

Mossberg's Investor Digest

Best Idea Profile

DESCRIPTION:

Headquartered in Compton, CA; Arden Group is a supermarket holding company which operates 18 full-service supermarkets in Southern California under the name Gelson's Markets. Gelson's offers a broad selection of local and national brands, as well as a limited number of private label items. The company also operates a distribution center in the City of Commerce, CA. The business strategy is to offer a comfortable upscale shopping experience, which is superior to its competitors in terms of customer service, merchandise quality, selection and presentation.

KEY INVESTMENT CONSIDERATIONS:

Strong Market Niche – Gelson's merchandise offerings in the markets are tailored in response to Gelson's customer profile. Gelson's stores, which range in size from approximately 18,000 to 40,000 square feet, typically carry a wide range of items, including traditional grocery categories such as dry groceries, produce, meat, seafood, bakery, dairy, wine and liquor, floral, sushi, vitamins and health and beauty aids. Gelson's merchandising also includes specialty items such as imported foods, unusual delicatessen items and organic and natural food products. The pricing strategy at the stores is to be competitive primarily within their market niches, ranging from the more traditional to the more exotic, specialty, or high-end retail. Arden's is serving a basic commodity (food) to an upscale market. This makes the company a uniquely defensive play for an uncertain economic environment.

Real Estate Investments – ARDNA's wholly-owned subsidiary, Mayfair Realty, currently owns two freestanding Gelson's supermarket properties and a shopping center in which a Gelson's Market is located. The shopping center owned by Mayfair Realty is located in Calabasas, CA and consists of approximately 58,000 leasable square feet. Mayfair Realty also owns a 30,000 square foot office building in Compton, California which serves as ARDNA's headquarters and a parcel of unimproved land in Rubidoux, CA. Additionally, Arden also owns (through Mayfair Realty) or leases, several parcels adjacent to, or near, four of its stores.

High Return on Equity – Arden Group has performed well against industry benchmarks for invested capital. The company has a 29% return on equity and outperforms many competitors on this basis.

Insider Ownership – 61% of shares are held by insiders. Management and shareholder interests are closely aligned.

Arden Group (NASDAQ:ARDNA)

Long-Term Leases – Arden currently leases the majority of its store locations. Typically, their supermarket leases have initial 20-year lease terms and may include options for up to an additional 20 years. The average term remaining on the leases, including renewal options, is approximately 18 years. The company's leases, and much of its cost, is already fixed...a plus should the economy experience inflation.

Strong Balance Sheet with limited CAPEX requirement – The company is in a financial position of strength with \$46 million in cash, \$1.2 million in LT-debt and \$11 million in cash flow for the 1H10. Arden continuously evaluates the feasibility of opening new stores in and outside of its existing trade area. The company also remodels its stores when necessary for competitive reasons. In '09, CAPEX totaled \$2.9 million. Many large investments that can create strong returns have already been made.

VALUATION:

ARDNA is a top performer in its group in terms of ROE. The company trades at 13.8x this year's EPS estimates, which is not a significant premium to other group members with much lower returns on equity. The street is looking for \$7.11 in earnings per share for FY11. The combination of cash, real estate and a high ROE make Arden Group an interesting value play.

(NASDAQ: ARDNA)

Investment Data (as of 11/5/10)

Recent Price	\$93.80
52-Week Range	82.02 - 113.65
Fiscal Year End	Jan 2
Dividend	\$1
Yield	1.10%
Shares Outstanding	3.16MM
Average Trading Volume (3 months)	1,500
Market Capitalization	296MM
Cash	46MM
Long Term Debt	\$1.2
Enterprise Value (EV)	251MM
LT Debt/ Equity	N/A
BV/ Share	24.39
TTM Revenue	\$421MM
P/ Revenue	0.7x
TTM EPS	\$6.39
P/ EPS	15x
TTM EBITDA	\$39
EV/ EBITDA	6x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.