

Mossberg's Investor Digest

Best Idea Profile:

Conn's Inc. (NASDAQ:CONN)

DESCRIPTION:

Headquartered in Beaumont, Texas; Conn's is a regional specialty retailer of durable consumer products. The Company has 70 retail stores in Texas, Louisiana and Oklahoma. Conn's merchandise sales are in consumer electronics, home appliances, furniture and mattresses, lawn and garden equipment and repair service agreements. Conn's offers over 4,500 SKUs, at good-better-best price points in its core retail product categories. The Company also offers an in-house credit program and finances approximately 60% of its retail sales.

KEY INVESTMENT CONSIDERATIONS:

Inflection Point/Restructuring Program – Conn's has recently gone through a store rationalization process in which 6 underperforming stores were closed with 5 additional stores closing this month. During Q3FY2011 (MRQ) the Company announced a pre-tax charge of \$14.1 million for debt restructuring to address new accounting guidance, a \$4.7 million charge for inventory and a \$0.4 million charge for store closures. Collectively these charges contributed to a \$12.7 million loss for the quarter. The Company should be operating from a leaner expense base with these items behind it.

Large Addressable Market – The top 100 major appliance retailers reported sales of approximately \$22.6 billion in 2009 (source: Twice). Household furniture sales are estimated to be approximately \$87.6 billion in 2010, up from \$84.0 billion in the prior year (source: U.S. Department of Commerce).

Unique Credit Program – The Company's consumer in-house credit program is an integral part of its business that drives customer loyalty. Conn's has been offering flexible financing alternatives to its customers through its proprietary in-house credit programs for over 45 years. In last three years the Company has financed about 60% of its retail sales through its proprietary in-house credit programs. These programs provide its customers with access to financing alternatives that Conn's competitors typically do not offer.

Texas Economy – Texas was the second largest state by nominal GDP in 2009. From 2000 to 2010, Texas experienced population growth of 20.6% compared to the U.S. population growth of 9.7% over the same period. Moreover, Texas' average unemployment rate of 8.3% continues to trend below the national average.

Improving Gross Margin – In the MRQ, Gross Margin for the Company's retail segment increased to 28.2% from 25.8% on a year-over-year basis.

Improving Credit Portfolio – Q3FY2011 results showed across the board improvement in the Company's credit portfolio. Net charge offs declined to \$5.4 million vs. \$10.7 million on a year-over-year basis.

Same Store Sales – During Q3FY2011 the Company results showed a return to positive same store sales with a YOY increase of 18.9%

Capital and Liquidity – The Company recently completed a \$20 million expansion of its asset-based loan facility, increasing the total commitment to \$450 million to provide additional borrowing capacity.

VALUATION:

The Company current trades at 1x book value and 11x the forward EPS estimate of \$1.07. Positive earnings and fundamentals should catch investors' attention and drive higher multiple and share price.

Conn's, Inc. (NASDAQ:CONN)

Investment Data (as of 1/24/12)

Recent Price	\$11.95
52-Week Range	\$4.10 - \$12.97
Fiscal Year End	Jan
Dividend	NA
Yield	NA
Shares Outstanding	32MM
Average Trading Volume (3 mos)	265k
Market Capitalization	\$380MM
Cash	\$7MM
Long Term Debt	\$311MM
Enterprise Value (EV)	\$666MM
Book Value	\$10.79
TTM Revenue	\$763MM
P/ Revenue	0.5x
TTM EPS	\$(0.51)
P/ EPS	NA
TTM EBITDA	\$20MM
EV/ EBITDA	33x