

August 7, 2008

**Key Metrics**

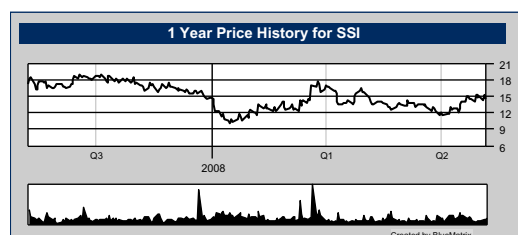
SSI - NYSE	\$14.00
Pricing Date	08/07/2008
Price Target	NA
52-Week Range	\$19.96-\$9.90
Shares Outstanding (mm)	38.9
Market Capitalization (\$mm)	\$544.6
3-Mo Average Daily Volume	429,539
Institutional Ownership	100%
Debt/Total Capital	16.9%
ROE	8.7%
Book Value/Share	\$13.47
Price/Book	1.0x
Dividend Yield	1.5%
LTM EBITDA Margin	8.29%

**EPS(\$)** FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.16	--	0.06A	--	0.10E
2Q-Jul	0.23	--	0.23E	--	0.23E
3Q-Oct	0.06	--	0.08E	--	0.08E
4Q-Jan	0.78	--	0.80E	--	0.88E
FY	1.20	--	1.17E	--	1.29E
P/E	11.7x	--	12.0x	--	10.9x

**Revenue(\$mm)**

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	358.2	--	353.5A	--	378.3E
2Q-Jul	359.2	378.5E	372.5A	--	391.0E
3Q-Oct	355.1	--	363.6E	--	387.7E
4Q-Jan	473.0	--	486.6E	--	514.8E
FY	1,545.6	1,582.2E	1,576.2E	--	1,671.8E



**Company Description:** Stage Stores Inc. ([www.stagestores.com](http://www.stagestores.com)) is a small-format department store chain with units in small and mid-sized markets in the southern, midwestern, and eastern parts of the US. Its stores operate under the names: Stage, Bealls, Palais Royal, and Peebles. The company is based in Houston, Texas.

## Stage Stores, Inc.

### Rating: Hold

#### July Comps Down 6.2%; Company Maintains 2Q Guidance Range

**Investment Highlights:**

- **Stage Stores July comps of (6.2%) fall short of estimates.** Stage Stores reported July comparable store sales of (6.2%) due to a "challenging" economic environment and weak back-to-school sales. For the month, only cosmetics and dresses recorded positive comps versus the same period last year. Total sales decreased 1.0% in July to \$108.1 million from \$109.2 million in the prior year's four-week period. For the second quarter, the company reported a total sales increase of 3.7% to \$372.7 million from \$359.2 million.
- **Stage Stores reaffirms guidance for second quarter.** The company continues to believe that it will meet or exceed the high end of its earnings guidance range for the second quarter of \$0.17 to \$0.23 per diluted share. Our estimate of \$0.23 is in line with company guidance and equal to the Street's consensus estimate.
- **Texas sales tax holiday could boost revenues in August.** Looking forward, the upcoming sales tax holiday weekend of August 15th to August 17th in Texas could be a revenue driver for Stage Stores as recent sales upticks have appeared to be event driven. Stage Stores operates over 30% of its stores in Texas. Additionally, with August serving as a transitional month from the summer apparel season to the fall/winter apparel season, back-to-school sales could ramp up and higher margins could be seen, compared to July, which is a clearance period for the stores' summer merchandise.
- **Stage Stores still on track to open 55-60 new stores this year.** In the month of July, Stage Stores opened new Palais Royal stores in Rosenberg and Livingston, TX, a new Stage store in Chalmette, LA, and a new Bealls stores in Burley and Blackfoot, ID. The company's two new stores in Idaho represent Stage's first entries into the state. Also, during the month, the company closed two stores. During the first half of the fiscal year, the company opened 28 new locations, and continues to anticipate 55-60 new stores for the year.
- **Economic conditions limiting near-term growth opportunities.** While all markets were down M/M, July Y/Y declines within small populations were less than that of mid-sized territories, which performed better than stores in larger populations. Stage's small town base continues to show some buffer from current economic conditions, yet does not appear immune. Positive May and June results may have been helped from economic stimulus checks with those benefits possibly waning since. We maintain our Hold rating.

EQUITY RESEARCH

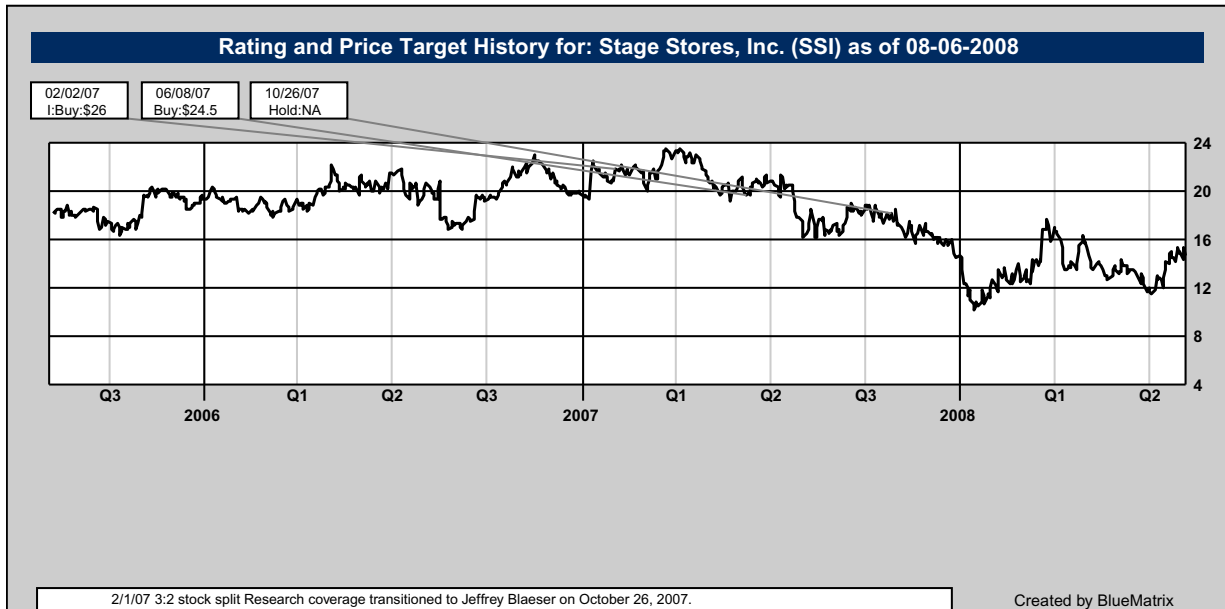
## Stage Stores (SSI)

(In Millions, Except Per Share Data)

	FY 2007	Q1 May-07	Q2 Aug-07	Q3 Nov-07	Q4 Feb-08	FY 2008	Q1 May-08	Q2E Aug-08	Q3E Nov-08	Q4E Feb-09	FYE 2009	Q1E May-09	Q2E Aug-09	Q3E Nov-09	Q4E Feb-10	FYE 2010
<b>Sales</b>	<b>1550.2</b>	<b>358.2</b>	<b>359.2</b>	<b>355.1</b>	<b>473.0</b>	<b>1545.6</b>	<b>353.5</b>	<b>372.5</b>	<b>363.6</b>	<b>486.6</b>	<b>1576.2</b>	<b>378.3</b>	<b>391.0</b>	<b>387.7</b>	<b>514.8</b>	<b>1671.8</b>
<i>% Increase</i>	15.3%	4.3%	-0.8%	0.5%	-3.7%	-0.3%	-1.3%	3.7%	2.4%	2.9%	2.0%	7.0%	5.0%	6.6%	5.8%	6.1%
Cost of Goods Sold	1096.7	259.9	253.7	260.9	326.4	1100.9	257.9	264.8	264.7	336.7	1124.2	275.4	278.4	283.8	353.7	1191.3
<i>As % Sales</i>	70.7%	72.6%	70.6%	73.5%	69.0%	71.2%	73.0%	71.1%	72.8%	69.2%	71.3%	72.8%	71.2%	73.2%	68.7%	71.3%
<i>% Increase</i>	15.1%	6.6%	-4.8%	3.1%	-2.1%	0.4%	-0.8%	4.4%	1.5%	3.2%	2.1%	6.8%	5.1%	7.2%	5.0%	6.0%
<b>Gross Profit</b>	<b>453.5</b>	<b>98.3</b>	<b>105.5</b>	<b>94.2</b>	<b>146.7</b>	<b>444.7</b>	<b>95.6</b>	<b>107.7</b>	<b>98.9</b>	<b>149.9</b>	<b>452.0</b>	<b>102.9</b>	<b>112.6</b>	<b>103.9</b>	<b>161.1</b>	<b>480.5</b>
<i>Margin</i>	29.3%	27.4%	29.4%	26.5%	31.0%	28.8%	27.0%	28.9%	27.2%	30.8%	28.7%	27.2%	28.8%	26.8%	31.3%	28.7%
<i>% Increase</i>	15.9%	-1.3%	10.4%	-6.0%	-7.1%	-1.9%	-2.8%	2.1%	4.9%	2.2%	1.6%	7.7%	4.6%	5.1%	7.5%	6.3%
SG&A	352.9	84.9	88.0	86.7	93.4	352.9	88.3	90.5	89.8	96.8	365.5	93.8	95.4	95.8	103.0	387.9
<i>As % Sales</i>	22.8%	23.7%	24.5%	24.4%	19.7%	22.8%	25.0%	24.3%	24.7%	19.9%	23.2%	24.8%	24.4%	24.7%	20.0%	23.2%
<i>% Increase</i>	19.0%	1.5%	2.0%	-4.2%	0.9%	0.0%	4.0%	2.9%	3.6%	3.7%	3.6%	6.2%	5.4%	6.6%	6.3%	6.1%
Store opening costs	7.8	0.8	0.5	2.5	1.0	4.7	2.3	1.2	2.5	1.5	7.5	1.5	1.5	1.5	1.0	5.5
<i>As % Sales</i>	0.5%	0.2%	0.1%	0.7%	0.2%	0.3%	0.7%	0.3%	0.7%	0.3%	0.5%	0.4%	0.4%	0.4%	0.2%	0.3%
<i>% Increase</i>	143.8%	-7.4%	-74.7%	-39.0%	-7.3%	-40.2%	205.7%	136.6%	1.7%	53.4%	59.4%	-35.0%	30.4%	-40.0%	-33.3%	-26.3%
Operating Expense	360.7	85.7	88.4	89.1	94.3	357.6	90.6	91.7	92.3	98.3	373.0	95.3	96.9	97.3	104.0	393.4
<i>As % Sales</i>	23.3%	23.9%	24.6%	25.1%	19.9%	23.1%	25.6%	24.6%	25.4%	20.2%	23.7%	25.2%	24.8%	25.1%	20.2%	23.5%
<b>Operating Profit</b>	<b>92.8</b>	<b>12.6</b>	<b>17.1</b>	<b>5.1</b>	<b>52.3</b>	<b>87.1</b>	<b>4.9</b>	<b>16.0</b>	<b>6.6</b>	<b>51.5</b>	<b>79.0</b>	<b>7.6</b>	<b>15.7</b>	<b>6.6</b>	<b>57.2</b>	<b>87.1</b>
<i>Margin</i>	6.0%	3.5%	4.7%	1.4%	11.1%	5.6%	1.4%	4.3%	1.8%	10.6%	5.0%	2.0%	4.0%	1.7%	11.1%	5.2%
<i>% Increase</i>	1.2%	-16.9%	128.8%	-11.4%	-18.7%	-6.1%	-61.1%	-6.3%	28.2%	-1.5%	-9.3%	54.2%	-1.8%	0.8%	10.9%	10.2%
Interest Expense	5.0	0.8	1.1	1.2	1.7	4.8	1.3	1.5	1.5	1.7	5.9	1.5	1.5	1.5	1.8	6.3
Other Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Pretax Profit</b>	<b>87.8</b>	<b>11.9</b>	<b>16.0</b>	<b>3.9</b>	<b>50.6</b>	<b>82.4</b>	<b>3.6</b>	<b>14.5</b>	<b>5.1</b>	<b>49.9</b>	<b>73.1</b>	<b>6.1</b>	<b>14.2</b>	<b>5.1</b>	<b>55.4</b>	<b>80.8</b>
<i>Margin</i>	5.7%	3.3%	4.4%	1.1%	10.7%	5.3%	1.0%	3.9%	1.4%	10.3%	4.6%	1.6%	3.6%	1.3%	10.8%	4.8%
<i>% Increase</i>	-1.0%	-17.6%	160.3%	-11.9%	-19.4%	-6.2%	-69.6%	-9.1%	29.5%	-1.3%	-11.2%	68.2%	-2.3%	1.0%	11.0%	10.5%
Taxes(benefit)	32.5	4.5	6.1	1.5	18.9	31.0	1.4	5.5	1.9	19.0	27.8	2.3	5.4	2.0	21.0	30.7
<i>Rate</i>	37.0%	37.8%	38.2%	37.7%	37.4%	37.6%	38.4%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%	38.0%
<b>Net Income--Oper.</b>	<b>55.3</b>	<b>7.4</b>	<b>9.9</b>	<b>2.4</b>	<b>31.7</b>	<b>51.4</b>	<b>2.2</b>	<b>9.0</b>	<b>3.2</b>	<b>30.9</b>	<b>45.3</b>	<b>3.8</b>	<b>8.8</b>	<b>3.2</b>	<b>34.3</b>	<b>50.1</b>
<i>Margin</i>	3.6%	2.1%	2.7%	0.7%	6.7%	3.3%	0.6%	2.4%	0.9%	6.4%	2.9%	1.0%	2.3%	0.8%	6.7%	3.0%
<i>% Increase</i>	-1.0%	-18.4%	156.3%	-12.6%	-20.1%	-7.1%	-69.8%	-8.8%	29.0%	-2.3%	-11.7%	69.2%	-2.3%	1.0%	11.0%	10.5%
<b>EPS--Operations</b>	<b>1.25</b>	<b>0.16</b>	<b>0.23</b>	<b>0.06</b>	<b>0.78</b>	<b>1.20</b>	<b>0.06</b>	<b>0.23</b>	<b>0.08</b>	<b>0.80</b>	<b>1.17</b>	<b>0.10</b>	<b>0.23</b>	<b>0.08</b>	<b>0.88</b>	<b>1.29</b>
<i>% Increase</i>	-1.2%	-20.7%	157.3%	-8.2%	-11.2%	-4.1%	-65.3%	1.7%	40.2%	1.7%	-3.1%	69.3%	-2.3%	1.0%	11.0%	10.5%
Shares Out. Diluted	44.1	44.8	43.4	42.3	40.5	42.7	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9	38.9

Source: Company reports and Morgan Joseph estimates

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	55.68	36.73
HOLD [H]	43.18	28.95
SELL [S]	1.14	0.00

### Meaning of Ratings

- A) Buy means reasonable outperformance relative to the market over 12-18 months.
- B) Hold means market-type risk adjusted performance; potential source of funds.
- C) Sell means expected to underperform the market.

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