

Mossberg's Investor Digest

Best Idea Profile

DESCRIPTION:

Founded in 1968 and headquartered in Amarillo, TX, Hastings Entertainment is a retailer of new and used CDs, books, videos and video games, as well as boutique merchandise. The company also rents videos and video games. With 153 superstore locations, averaging approximately 20,000 square feet, the chain primarily services small and medium size towns throughout 21 states primarily in the Western and Midwestern United States. For its small town customers, Hastings offers a one stop shop for a variety of entertainment choices. It's stores are like combining a GameStop, Barnes & Noble, Blockbuster, Starbucks, and Hot Topic under one roof. The company also operates an e-commerce website www.gohastings.com.

KEY INVESTMENT CONSIDERATIONS:

Bigger Chains are exiting small markets - After a decade of expanding into smaller markets and creating more competition for Hastings, the weakened consumer and limited access to capital is forcing some other retailers to cull their store bases. As competitors exit less profitable, or unprofitable locations, it creates less competition for Hastings. Blockbuster has recently announced it plans to close nearly 1,000 stores (22%). Barnes & Noble and Borders have closed approximately 25 (<5%) and 100 stores (10%) respectively this past year.

Used business appeals to consumer thriftiness and produces higher margins – The company offers used books, videos and music to customers, priced at significant discounts to new prices. Over the past three years, used and budget-priced products have increased from 10% of sales to 15% and are continuing to grow in popularity for economically challenged consumers. While used products carry lower price points, they typically generate a much higher gross margin than new.

Strong management team that thinks like owners – John Marmaduke, the company's CEO and Chairman, has over 30 years experience in the entertainment retailing industry. The Marmaduke family owns about 40% of Hastings.

Hastings Entertainment (Nasdaq: HAST)

Improving Balance Sheet – The company has made significant improvements to its balance sheet, reducing inventory levels by \$13.5 million and decreasing long term debt by \$5.4 million.

VALUATION:

The company's share price has increased significantly this year and has nearly recovered to the price it was trading at a year ago. Despite the stock's move, shares are still trading at attractive levels...just 50% of tangible book and just 2x EV/ EBITDA. Near term performance is likely to continue to be affected by the weakened consumer, which may cause shares to trade sideways. However, as economic conditions improve, trading multiples could easily increase to 2-3x current levels, giving significant upside for patient investors.

(Nasdaq: HAST)

Investment Data (as of 9/30/09)

Recent Price	\$4.19
52-Week Range	1.26 - 5.90
Fiscal Year End	January
Shares Outstanding	10 MM
Average Trading Volume (3 mos)	12,000
Market Capitalization	40 MM
Cash	4.5 MM
Long Term Debt	45.5 MM
Enterprise Value (EV)	82 MM
LT Debt/ Equity	0.4
BV/ Share	10.68
TTM Revenue	524 MM
P/ Revenue	0.1x
FY10 EPS	0.37
P/ EPS	11x
Adjusted TTM EBITDA	40 MM
EV/ EBITDA	2.1x

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