Ross Stores (ROST)

Updated March 3rd, 2023 by Aristofanis Papadatos

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	7.5%	**Market Cap:**	$38.1 B
Fair Value Price:	$93	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	3/13/2023
% Fair Value:	119%	**5 Year Valuation Multiple Estimate:**	-3.5%	**Dividend Payment Date:**	3/31/2023
Dividend Yield:	1.2%	**5 Year Price Target**	$150	**Years Of Dividend Growth:**	3
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Rating:**	Hold

Overview & Current Events

Ross Stores operates 1,693 stores with off-price apparel and home fashion in 40 states. It also operates 322 dd's DISCOUNTS stores in 21 states and has a market cap of $38.1 billion. The retailer offers attractive merchandise at a 20%-60% discount compared to the regular prices of department and specialty stores. Prior to 2020, Ross Stores had grown its revenue and its earnings-per-share every single year for more than a decade. This record is a testament to the strength of its business model and the quality of its management, which executes its growth plan in an exemplary way.

In late February, Ross Stores reported (2/28/23) financial results for the fourth quarter of fiscal 2022. Sales grew 4% over the prior year's quarter and operating margin expanded from 9.8% to 10.7% thanks to lower freight and incentive costs. As a result, earnings-per-share grew 26%, from $1.04 to $1.31, and exceeded the analysts' estimates by $0.07. The performance of Ross Stores was surprisingly positive, as the company had been affected much more by excessive inflation in previous quarters. The company provided positive guidance for 2023, expecting earnings-per-share of $4.65-$4.95. Even better, management hinted that this guidance is conservative due to the uncertainty caused by the macro environment. We thus expect earnings-per-share of $4.95 this year, the high end of the guidance. We reiterate that we view the headwind of inflation as temporary and remain confident in the bright long-term outlook of Ross Stores.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.94	$2.21	$2.51	$2.83	$3.55	$4.26	$4.60	$0.78	$4.87	$4.38	***$4.95***	***$7.97***
DPS	$0.36	$0.40	$0.47	$0.54	$0.64	$0.90	$1.02	$0.29	$1.14	$1.24	***$1.34***	***$2.40***
Shares[1]	426.8	414.9	402.3	391.9	379.7	368.4	356.9	355.2	351.2	342.0	***339.0***	***320.0***

Ross Stores has grown its earnings-per-share more than 5-fold since 2009, from $0.89 to $4.38 in 2022. Moreover, it still has growth prospects ahead. The company currently has 2,015 stores while management is confident for a potential of 3,600 stores in the U.S. It has raised this number, from 2,900 previously, thanks to the large number of retail bankruptcies caused by the pandemic. As a result, the company can still grow its store count meaningfully. As the retailer normally opens about 100 new stores per year, it is evident that it has at least a decade of growth ahead.

Ross Stores has missed the analysts' estimates only four times in the last 36 quarters. Moreover, it has grown its earnings-per-share by 9.5% per year on average over the last decade. Given the somewhat low comparison base formed due to the stagnation in the last four years amid the pandemic and the resultant inflation, we assume 10.0% average annual earnings-per-share growth beyond this year.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.4	17.0	20.3	21.4	19.7	20.1	22.2	125.6	24.4	20.8	***22.4***	***18.8***
Avg. Yld.	1.0%	1.1%	0.9%	0.9%	1.0%	1.0%	1.0%	0.3%	1.0%	1.4%	***1.2%***	***1.6%***

[1] In millions.

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Ross Stores is currently trading at a price-to-earnings ratio of 22.4, which is higher than its 10-year average price-to-earnings ratio of 18.8. If the stock trades at its historical valuation level in five years, it will incur a -3.5% annualized valuation drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	18.6%	18.1%	18.7%	19.1%	19.2%	21.1%	22.2%	37.2%	23.4%	28.3%	***27.1%***	***30.2%***

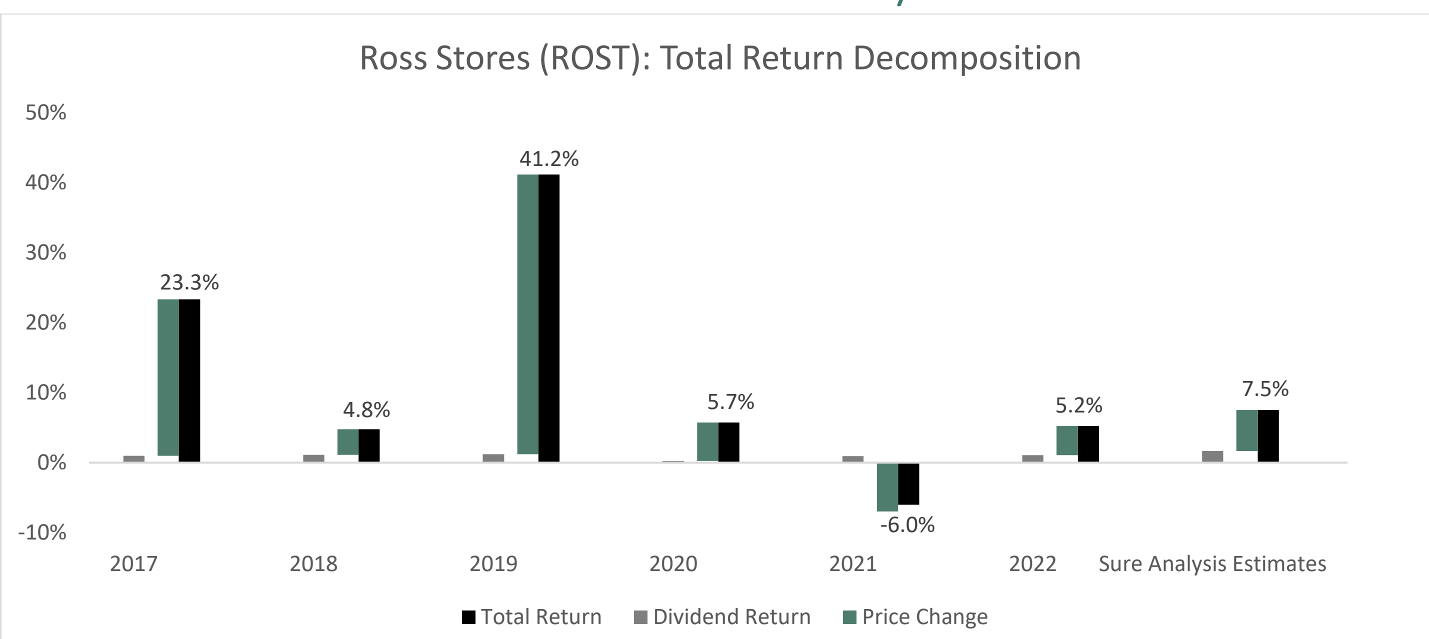
The key behind the exceptional growth record of Ross Stores is the fact that it offers great discounts on popular brands. It creates a treasure-hunting experience, which is appealing to consumers and constitutes a moat. This unique shopping experience helps explain why Ross Stores is one of the few retailers that have not been affected by Amazon. Moreover, while the U.S. economy has been growing for more than a decade, consumers have become increasingly price-conscious in recent years. Therefore, Ross Stores appeals to a wide range of consumers. With that said, competition has become increasingly heated in the retail sector.

Ross Stores had raised its dividend for 25 consecutive years until 2020. Its capital expenses have remained below half of its operating cash flows every year in the last decade, resulting in high free cash flows. However, the retailer was forced to suspend its dividend in 2020 due to the pandemic. Ross Stores proved resilient in previous recessions, as consumers were particularly price-sensitive. However, this downturn was much fiercer, as it forced the company to close its stores for nearly two months and social distancing was a strong headwind for this business. Nevertheless, the retailer is currently recovering from the pandemic.

Final Thoughts & Recommendation

Ross Stores is a high-quality discount retailer with a wide moat and solid growth prospects over the next several years. The stock has outperformed the S&P 500 by a wide margin over the last 12 months (+17% vs. -9%) but it could still offer a 7.5% average annual return over the next five years thanks to 10.0% earnings growth and its 1.2% dividend, partly offset by a -3.5% valuation headwind. It thus maintains its hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	10230	11042	11940	12867	14135	14984	16,039	12,532	18,916	18,696
Gross Profit	2869	3104	3363	3693	4092	4257	4,503	2,693	5,207	4,750
Gross Margin	28.0%	28.1%	28.2%	28.7%	29.0%	28.4%	28.1%	21.5%	27.5%	25.4%
SG&A Exp.	1526	1615	1739	1890	2044	2217	2,357	2,503	2,874	2,759
D&A Exp.	206	233	275	303	313	330	351	364	361	395
Operating Profit	1343	1488	1624	1803	2048	2041	2,146	190	2,333	1,990
Operating Margin	13.1%	13.5%	13.6%	14.0%	14.5%	13.6%	13.4%	1.5%	12.3%	10.6%
Net Profit	837	925	1021	1118	1363	1587	1,661	85	1,723	1,512
Net Margin	8.2%	8.4%	8.5%	8.7%	9.6%	10.6%	10.4%	0.7%	9.1%	8.1%
Free Cash Flow	471	726	959	1261	1310	1653	1,616	1,841	1,181	1,035
Income Tax	506	561	591	669	678	463	503	21	536	475

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3897	4687	4869	5309	5722	6074	9,348	12,718	13,640	13,416
Cash & Equivalents	423	697	762	1112	1290	1413	1,351	4,819	4,922	4,552
Accounts Receivable	63	73	74	75	88	97	102	115	119	146
Inventories	1257	1373	1419	1513	1642	1750	1,832	1,509	2,262	2,023
Total Liabilities	1889	2408	2397	2561	2673	2768	5,989	9,427	9,580	9,128
Accounts Payable	779	1001	946	1022	1060	1177	1,296	2,257	2,372	2,010
Long-Term Debt	150	396	396	396	397	312	313	2,513	2,452	2,457
Shareholder's Equity	2007	2279	2472	2748	3049	3306	3,359	3,291	4,060	4,289
LTD/E Ratio	0.07	0.17	0.16	0.14	0.13	0.09	0.09	0.76	0.60	0.57

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	22.1%	21.5%	21.4%	22.0%	24.7%	26.9%	21.5%	0.8%	13.1%	11.2%
Return on Equity	44.4%	43.1%	43.0%	42.8%	47.0%	50.0%	49.8%	2.6%	46.9%	36.2%
ROIC	41.1%	38.3%	36.8%	37.2%	41.4%	44.9%	45.6%	1.8%	28.0%	22.8%
Shares Out.	426.8	414.9	402.3	391.9	379.7	368.4	356.9	355.2	351.2	345.2
Revenue/Share	23.70	26.41	29.38	32.58	36.78	40.21	44.41	35.34	53.48	54.16
FCF/Share	1.09	1.74	2.36	3.19	3.41	4.43	4.47	5.19	3.34	3.00

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.