

Ross Stores, Inc. (NASDAQ: ROST)

Sector: Consumer Staples (Retail)

Target Price	Current Price	52 Week High	52 Week Low	P/E	Mkt. Cap	Dividend	Beta
\$113.05	\$92.57	\$134.22	\$86.15	19.79	\$33.05	.8%	1.5

Business Description

Ross Stores, Inc. operates two primary brands, Ross Dress for Less (“Ross”) and dd’s Discounts (dd’s). They offer retail apparel and home fashion products at 20-60% discounts compared to department and specialty stores. Ross operates in 38 states with 1,629 Ross locations and 295 dd’s locations. Their target market is price-conscious women and men age 18 to 54, with 70-75% of consumers being female. Product offerings primarily consist of a wide assortment of name brand apparel, footwear, accessories and home fashion with a variety of styles and fashions to meet consumer needs on a local/regional basis.

Industry

Ross Stores competes within the discount department store industry, which is highly concentrated with 11 operators and significant competition from TJX Companies and Walmart. The key factors that drive growth for this industry are; per capita disposable income, services conducted online, attractive product presentation and controlling inventory on hand. Discount stores have struggled over the last five years, declining at an annualized rate of 3.8%. This is primarily due to declining demand and intensifying competition through price cutting initiatives. Further, online retailers have been able to compete with the traditionally lower prices of discount stores. As a result, this industry has encountered a relative slowdown. With that said, Ross and TJX have growth at annualized rates of 8% and 6.7% respectively. Moving forward, companies will primarily compete based on price, promotional offers, customer service and convenience of store location

Investment Thesis

In a time of market uncertainty, Ross Stores Inc. provides a sense of stability and normalcy that investors are allured to. We believe that Ross provides the off-price value proposition that customers prefer over big box retail. Additionally, many large department stores are closing locations. Therefore, Ross will be able to capture more market share, and add on to its current 15.7% MS in discount retail. With its low cyclicality business model, and strong financial performance, we believe Ross is both undervalued and poised for significant growth as it embarks on a robust store expansion program.

Risks

Management expects supply chain issues to remain prevalent which will increase costs. However, they started preparing for the holidays months in advance. Over the past few months, they’ve added billions of dollars worth of inventory. Also, the pricing power in the industry can affect them.

Valuation Assumptions

- WACC: 9.25%
- Perpetuity Growth Rate: 3%
- Implied Share Price: \$113.05
- Margin of Safety: 22%
- EV/EBITDA Multiple: 15x
- P/E Multiple: 22x

ESG

- Climate: committed to reducing greenhouse gas footprint and partner with value chain partners, external stakeholders, and policy makers to transition to a low carbon economy
- Plastic: Reducing impact of plastics by eliminating and finding alternatives in products, packaging, and operations
- Target foundation invests 5% of profits in communities
- Diversity, equity, and inclusion: equal representation of women at all levels, increasing spending with diverse buyers, increasing sale of localized products, recruit and retain people of color, and create an inclusive and diverse work environment

Prepared By: Shane Cotter