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ROSS **Ross Stores (ROST) 2Q17 Results: Beats Estimates and Raises Guidance**

DRESS FOR LESS

Figure 1. Ross Stores 2Q17 Key Metrics

	2Q17	2Q16	YoY Change
Revenues (USD Bil.)	\$3.4	\$3.2	7.9%
Gross Margin	29.5%	29.2%	24 bps
SG&A/Sales	14.5%	14.8%	(24) bps
Operating Margin	14.9%	14.4%	48 bps
EPS (USD)	\$0.82	\$0.71	15.3%

Source: Company reports/FGRT

- **Ross Stores reported 2Q17 EPS of \$0.82, up 15.3% from \$0.71 in the year-ago quarter and beating the \$0.77 consensus estimate. Revenues were \$3.43 billion, up 7.9% year over year and beating the consensus estimate of \$3.37 billion.**
- **Comp sales increased by 4%, ahead of the 2.0% consensus estimate and following 4% comps in the year-ago quarter.**
- **The company guided for comp growth of 1%–2% for 3Q17 and 4Q17. Ross Stores raised its full-year EPS guidance to \$3.16–\$3.23, up from \$3.07–\$3.17 previously and representing a 12%–14% increase year over year.**

2Q17 Results

Ross Stores reported 2Q17 revenues of \$3.43 billion, up 7.9% year over year and beating the \$3.37 billion consensus estimate.

Comps increased by 4%, beating both the 2.0% consensus estimate and guidance of 1%–2%, following 4% comps in the year-ago quarter.

EPS was \$0.82, up from \$0.71 in the year-ago quarter and beating the \$0.77 consensus estimate.

Management issued positive comments on strong sales and earnings growth and stated that the quarter's 14.9% operating margin exceeded projections, mainly due to a combination of higher merchandise margin and sales leverage.

Details from the Quarter

- Merchandise sales trends were broad-based across all major geographic regions during the quarter.
- The Midwest and Southeast were the strongest regions.
- Shoes were the best-performing merchandise category at Ross Dress for Less (Ross).
- DD's Discounts posted better-than-expected gains in both sales and operating profits.
- At the end of the quarter, consolidated inventories were up 3% year over year, with average in-store inventories up slightly. Packaway was 46% of total inventories, compared with 47% a year ago.



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- The company opened 21 new Ross stores and seven DD's Discounts locations in the quarter.
- For the 2017 fiscal year, the company plans to open a total of about 70 new Ross locations and 20 DD's Discounts locations.

Outlook

Management commented that it is facing challenging year-over-year comparisons against a volatile retail backdrop in the second half of the year, which prompted its somewhat cautious outlook.

For 3Q17, the company expects:

- Comps of 1%–2%, following 7% comps in the year-ago quarter.
- EPS of \$0.64–\$0.67, up from \$0.62 in the year-ago quarter and compared with consensus of \$0.67.

For 4Q17, the company expects:

- Comps of 1%–2%, versus consensus of 1.5% and following 4% comps in the year-ago quarter.
- EPS of \$0.88–\$0.92, up from \$0.77 in the year-ago quarter.

For FY17, the company expects:

- Adjusted EPS of \$3.16–\$3.23, up from prior guidance of \$3.07–\$3.17, in line with the consensus estimate of \$3.17. This figure includes an \$0.08 per share net gain due to a 53-week business year.



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