

Ross Stores (ROST): Structural Alpha in a Volatile Retail World

A deep dive into the 28.9% ROIC off-price engine, the 3,600-store growth runway, and the tariff-driven headwinds of 2025.

The Thesis: An Economic Moat Built on Inventory Arbitrage and Operational Austerity

THE MOAT (DEFENSIBLE)

41%

Packaway Inventory

Scale-driven procurement across 8,000+ vendors creates a barrier to entry that prevents startup replication.

THE PERFORMANCE (ELITE)

28.88%

ROIC (vs 9.8% WACC)

Top-decile efficiency with 12.2% operating margins. The leading domestic pure-play operator.

THE GROWTH (VISIBLE)

1,300+

Store Runway

Clear path from current 2,273 to target 3,600 stores. Low-risk expansion into under-penetrated Midwest/Northeast.

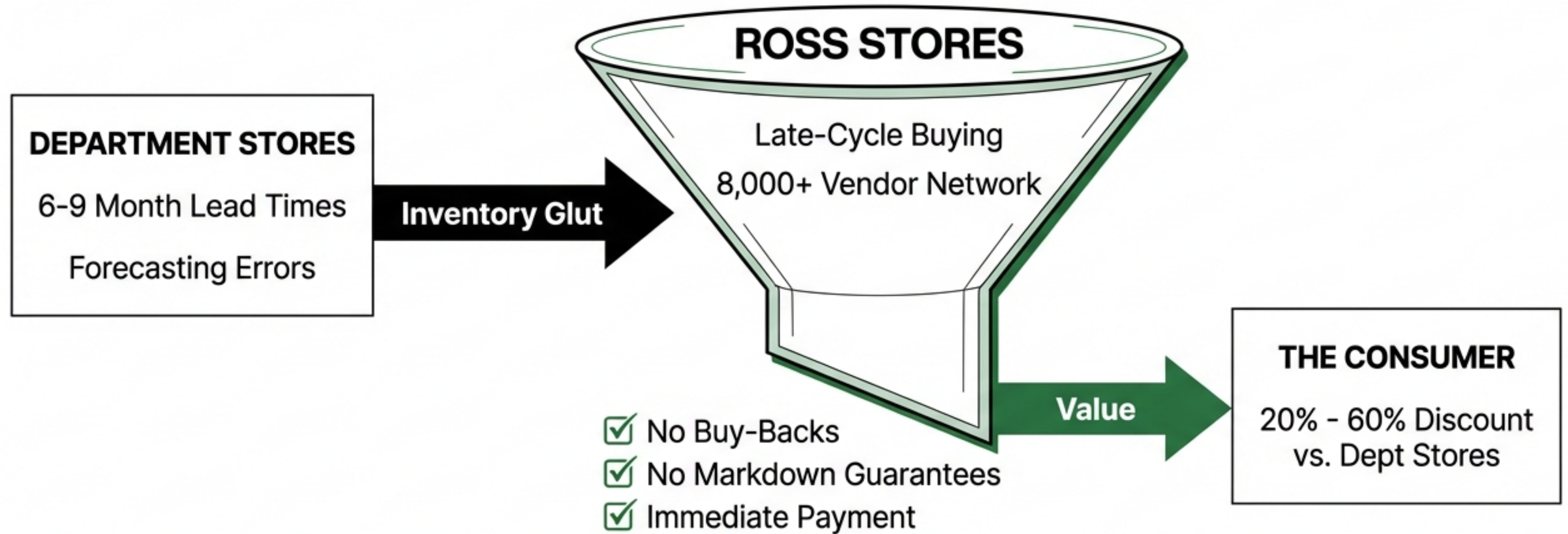
THE RISK (ACUTE)

\$0.25

EPS Impact from Tariffs

Immediate headwinds from global trade policy and a major leadership transition from Rentler to Conroy.

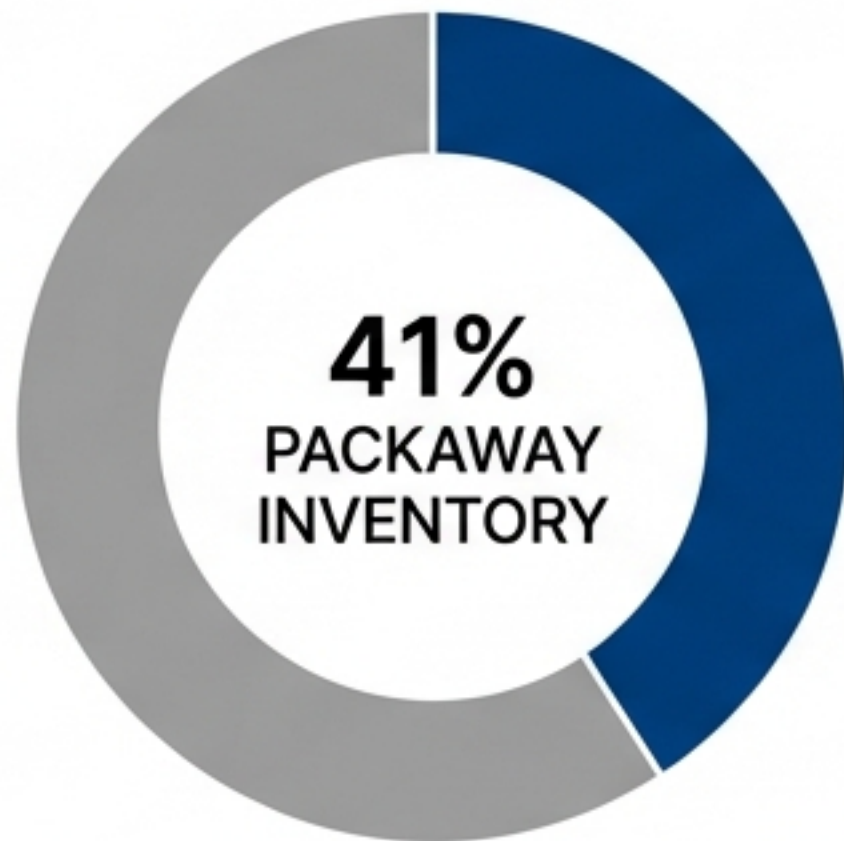
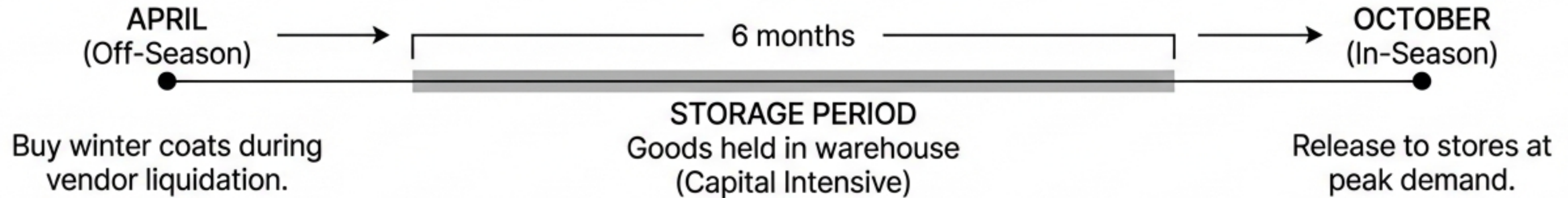
Value Creation comes from Monetizing Supply Chain Failure, Not Manufacturing



Ross acts as the apparel industry's clearinghouse, converting vendor distress into consumer value.

The Fortress Balance Sheet enables a 41% 'Packaway' Inventory Strategy.

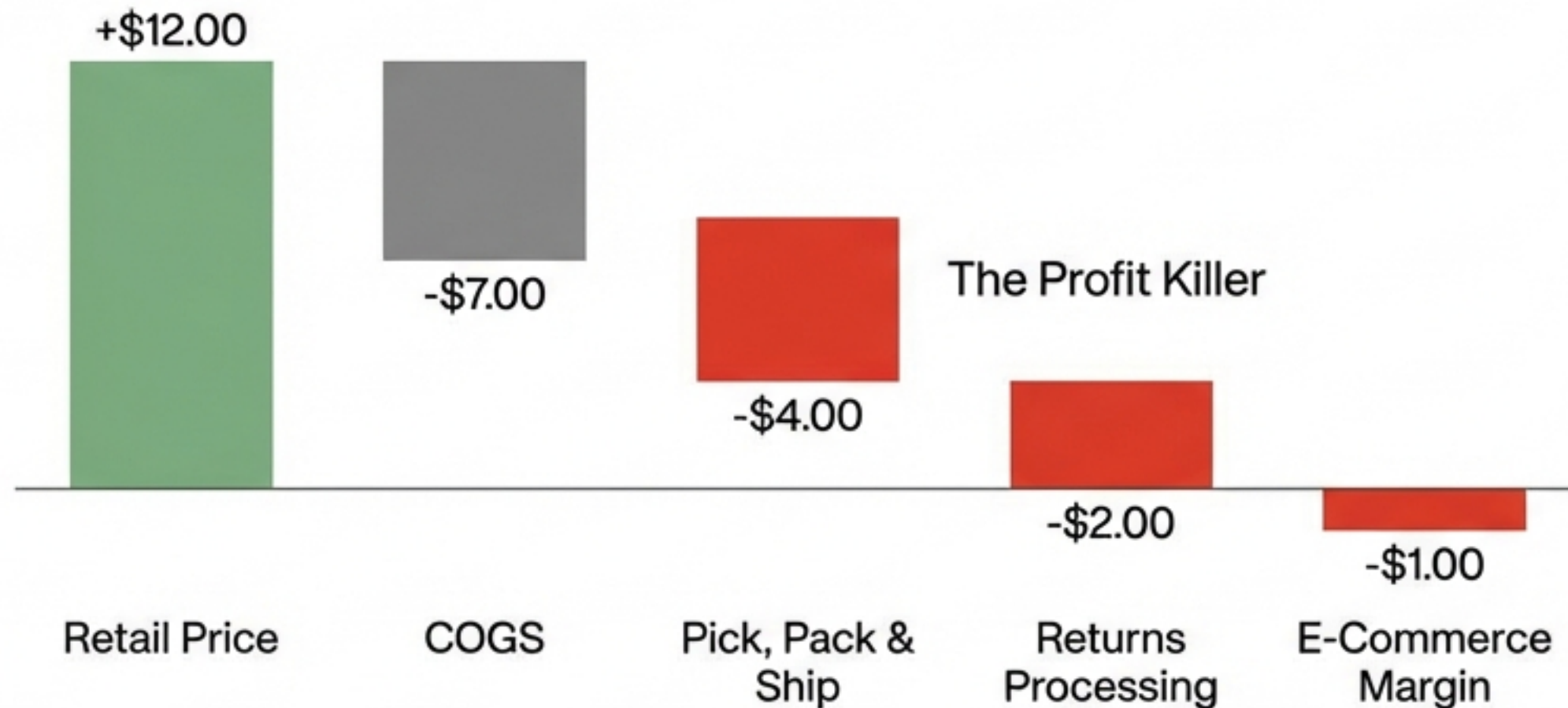
The Arbitrage Timeline



Strategy enhances gross margins by maximizing the spread between distressed cost and peak retail price. Requires massive working capital, creating a barrier to entry for smaller competitors.

Strategic Incompatibility with Digital Commerce Protects Margins.

Unit Economics of a \$12 Shirt



IN-STORE MODEL

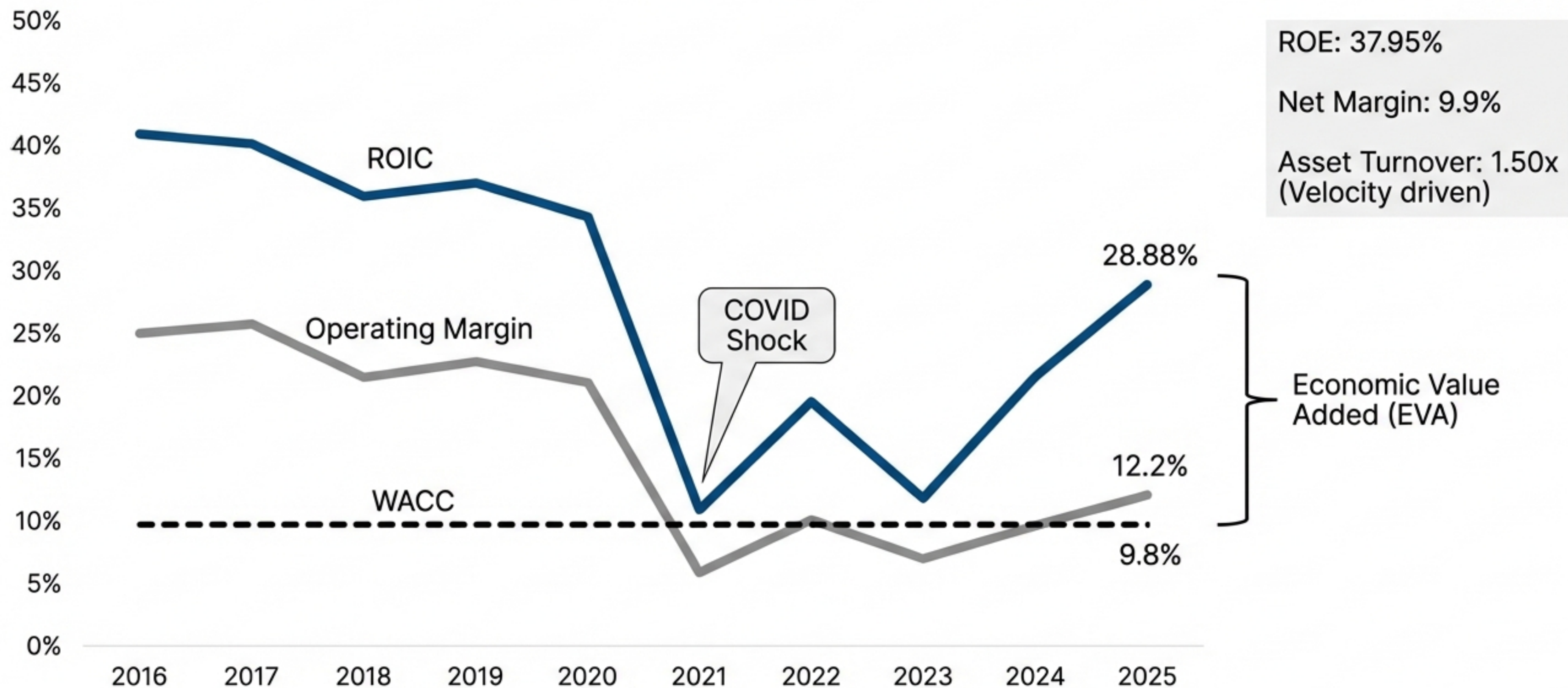
Customer does the picking.

Customer does the delivery.

Result: 12% Operating Margin.

\$21 Billion in Revenue. \$0 from E-commerce.

A Decade of Alpha: Generating Returns Far in Excess of Cost of Capital



Benchmarking the Oligopoly: Ross Leads in Domestic Operational Efficiency.

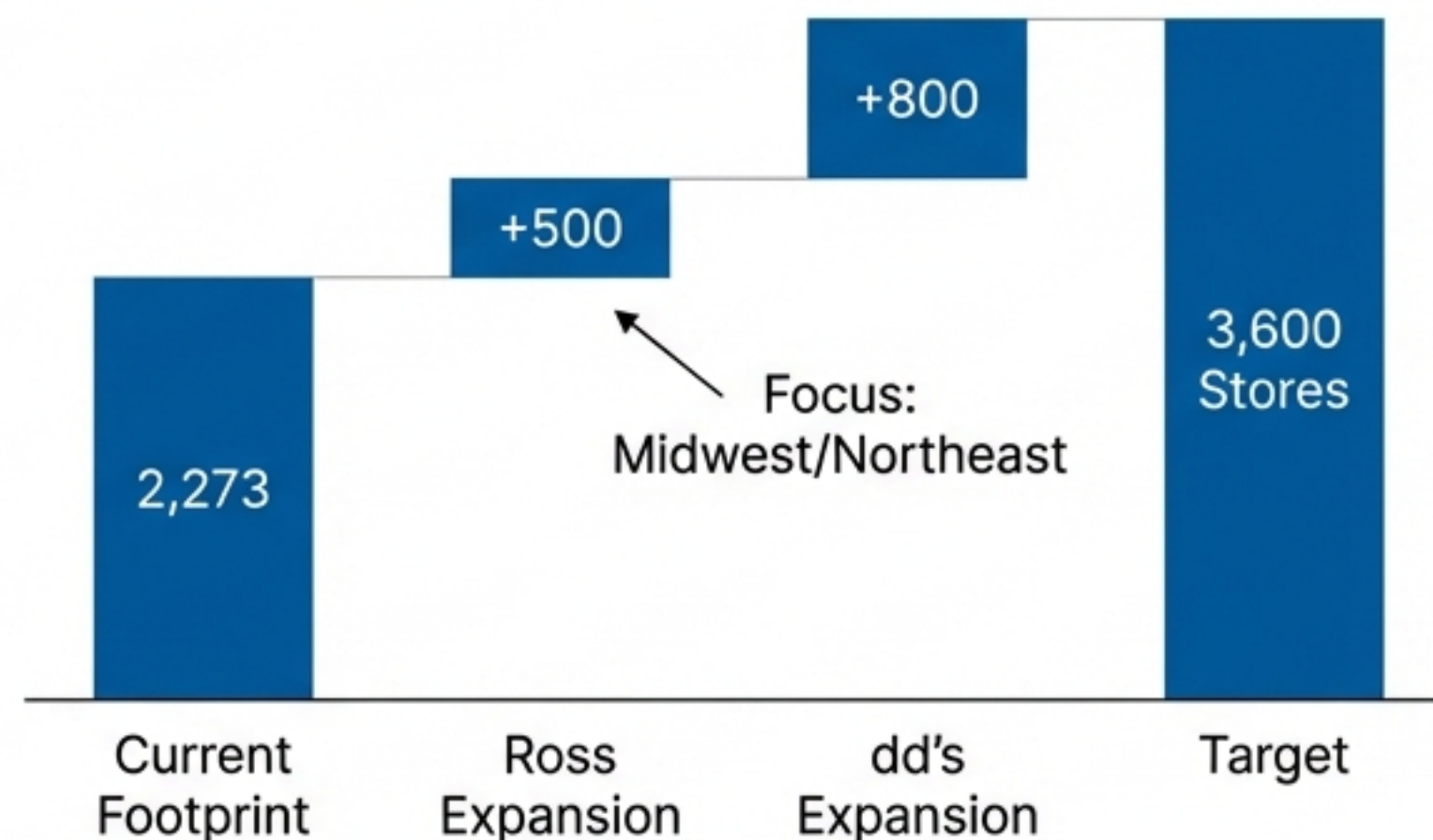
ROSS STORES (The Efficient Pure-Play)	TJX COMPANIES (The Global Giant)	BURLINGTON (The Turnaround)
Store Count: 2,273	Store Count: >5,100	Store Count: 1,138
Margin Profile: 12.2% Operating Margin (Highest Domestic)	Margin Profile: 11.5% Pre-Tax Margin	Margin Profile: 5.0% - 7.2% EBIT Margin
Strategy: High density, low CapEx, No Frills.	Strategy: Global scale, HomeGoods dominance.	Strategy: Burlington 2.0 (Shrinking stores to mimic Ross).

Ross trades at a discount to peers (P/E ~30x vs ~33x/34x)
despite superior domestic margin profile.

The Path to 3,600 Stores: Filling the Voids in the Midwest and Northeast



Dark Blue = High Saturation
Light Blue w/ Pattern = Growth Opportunity



1,300+ store runway allows for ~90 net new stores annually. 14-Year Visibility.

dd's DISCOUNTS: A Complementary Growth Engine.

ROSS DRESS FOR LESS

- **Demographic:** "Middle Income"
- **Location:** Power Centers / Strip Malls
- **Brands:** Dept Store Brands (20-60% Off)

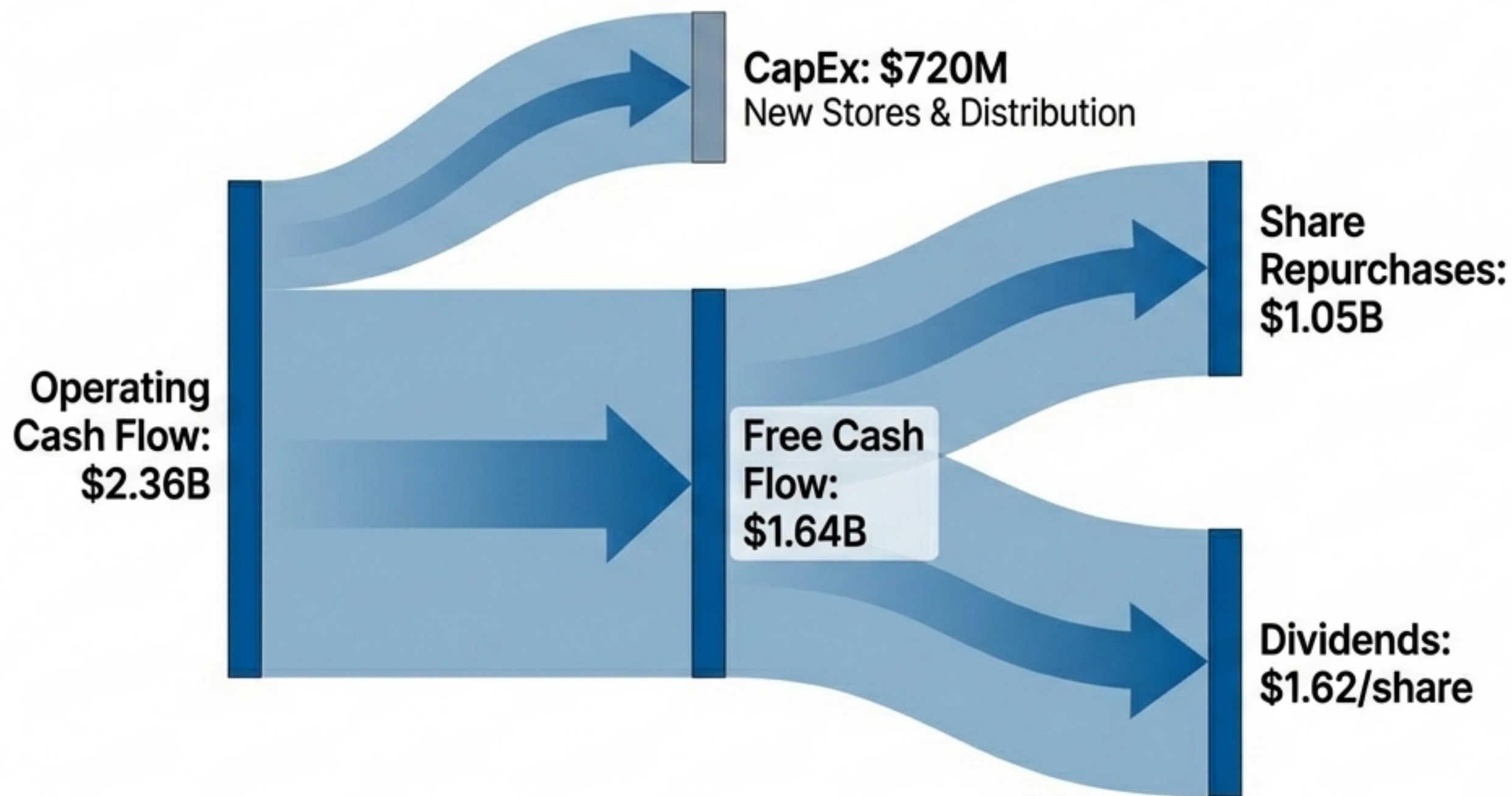
dd's DISCOUNTS

- **Demographic:** Younger, Multi-cultural, Lower Income (\$40k-\$60k HHI)
- **Location:** Urban Centers, Neighborhood Strips
- **Brands:** Moderate/Discount Brands (20-70% Off)

dd's Market Saturation



A Disciplined Capital Allocator Under New Leadership.



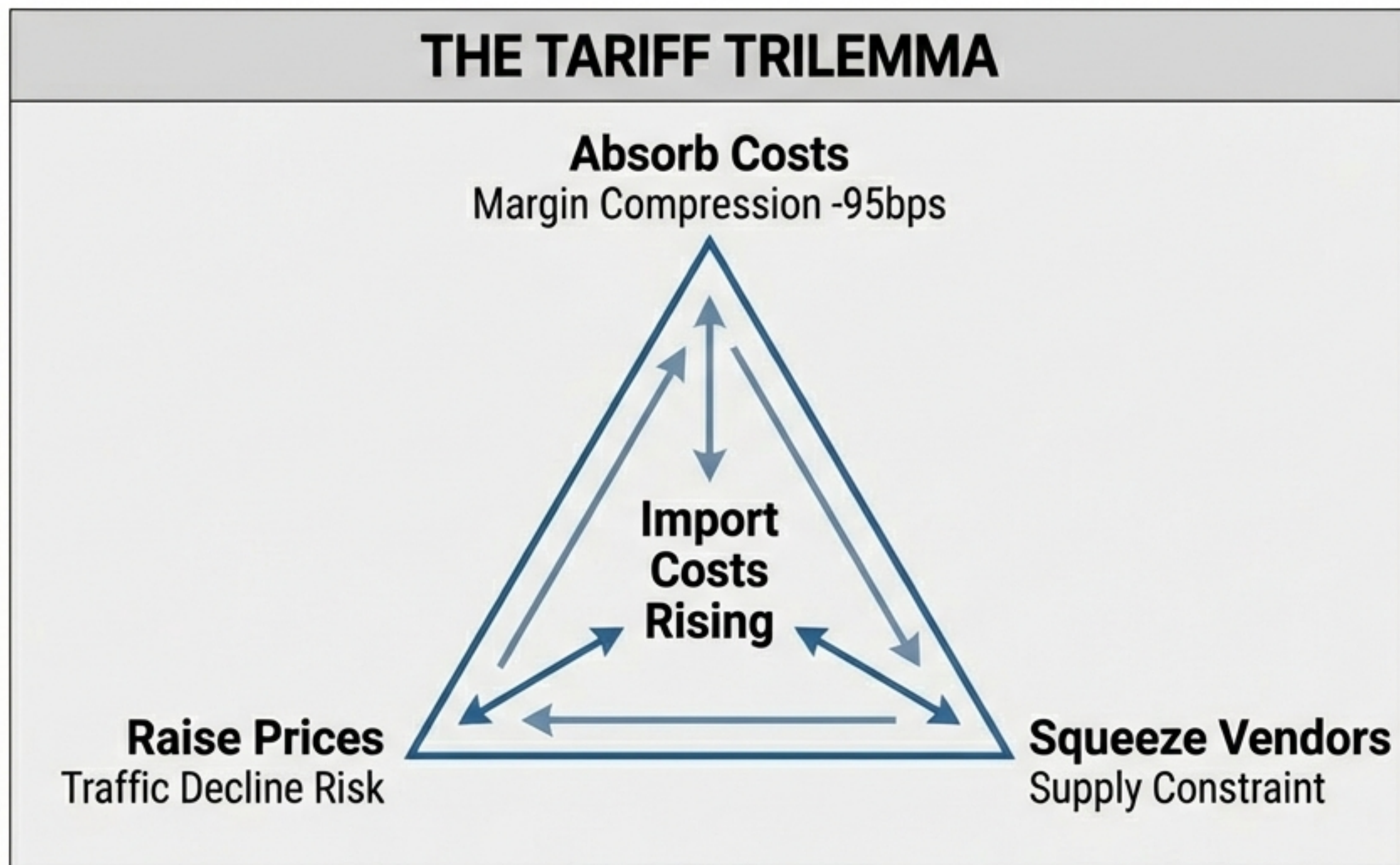
The Leadership Transition

Outgoing: Barbara Rentler
(Architect of Culture).

Incoming CEO: Jim Conroy
(Formerly Boot Barn).

- Conroy Track Record:
Scaled Boot Barn from
100 to 426 stores.

The Primary Headwind: Tariff Exposure Threatens the Pricing Umbrella.



\$0.22 - \$0.25

EPS IMPACT (Fiscal 2025)

Guidance volatility driven by
trade policy uncertainty.

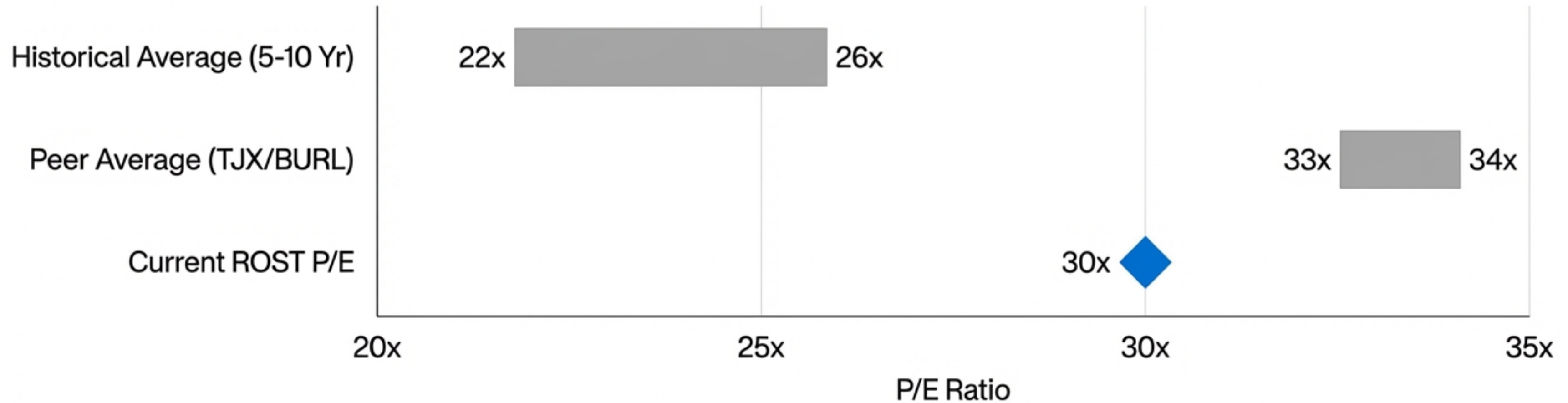
The New Threat: Digital Ultra-Fast Fashion Targeting the Low-Income Shopper

The Battle for Share of Wallet

ROSS / dd's DISCOUNTS 	• Instant Gratification • Try-On Experience • Recognized Brands	Customer pays shipping (pick-up).
SHEIN / TEMU 	• Gamified App • No Brands/Dupes • 2-Week Wait	Direct Shipping Costs

Risk is not logistics, but demographic overlap. Younger, low-income shoppers shifting bargain hunting from strip malls to apps.

Valuation Context: Priced for Perfection in an Imperfect Macro Environment



Quality Metric: 113% Cash Conversion.

Operating Cash Flow (\$2.36B) > Net Income (\$2.09B).

Trading at a premium to history, requiring sustained double-digit EPS growth.

Institutional Austerity

Final Verdict: A Masterclass in Execution Facing Macroeconomic Crosswinds

- **STRUCTURAL BULL:** 28.9% ROIC, 12.2% Margins, 1,300 Store Runway, Fortress Balance Sheet (\$4.1B Cash)
- **MONITOR:** Valuation (30x P/E) and Leadership Transition (Conroy integration)
- **STRUCTURAL BEAR:** Tariff Impact (\$0.25 EPS hit) and Supply Chain Deleveraging

"For the long-term investor, Ross offers a rare combination of defensive staples exposure and aggressive unit-growth compounding."