

Mossberg's Investor Digest

Best Idea Profile

A.C. Moore Arts & Crafts, Inc. (NASDAQ:ACMR)

DESCRIPTION:

Headquartered in Berlin, New Jersey; A.C. Moore Arts & Crafts is a specialty retailer for the craft and hobby market. The company sells its merchandise through 135 stores in the Eastern US. Merchandise consists of more than 60,000 SKUs. ACMR also provides customers with custom framing in 130 of its stores. The company is making progress on a multi-pronged operational and storewide modernization and efficiency program. This program includes category management, supply chain optimization and a new store approach with "Nevada" type stores. ACMR believes it to be one of four independent retailers in the US dedicated to serving the arts and crafts market and has annual sales in excess of \$100 million. The Craft and Hobby Association ("CHA") recently reported that the US arts and crafts market represents a market with approximately \$27.0 billion in sales.

KEY INVESTMENT CONSIDERATIONS:

Enhanced Inventory Management – ACMR has responded to the recent recession with a number of strategic initiatives to improve operational execution. During 2009, ACMR completed installation of an automated system to improve inventory management. The system, along with a special web portal, will allow the company to maintain in stock levels and reduce shipping costs. The transition is scheduled for completion by August of 2010. Seasonal and short life cycle products will be transitioned to the centralized management program starting the first quarter of FY11.

New Merchandising and Buying – ACMR has nearly a year of employee training on its new Oracle merchandising program. ACMR has also strengthened its buying expertise with several new promotions and hires within the buying division. Collectively these initiatives should improve merchandising operations and increase sales.

An Early Turnaround Situation – On a year-over-year basis, 4Q10 same stores sales decreased 8.8%. Yet ACMR has recently seen some improvement in both selected sales lines and operations. The MRQ had a 120 basis point improvement in gross margins on a year-over-year basis with several lines reporting positive comparisons. In areas such as custom framing, kid's crafts and celebrations, the business has been solid. Management stated that it expects to begin reporting improved results during the last two quarters of the current fiscal year.

Enhanced Marketing and Customer Retention- ACMR has extensively surveyed its customer base during 2009. ACMR added more depth to its marketing approach and customer retention by using a more balanced mix of its web site promotions, e-mail marketing and social media. New customer service training and a loyalty program should yield important service benefits during ACMR's current fiscal year.

Increased Market Share – Many small, independent stores in the craft and hobby market have gone out of business due to the recession. Various estimates give a range of somewhere between 2,500 and 4,000 stores in this category closing. ACMR believes that it is gaining market share from this segment of competition.

New Store Format – During 3Q07, ACMR opened its first store using the new Nevada prototype. ACMR currently has 24 Nevada type store formats in progress with 13 in final form. The Nevada model is designed to improve the overall shopping experience. 4Q10 results showed a marked operating improvement for these stores with same store sales down 2.5% vs. 9.6% for the traditional store format.

VALUATION:

ACMR currently trades with an EV/Rev multiple of 0.2x. That is a bankruptcy type valuation for a company with an established franchise and \$46MM in cash. Also, ACMR is completing major milestones on strategic improvements which should enhance financial performance. By applying a still low EV/TTM Rev valuation of .5x, the stock price would be \$9.44 cents per share.

(Nasdaq: ACMR)	
Investment Data (as of 4/23/10)	
Recent Price	\$4.07
52-Week Range	5.63 - 2.29
Fiscal Year End	January
Shares Outstanding	25MM
Average Trading Volume (3 mos)	96,943
Market Capitalization	101MM
Cash	46MM
Long Term Debt	N/A
Enterprise Value (EV)	74MM
LT Debt/ Equity	N/A
BV/ Share	\$6.58
TTM Revenue	\$469MM
P/ Revenue	.21x
TTM EPS	N/A
P/ EPS	7x
TTM EBITDA	-10 MM
EV/ EBITDA	N/A

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