P/E - Price/Earnings |
| P/NAV - Price to Net Asset Value |
| PEG Ratio - P/E-to-Growth Ratio |
| PV - Present Value |
| R&D - Research & Development |
| ROCE - Return on Capital Employed |
| ROE - Return on Equity |
| ROI - Return on Investment |
| ROIC - Return on Invested Capital |
| ROA - Return on Assets |
| SG&A - Selling, General & Administrative Expenses |
| SOTP - Sum-of-The-Parts |
| WACC - Weighted Average Cost of Capital |

Dividends on American Depositary Receipts (ADRs) and American Depositary Shares (ADSs) are net of taxes (paid in the country of origin).

Qualitative Risk Assessment

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

STARS Ranking system and definition:

★★★★★ 5-STARs (Strong Buy):

Total return is expected to outperform the total return of a relevant benchmark, by a wide margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ 4-STARs (Buy):

Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ 3-STARs (Hold):

Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ 2-STARs (Sell):

Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price not anticipated to show a gain.

★☆☆☆☆ 1-STAR (Strong Sell):

Total return is expected to underperform the total return of a relevant benchmark by a wide margin over the coming 12 months, with shares falling in price on an absolute basis.

Relevant benchmarks:

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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Qualitative STARS recommendations are determined and assigned by equity analysts. For reports containing STARS recommendations refer to the Glossary section of the report for detailed methodology and the definition of STARS rankings.

Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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STARS Stock Reports:

Global STARS Distribution as of June 30, 2017

| Ranking | North America | Europe | Asia | Global |
|---------|---------------|--------|-------|--------|
| Buy | 37.4% | 25.9% | 36.6% | 35.4% |
| Hold | 55.1% | 56.1% | 39.4% | 53.5% |
| Sell | 7.5% | 18.0% | 24.0% | 11.1% |
| Total | 100% | 100% | 100% | 100% |

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