

Ross Stores Inc

Strong beat driven by well received assortments and value proposition

Reiterate Rating: BUY | PO: 170.00 USD | Price: 149.17 USD

Assortment continues to appeal to value-driven consumer

We reiterate our Buy rating following a strong beat as we think Ross Stores' (ROST) improved value proposition is resonating well with stretched consumers. ROST reported 4Q EPS of \$1.82, beating our/VA consensus estimates of \$1.60/\$1.64 on better sales and gross margin (GM). Comps grew 7% in the quarter, above its 1-2% guidance. Customers responded well to improved assortments of better priced bargains in stores. Management initiated guidance for F24 comps of 2-3% and EPS of \$5.64 to \$5.89. We are raising our F24/F25E EPS by 1%/2% to \$5.89/\$6.44 to reflect the beat and our expectation of continued execution on its pricing strategies. We are lifting our PO to \$170 (from \$160), now 26x our F25E EPS estimates (was 25x) to reflect peer multiple expansion.

Tempering dd's growth given lower opening volume

Cosmetics, home, and children's were the strongest categories, while accessories performed slightly above the chain and apparel trailed the chain average. Sales growth was broad-based across geographies and income demographics. Management remains pleased with dd's comps but its store openings in new markets were below expectations, leading to a pull-back in growth outside of existing geographies. We now model square footage growth of 3.7% versus 4.6% in F23.

Sharper price point strategy aims to strengthen value prop

Customers have reacted well to ROST's value offering so it is increasing the number of brands offering sharp price points. Management expects to gain more market share with this strategy, but expects some merchandise margin pressure as a result. The 4Q comp was driven by traffic and we expect the same for 2024, with higher units per transaction offsetting any pressure on ticket from the sharper price points.

GM improvement to continue, led by freight benefit

GM increased 270bp to 27.3%, driven primarily by better MM (+110bp) on better ocean freight costs, lower distribution costs (+75bp) given favorable timing on packaway, lower domestic freight costs (+75bp), and occupancy cost leverage (+45bp), partly offset by higher buying costs (-40bp) due to higher incentives. We expect higher 1Q GM from lower freight costs, with the sharper price point strategy offsetting smaller freight gains during the remainder of the year. Inventory was up 8% and average store inventory was up 9%. We expect modest F24 SG&A leverage as incentives normalize.

Estimates (Jan) (US\$)	2023A	2024A	2025E	2026E	2027E
EPS	4.38	5.56	5.89	6.44	7.04
EPS Change (YoY)	-10.1%	26.9%	5.9%	9.3%	9.3%
Consensus EPS (Bloomberg)			5.92	6.55	NA
DPS	1.24	1.34	1.34	1.34	1.34
Valuation (Jan)					
P/E	34.1x	26.8x	25.3x	23.2x	21.2x
Dividend Yield	0.8%	0.9%	0.9%	0.9%	0.9%
EV / EBITDA*	20.8x	18.1x	17.0x	15.6x	14.5x
Free Cash Flow Yield*	2.0%	3.4%	3.4%	3.8%	4.2%

* For full definitions of *IQmethod*SM measures, see page 5.

06 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	160.00	170.00
2025E Rev (m)	20,945.6	21,186.6
2026E Rev (m)	22,007.8	22,174.8
2027E Rev (m)	NA	23,192.4
2025E EPS	5.81	5.89
2026E EPS	6.33	6.44
2027E EPS	NA	7.04

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Stock Data

Price	149.17 USD
Price Objective	170.00 USD
Date Established	6-Mar-2024
Investment Opinion	B-1-7
52-Week Range	99.00 USD - 151.12 USD
Mkt Val (mn) / Shares Out (mn)	52,033 USD / 348.8
Free Float	98.0%
Average Daily Value (mn)	281.48 USD
BofA Ticker / Exchange	ROST / NAS
Bloomberg / Reuters	ROST US / ROST.OQ
ROE (2025E)	37.4%
Net Dbt to Eqty (Jan-2024A)	-49.5%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

MM: merchandise margin

GM: gross margin

OM: operating margin

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Timestamp: 06 March 2024 01:30AM EST

iQprofileSM Ross Stores Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Return on Capital Employed	14.2%	17.2%	17.3%	17.6%	17.9%
Return on Equity	36.2%	40.9%	37.4%	35.2%	32.7%
Operating Margin	10.6%	11.3%	11.5%	11.8%	12.1%
Free Cash Flow	1,035	1,752	1,785	1,998	2,207

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash Realization Ratio	1.1x	1.3x	1.3x	1.4x	1.4x
Asset Replacement Ratio	1.7x	1.8x	1.7x	1.5x	1.4x
Tax Rate	23.9%	24.2%	24.2%	24.2%	24.2%
Net Debt-to-Equity Ratio	-42.3%	-49.5%	-50.0%	-52.7%	-56.5%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Sales	18,696	20,377	21,187	22,175	23,192
% Change	-1.2%	9.0%	4.0%	4.7%	4.6%
Gross Profit	4,750	5,575	5,797	6,122	6,461
% Change	-8.8%	17.4%	4.0%	5.6%	5.5%
EBITDA	2,385	2,727	2,912	3,163	3,416
% Change	-11.5%	14.3%	6.8%	8.6%	8.0%
Net Interest & Other Income	(3)	164	147	148	152
Net Income (Adjusted)	1,512	1,875	1,951	2,097	2,250
% Change	-12.2%	24.0%	4.1%	7.5%	7.3%

Free Cash Flow Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Net Income from Cont Operations (GAAP)	1,512	1,875	1,951	2,097	2,250
Depreciation & Amortization	395	419	485	544	599
Change in Working Capital	(419)	96	43	51	52
Deferred Taxation Charge	79	(21)	0	0	0
Other Adjustments, Net	122	145	145	145	145
Capital Expenditure	(654)	(763)	(840)	(840)	(840)
Free Cash Flow	1,035	1,752	1,785	1,998	2,207
% Change	-12.3%	69.2%	1.9%	12.0%	10.5%
Share / Issue Repurchase	(925)	(925)	(975)	(975)	(975)
Cost of Dividends Paid	(431)	(455)	(444)	(436)	(428)
Change in Debt	0	(1)	(251)	0	(497)

Balance Sheet Data (Jan)

(US\$ Millions)	2023A	2024A	2025E	2026E	2027E
Cash & Equivalents	4,552	4,872	4,987	5,574	5,880
Trade Receivables	146	131	136	142	149
Other Current Assets	2,207	2,395	2,476	2,558	2,639
Property, Plant & Equipment	3,182	3,532	3,887	4,183	4,424
Other Non-Current Assets	3,330	3,370	3,370	3,370	3,370
Total Assets	13,416	14,300	14,857	15,827	16,463
Short-Term Debt	280	250	0	497	0
Other Current Liabilities	2,701	3,252	3,374	3,497	3,621
Long-Term Debt	2,457	2,211	2,210	1,713	1,713
Other Non-Current Liabilities	441	429	437	453	469
Total Liabilities	9,128	9,429	9,308	9,447	9,090
Total Equity	4,289	4,871	5,549	6,380	7,372
Total Equity & Liabilities	13,416	14,300	14,857	15,827	16,463

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Retailing-Specialty

Company Description

Ross Stores is the second largest off-price retailer in the United States. The company operates over 1,500 stores under the Ross Dress for Less banner and over 200 stores under the dd's DISCOUNTS brand. Both brands target women and men between the ages of 18 and 54. About 75-80% of the company's customers are females shopping for themselves and/or family members. Ross targets customers from middle-income households while dd's targets customers from more moderate income households.

Investment Rationale

Our rating on Ross Stores (ROST) is Buy. We expect Ross to gain market share as inventory flow normalizes and it benefits from a trade down. The company has a long history of being able to grow in good and bad macroeconomic environments. Ross has the potential to nearly double its footprint and we expect square footage to grow at a mid-single-digit rate longer term. It also has a long history of returning excess cash to shareholders via buybacks and dividends.

Stock Data

Average Daily Volume 1,886,983

Quarterly Earnings Estimates

	2024	2025
Q1	1.09A	1.33E
Q2	1.32A	1.43E
Q3	1.33A	1.43E
Q4	1.82A	1.70E



Exhibit 1: ROST Income Statement

ROST reported 4Q EPS of \$1.82, beating our/VA consensus estimates of \$1.60/\$1.64 on better sales and gross margin (GM).

Income Statement	FY 2022	1Q 23	2Q 23	3Q 23	4Q 23	FY 2023E	1Q 24E	2Q 24E	3Q 24E	4Q 24E	FY 2024E	1Q 25E	2Q 25E	3Q 25E	4Q 25E	FY 2025E
		Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan		Apr	Jul	Oct	Jan	
Net Sales	\$18,695.8	\$4,494.7	\$4,934.9	\$4,924.8	\$6,022.5	\$20,376.9	\$4,763.2	\$5,227.2	\$5,209.2	\$5,987.0	\$21,186.6	\$4,987.4	\$5,471.8	\$5,450.5	\$6,265.1	\$22,174.8
Cost of sales	13,946.2	3,292.6	3,569.4	3,564.3	4,375.4	14,801.6	3,441.7	3,780.8	3,770.0	4,397.5	15,390.0	3,591.2	3,944.0	3,931.1	4,586.1	16,052.4
Gross profit	4,749.6	1,202.1	1,365.5	1,360.6	1,647.1	5,575.3	1,321.5	1,446.4	1,439.1	1,589.5	5,796.6	1,396.2	1,527.8	1,519.4	1,679.0	6,122.4
SG&A expense	2,759.3	746.2	807.9	810.5	903.1	3,267.7	783.3	847.7	849.2	888.7	3,368.9	814.7	881.6	883.1	924.3	3,503.7
Operating profit	1,990.3	455.9	557.6	550.1	744.1	2,307.7	538.2	598.7	590.0	700.8	2,427.7	581.5	646.2	636.3	754.8	2,618.8
Interest expense/(income)	2.8	(31.4)	(37.2)	(43.3)	(52.2)	(164.1)	(44.0)	(35.4)	(36.4)	(31.4)	(147.2)	(37.0)	(37.0)	(37.0)	(37.0)	(148.2)
Pretax income	1,987.5	487.3	594.9	593.4	796.2	2,471.8	582.2	634.1	626.3	732.2	2,574.9	618.6	683.2	673.4	791.8	2,767.0
Total Tax	475.4	116.1	148.5	146.1	186.6	597.3	139.7	158.3	154.2	171.6	623.8	148.5	170.6	165.8	185.5	670.4
Tax rate	23.9%	23.8%	25.0%	24.6%	23.4%	24.2%	24.0%	25.0%	24.6%	23.4%	24.2%	24.0%	25.0%	24.6%	23.4%	24.2%
Net Income	1,512.0	371.2	446.3	447.3	609.7	1,874.5	442.5	475.8	472.1	560.7	1,951.1	470.1	512.6	507.6	606.3	2,096.6
Earnings per share	\$4.38	\$1.09	\$1.32	\$1.33	\$1.82	\$5.56	\$1.33	\$1.43	\$1.43	\$1.70	\$5.89	\$1.43	\$1.57	\$1.56	\$1.88	\$6.44
Diluted shares outstanding	345.2	340.0	337.9	336.3	335.0	337.3	333.5	332.1	330.6	329.1	331.3	327.7	326.2	324.7	323.3	325.5
Dividend/share	\$1.24	\$0.34	\$0.34	\$0.34	\$0.34	\$1.34	\$0.34	\$0.34	\$0.34	\$0.34	\$1.34	\$0.34	\$0.34	\$0.34	\$0.34	\$1.34
Change (y/y)																
Margins																
Gross profit margin	25.4%	26.7%	27.7%	27.6%	27.3%	27.4%	27.7%	27.7%	27.6%	26.5%	27.4%	28.0%	27.9%	27.9%	26.8%	27.6%
bp change y/y	(212)	51	185	263	265	196	100	0	0	(80)	(0)	25	25	25	25	25
GM vs. 2019	(267)	(210)	(87)	(50)	40	(71)					(71)					(46)
SG&A expense	14.8%	16.6%	16.4%	16.5%	15.0%	16.0%	16.4%	16.2%	16.3%	14.8%	15.9%	16.3%	16.1%	16.2%	14.8%	15.8%
bp change y/y	(44)	115	182	127	101	128	(16)	(15)	(16)	(15)	(14)	(11)	(11)	(10)	(9)	(10)
SG&A Dollar Growth	-4.0%	11.5%	21.1%	16.9%	24%	18.4%	5.0%	4.9%	4.8%	-1.6%	3.1%	4.0%	4.0%	4.0%	4.0%	4.0%
SG&A vs. 2019																
Operating margin	10.6%	10.1%	11.3%	11.2%	12.4%	11.3%	11.3%	11.5%	11.3%	11.7%	11.5%	11.7%	11.8%	11.7%	12.0%	11.8%
bp change y/y	(169)	(64)	3	136	164	68	116	15	16	(65)	13	36	36	35	34	35
bp change vs. 2019	(274)					(206)					(192)					(157)
% change y/y																
Sales	-1.2%	3.7%	7.7%	7.9%	15.5%	9.0%	6.0%	5.9%	5.8%	-0.6%	4.0%	4.7%	4.7%	4.6%	4.6%	4.7%
EBIT	-14.7%	-2.4%	8.0%	22.8%	33.2%	15.9%	18.1%	7.4%	7.2%	-5.8%	5.2%	8.0%	7.9%	7.9%	7.7%	7.9%
Earnings per share growth	-10.1%	12.5%	18.9%	33.7%	39.2%	26.9%	21.5%	8.5%	7.3%	-6.4%	6.0%	8.2%	9.7%	9.5%	10.1%	9.4%

Source: BofA Global Research estimates, company filings

BofA GLOBAL RESEARCH

Price objective basis & risk

Ross Stores Inc (ROST)

Our \$170 price objective is based on a P/E of 26x our F2025 estimate. We believe Ross deserves to trade at a premium to specialty retailers (average 19x) considering its ability to post outsized comps, its track record of being able to grow despite economic volatility, significant new store growth potential, and a history of returning excess cash to shareholders through buybacks and dividends.

Downside risks to our PO are: lower comps than we are estimating, gross margin contraction due to markdowns, and a pullback in spending by customers.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

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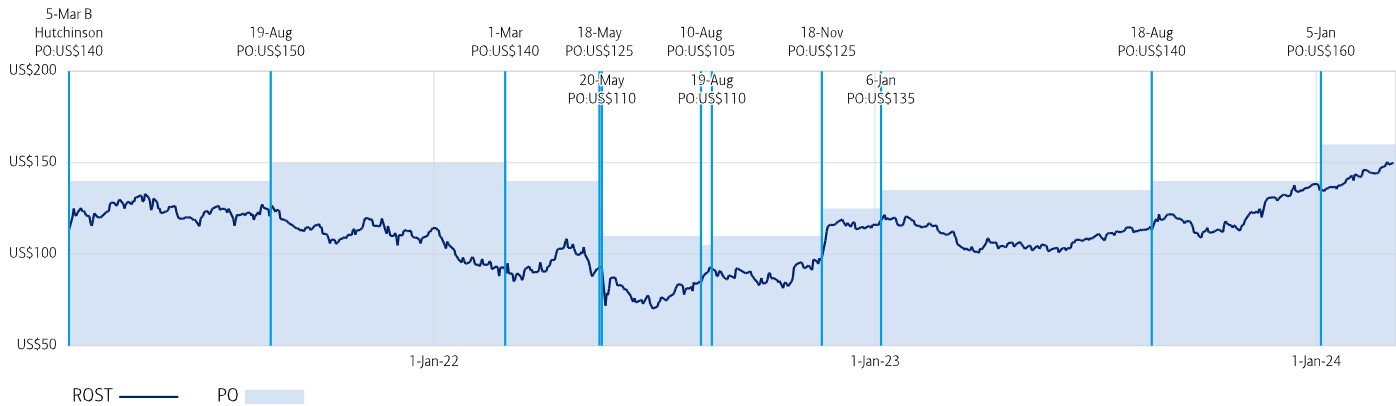
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Disclosures

Important Disclosures

Ross Stores (ROST) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Retailing Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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The issuer is or was, within the last 12 months, an investment banking client of BofAS and/or one or more of its affiliates: Ross Stores.

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