

October 9, 2008

Key Metrics

SSI - NYSE	\$10.32
Pricing Date	10/09/2008
Price Target	NA
52-Week Range	\$19.96-\$9.90
Shares Outstanding (mm)	39.0
Market Capitalization (\$mm)	\$402.5
3-Mo Average Daily Volume	485,272
Institutional Ownership	100%
Debt/Total Capital	12.0%
ROE	8.7%
Book Value/Share	\$13.70
Price/Book	0.8x
Dividend Yield	1.3%
LTM EBITDA Margin	8.66%

EPS(\$) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.16	--	0.06A	0.10E	0.08E
2Q-Jul	0.23	--	0.25A	0.23E	0.24E
3Q-Oct	0.06	0.01E	(0.20)E	0.08E	0.05E
4Q-Jan	0.78	0.85E	0.77E	0.88E	0.80E
FY	1.20	1.17E	0.88E	1.29E	1.18E
P/E	8.6x		11.7x		8.7x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	358.2	--	353.5A	378.3E	364.1E
2Q-Jul	359.2	--	372.7A	391.0E	379.1E
3Q-Oct	355.1	360.0E	340.0E	387.7E	357.9E
4Q-Jan	473.0	491.5E	477.5E	514.8E	496.5E
FY	1,545.6	1,577.7E	1,543.7E	1,671.8E	1,597.6E



Company Description: Stage Stores Inc. (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

Economy/Hurricanes To Take Down 3Q EPS; Hold

Investment Highlights:

- **3Q comps (13.6%); we are reducing our 3Q sales expectations.** Stage Stores reported September comparable store sales of (13.6%), versus 2.3% LY. Following a disappointing (8.3%) August comp result, 3Q appears to be trending below expectations. While hurricane replenishment orders could materialize in October, (the month after Hurricane Rita hit Texas in Sept. 2005, October comps expanded 14.9%), economic conditions could limit its impact; therefore, we are lowering our 3Q sales estimate \$20mm to \$340mm.
- **Reduced sales leverage/price cuts expected to negatively impact 3Q EPS: Reducing estimate to (\$0.20) from \$0.01.** With reduced sales leverage and potential declines in gross margins due to pricing pressures designed to drive sales, we are reducing our 3Q EPS estimate from \$0.01 to (\$0.20). With sales apparently trending well below expectations, we expect Stage to be very aggressive with prices in an attempt to drive traffic and reduce inventories. While the impact to 3Q could be relatively severe, it should put 3Q and the hurricane impact behind it. Weak traffic trends and promotional activity could extend into Q4. We therefore are reducing our 4Q EPS estimate by \$0.07 to \$0.77.
- **Hurricane impact/lost sales estimated at roughly \$9mm; ex-hurricane comps (7.7%).** Hurricane Gustav forced 53 store closures and Hurricane Ike closed 121. The estimated impact for hurricane related store closures was \$9.1mm. Adjusted for these lost sales, Sept. comps were (7.7%).
- **Store expansion remains on-track this year; we are reducing our sales/store growth/EPS expectations for next year.** Stage Stores remains on track for between 55 to 60 new store opening this year. While management has not updated future expected openings, we are taking a more conservative stance on 2010E store openings and have reduced anticipated store growth from 60 to 40 units. Coupled with slightly reduced comp expectations, we are lowering our FY10E sales estimate by roughly \$74mm to \$1.6bn. The reduced sales leverage also reduces our FY10 EPS estimate by \$0.11 to \$1.18.
- **Balance sheet appears solid; ample room under revolver for working capital.** As of August 2, 2008, Stage Stores had \$20.4mm in cash and \$72.8mm in debt. Excess borrowings under the company's \$250mm revolving credit facility, which does include an uncommitted accordion feature to increase the size of the facility to \$350mm, was \$173.1mm, which should be more than sufficient to support working capital requirements. The revolver matures on April 20, 2012.
- **We maintain our Hold rating on the shares.**

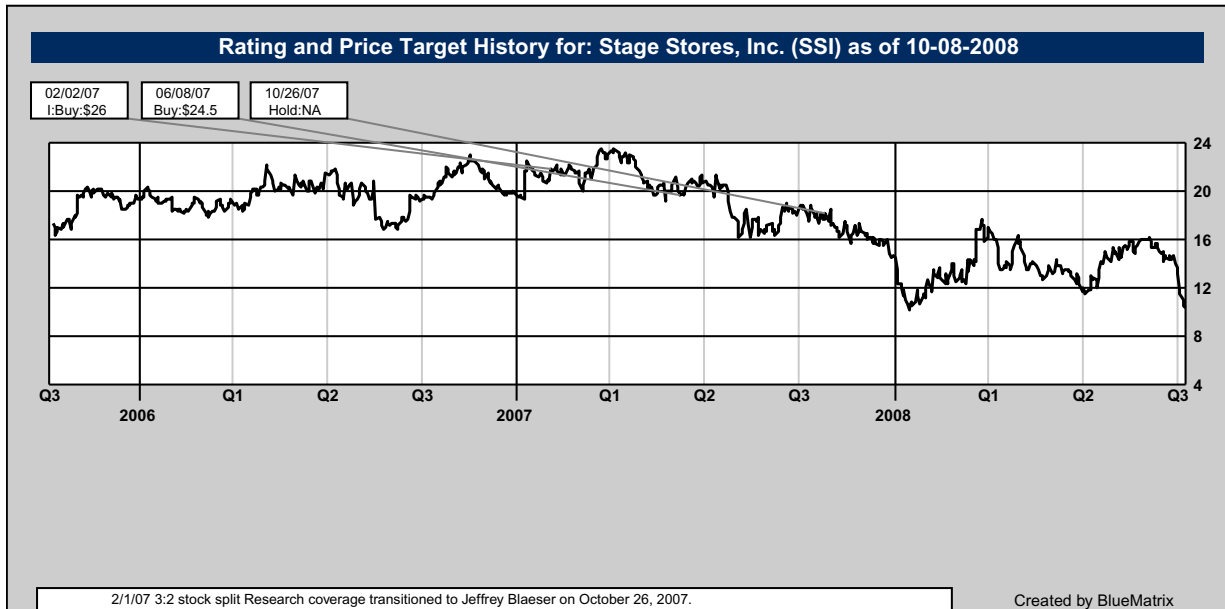
Stage Stores (SSI)

(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	Q2 Aug-08	Q3E Nov-08	Q4E Feb-09	FYE 2009	Q1E May-09	Q2E Aug-09	Q3E Nov-09	Q4E Feb-10	FYE 2010
Sales	1550.2	358.2	359.2	355.1	473.0	1545.6	353.5	372.7	340.0	477.5	1543.7	364.1	379.1	357.9	496.5	1597.6
<i>% Increase</i>	15.3%	4.3%	-0.8%	0.5%	-3.7%	-0.3%	-1.3%	3.8%	-4.3%	0.9%	-0.1%	3.0%	1.7%	5.3%	4.0%	3.5%
Cost of Goods Sold	1096.7	259.9	253.7	260.9	326.4	1100.9	257.9	266.1	260.1	331.9	1116.0	265.1	269.9	263.1	345.1	1143.1
<i>As % Sales</i>	70.7%	72.6%	70.6%	73.5%	69.0%	71.2%	73.0%	71.4%	76.5%	69.5%	72.3%	72.8%	71.2%	73.5%	69.5%	71.6%
<i>% Increase</i>	15.1%	6.6%	-4.8%	3.1%	-2.1%	0.4%	-0.8%	4.9%	-0.3%	1.7%	1.4%	2.8%	1.4%	1.1%	4.0%	2.4%
Gross Profit	453.5	98.3	105.5	94.2	146.7	444.7	95.6	106.6	79.9	145.6	427.7	99.0	109.2	94.8	151.4	454.5
<i>Margin</i>	29.3%	27.4%	29.4%	26.5%	31.0%	28.8%	27.0%	28.6%	23.5%	30.5%	27.7%	27.2%	28.8%	26.5%	30.5%	28.4%
<i>% Increase</i>	15.9%	-1.3%	10.4%	-6.0%	-7.1%	-1.9%	-2.8%	1.0%	-15.2%	-0.7%	-3.8%	3.6%	2.5%	18.7%	4.0%	6.3%
SG&A	352.9	84.9	88.0	86.7	93.4	352.9	88.3	88.5	88.5	94.0	359.4	91.0	91.0	88.4	98.3	368.7
<i>As % Sales</i>	22.8%	23.7%	24.5%	24.4%	19.7%	22.8%	25.0%	23.8%	26.0%	19.7%	23.3%	25.0%	24.0%	24.7%	19.8%	23.1%
<i>% Increase</i>	19.0%	1.5%	2.0%	-4.2%	0.9%	0.0%	4.0%	0.6%	2.1%	0.7%	1.8%	3.0%	2.8%	-0.1%	4.6%	2.6%
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%	153.3%	1.7%	53.4%	61.2%	-35.0%	21.9%	-40.0%	-33.3%	-27.0%
Operating Expense	360.7	85.7	88.4	89.1	94.3	357.6	90.6	89.8	91.0	95.5	366.9	92.5	92.5	89.9	99.3	374.2
<i>As % Sales</i>	23.3%	23.9%	24.6%	25.1%	19.9%	23.1%	25.6%	24.1%	26.8%	20.0%	23.8%	25.4%	24.4%	25.1%	20.0%	23.4%
Operating Profit	92.8	12.6	17.1	5.1	52.3	87.1	4.9	16.8	(11.1)	50.1	60.8	6.5	16.7	4.9	52.1	80.3
<i>Margin</i>	6.0%	3.5%	4.7%	1.4%	11.1%	5.6%	1.4%	4.5%	-3.3%	10.5%	3.9%	1.8%	4.4%	1.4%	10.5%	5.0%
<i>% Increase</i>	1.2%	-16.9%	128.8%	-11.4%	-18.7%	-6.1%	-61.1%	-1.4%	NM	-4.2%	-30.3%	32.5%	-0.6%	NM	4.0%	32.1%
Interest Expense	5.0	0.8	1.1	1.2	1.7	4.8	1.3	1.2	1.5	1.7	5.7	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
Pretax Profit	87.8	11.9	16.0	3.9	50.6	82.4	3.6	15.6	(12.6)	48.5	55.1	5.0	15.2	3.4	50.3	74.0
<i>Margin</i>	5.7%	3.3%	4.4%	1.1%	10.7%	5.3%	1.0%	4.2%	-3.7%	10.2%	3.6%	1.4%	4.0%	1.0%	10.1%	4.6%
<i>% Increase</i>	-1.0%	-17.6%	160.3%	-11.9%	-19.4%	-6.2%	-69.6%	-2.5%	NM	-4.1%	-33.1%	38.6%	-2.5%	NM	3.8%	34.3%
Taxes(benefit)	32.5	4.5	6.1	1.5	18.9	31.0	1.4	5.9	(4.8)	18.4	20.9	1.9	5.8	1.3	19.1	28.1
<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%
Net Income--Oper.	55.3	7.4	9.9	2.4	31.7	51.4	2.2	9.7	(7.8)	30.1	34.1	3.1	9.4	2.1	31.2	45.9
<i>Margin</i>	3.6%	2.1%	2.7%	0.7%	6.7%	3.3%	0.6%	2.6%	-2.3%	6.3%	2.2%	0.9%	2.5%	0.6%	6.3%	2.9%
<i>% Increase</i>	-1.0%	-18.4%	156.3%	-12.6%	-20.1%	-7.1%	-69.8%	-2.2%	NM	-5.0%	-33.5%	39.5%	-2.5%	NM	3.8%	34.3%
EPS--Operations	1.25	0.16	0.23	0.06	0.78	1.20	0.06	0.25	(0.20)	0.77	0.88	0.08	0.24	0.05	0.80	1.18
<i>% Increase</i>	-1.2%	-20.7%	157.3%	-8.2%	-11.2%	-4.1%	-65.3%	8.9%	NM	-1.2%	-27.0%	39.6%	-2.3%	NM	3.8%	34.4%
Shares Out. Diluted	44.1	44.8	43.4	42.3	40.5	42.7	38.9	39.0	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]	56.67	37.25
HOLD [H]	42.22	31.58
SELL [S]	1.11	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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