

November 19, 2008

Key Metrics

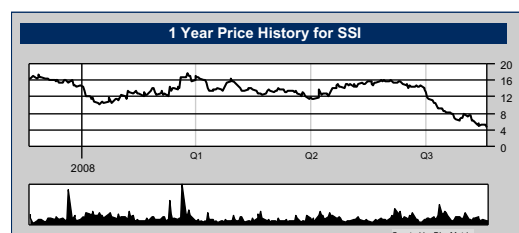
SSI - NYSE	\$4.47
Pricing Date	11/18/2008
Price Target	NA
52-Week Range	\$17.99-\$4.44
Shares Outstanding (mm)	38.7
Market Capitalization (\$mm)	\$172.9
3-Mo Average Daily Volume	526,214
Institutional Ownership	100%
Debt/Total Capital	12.0%
ROE	8.7%
Book Value/Share	\$13.70
Price/Book	0.3x
Dividend Yield	4.0%
LTM EBITDA Margin	8.66%

EPS(\$) FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.16	--	0.06A	--	(0.02)E
2Q-Jul	0.23	--	0.25A	--	0.17E
3Q-Oct	0.06	--	(0.20)E	--	(0.07)E
4Q-Jan	0.78	--	0.68E	--	0.73E
FY	1.20	--	0.79E	--	0.81E
P/E	3.7x	--	5.7x	--	5.5x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	358.2	--	353.5A	--	344.7E
2Q-Jul	359.2	--	372.7A	--	368.4E
3Q-Oct	355.1	--	333.8A	--	338.0E
4Q-Jan	473.0	--	473.9E	--	488.1E
FY	1,545.6	--	1,533.9E	--	1,539.2E



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

F3Q09 Preview: Economy/Hurricane Expected to Impact Results; Hold

Investment Highlights:

- **Stage Stores is scheduled to report F3Q09 EPS Thursday morning before the market opens.** Stage Stores is expected to report F3Q09 EPS on Thursday, November 20th, before the market opens. We are projecting EPS of (\$0.20), which is in line with the Street consensus estimate. On November 6th, the company announced 3Q sales and reported that it expects to report EPS between (\$0.19) and (\$0.20). A conference call is scheduled for 8:30AM EST.
- **Sales already reported, down Y/Y 6% to \$333.8mm.** Stage Stores reported a 6% decline in Y/Y F3Q09 sales to \$333.8mm. Comparable store sales declined 10.3%, down 7.6% ex-hurricane's impact. Stage opened 17 new stores in 3Q and we expect the company to open between 30 to 40 new stores in FY09.
- **Gross margins expected to be impacted by economy/hurricane.** Lower sales leverage and more promotional activities, in an attempt to drive foot traffic and reduce inventory levels, are expected to reduce gross margins Y/Y 250 bps 24%. Stage Stores closed 53 units during Hurricane Gustav and 121 during Hurricane Ike with the combined impact of the hurricanes negatively impacting September sales by roughly \$9mm. Inventory levels, as of the end of October, were down roughly 13% on a comparable basis.
- **Economy limiting top-line growth; Maintain Hold rating.** We are maintaining our Hold rating on the shares as current economic conditions remain challenging and could continue to limit near-term top and bottom line growth.

EQUITY RESEARCH

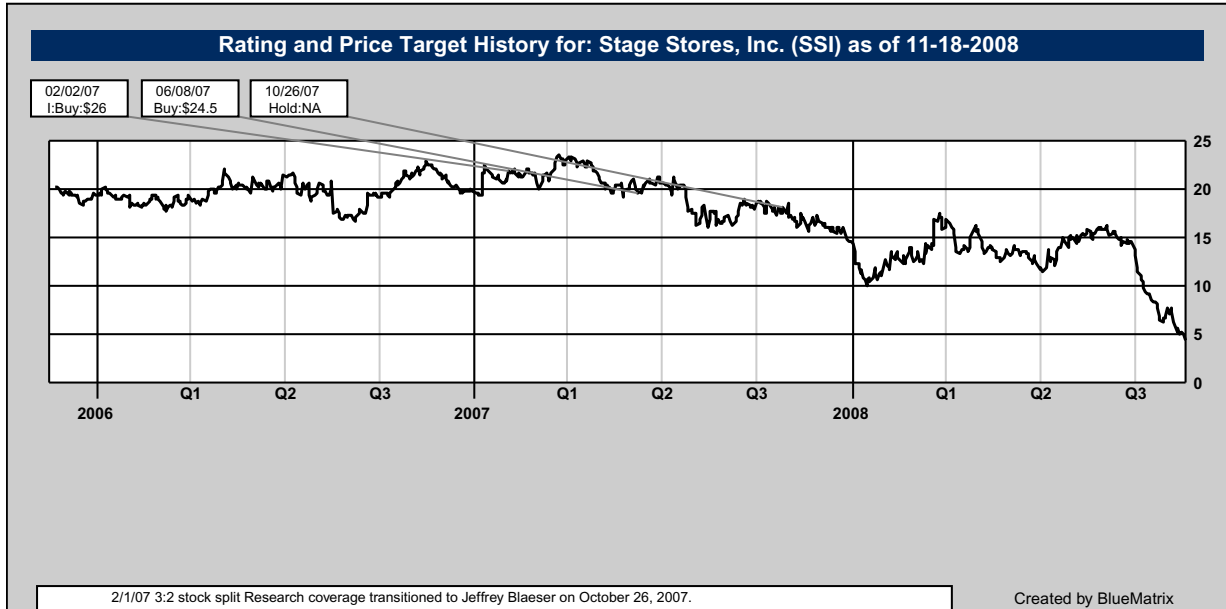
Stage Stores (SSI)

(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	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	333.8	473.9	1533.9	344.7	368.4	338.0	488.1	1539.2
<i>% Increase</i>	15.3%	4.3%	-0.8%	0.5%	-3.7%	-0.3%	-1.3%	3.8%	-6.0%	0.2%	-0.8%	-2.5%	-1.2%	1.3%	3.0%	0.3%
Cost of Goods Sold	1096.7	259.9	253.7	260.9	326.4	1100.9	257.9	266.1	253.7	334.1	1111.9	254.2	265.2	250.1	344.1	1113.7
<i>As % Sales</i>	70.7%	72.6%	70.6%	73.5%	69.0%	71.2%	73.0%	71.4%	76.0%	70.5%	72.5%	73.8%	72.0%	74.0%	70.5%	72.4%
<i>% Increase</i>	15.1%	6.6%	-4.8%	3.1%	-2.1%	0.4%	-0.8%	4.9%	-2.8%	2.4%	1.0%	-1.4%	-0.3%	-1.4%	3.0%	0.2%
Gross Profit	453.5	98.3	105.5	94.2	146.7	444.7	95.6	106.6	80.1	139.8	422.0	90.5	103.2	87.9	144.0	425.5
<i>Margin</i>	29.3%	27.4%	29.4%	26.5%	31.0%	28.8%	27.0%	28.6%	24.0%	29.5%	27.5%	26.3%	28.0%	26.0%	29.5%	27.6%
<i>% Increase</i>	15.9%	-1.3%	10.4%	-6.0%	-7.1%	-1.9%	-2.8%	1.0%	-15.0%	-4.7%	-5.1%	-5.3%	-3.2%	9.7%	3.0%	0.8%
SG&A	352.9	84.9	88.0	86.7	93.4	352.9	88.3	88.5	88.5	94.0	359.4	89.0	90.0	90.0	95.5	364.5
<i>As % Sales</i>	22.8%	23.7%	24.5%	24.4%	19.7%	22.8%	25.0%	23.8%	26.5%	19.8%	23.4%	25.8%	24.4%	26.6%	19.6%	23.7%
<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%	0.7%	1.7%	1.7%	1.6%	1.4%
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	1.0	1.0	1.0	1.0	4.0
<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%	0.3%	0.3%	0.3%	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%	-56.7%	-18.8%	-60.0%	-33.3%	-46.9%
Operating Expense	360.7	85.7	88.4	89.1	94.3	357.6	90.6	89.8	91.0	95.5	366.9	90.0	91.0	91.0	96.5	368.5
<i>As % Sales</i>	23.3%	23.9%	24.6%	25.1%	19.9%	23.1%	25.6%	24.1%	27.3%	20.2%	23.9%	26.1%	24.7%	26.9%	19.8%	23.9%
Operating Profit	92.8	12.6	17.1	5.1	52.3	87.1	4.9	16.8	(10.9)	44.3	55.1	0.5	12.2	(3.1)	47.5	57.0
<i>Margin</i>	6.0%	3.5%	4.7%	1.4%	11.1%	5.6%	1.4%	4.5%	-3.3%	9.3%	3.6%	0.1%	3.3%	-0.9%	9.7%	3.7%
<i>% Increase</i>	1.2%	-16.9%	128.8%	-11.4%	-18.7%	-6.1%	-61.1%	-1.4%	NM	-15.3%	-36.7%	-90.2%	-27.7%	NM	7.2%	3.4%
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	(12.4)	42.7	49.5	(1.0)	10.7	(4.6)	45.7	50.7
<i>Margin</i>	5.7%	3.3%	4.4%	1.1%	10.7%	5.3%	1.0%	4.2%	-3.7%	9.0%	3.2%	-0.3%	2.9%	-1.4%	9.4%	3.3%
<i>% Increase</i>	-1.0%	-17.6%	160.3%	-11.9%	-19.4%	-6.2%	-69.6%	-2.5%	NM	-15.7%	-39.9%	-128.1%	-31.7%	NM	7.1%	2.5%
Taxes(benefit)	32.5	4.5	6.1	1.5	18.9	31.0	1.4	5.9	-4.7	16.2	18.8	-0.4	4.0	-1.8	17.4	19.3
<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	(7.7)	26.4	30.7	(0.6)	6.6	(2.9)	28.3	31.4
<i>Margin</i>	3.6%	2.1%	2.7%	0.7%	6.7%	3.3%	0.6%	2.6%	-2.3%	5.6%	2.0%	-0.2%	1.8%	-0.8%	5.8%	2.0%
<i>% Increase</i>	-1.0%	-18.4%	156.3%	-12.6%	-20.1%	-7.1%	-69.8%	-2.2%	NM	-16.5%	-40.3%	-128.3%	-31.7%	NM	7.1%	2.6%
EPS--Operations	1.25	0.16	0.23	0.06	0.78	1.20	0.06	0.25	(0.20)	0.68	0.79	(0.02)	0.17	(0.07)	0.73	0.81
<i>% Increase</i>	-1.2%	-20.7%	157.3%	-8.2%	-11.2%	-4.1%	-65.3%	8.9%	NM	-13.1%	-34.5%	-128.3%	-31.5%	NM	7.1%	2.6%
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]	55.32	36.54
HOLD [H]	43.62	31.71
SELL [S]	1.06	0.00

- Meaning of Ratings
- A) Buy means reasonable outperformance relative to the market (Russell 2000) over 12-18 months.
 - B) Hold means market-type (Russell 2000) risk adjusted performance; potential source of funds.
 - C) Sell means expected to underperform the market (Russell 2000) over 12-18 months.

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