Mossberg's Investor Digest
Idea Profile

Joe's Jeans Inc. (Nasdaq: JOEZ)

DESCRIPTION:

Headquartered in Los Angeles, California, Joe's Jeans designs and markets Joe's® branded apparel, which was established in 2001. The 7 ½ year old brand has historically been focused on the women's premium denim jean category, which sells for more than $120 at retail. Over the past two years, the company has expanded the brand into other casual wear categories, introduced men's and kid's lines and entered into its first licensing agreement for a third party provider to produce handbags, belts and small leather goods under the Joe's brand.

KEY INVESTMENT CONSIDERATIONS:

Growing brand with strong customer loyalty – According to Women's Wear Daily, of the top 12 denim brands ranked by customer loyalty, Joe's is second only to Levi's. It also ranks ahead of True Religion (Nasdaq: TRLG), which came in third.

Premium denim category (>$100) is less impacted by economic downturn – As of the end of August 2008, Tickermine's survey said that 33% of stores surveyed reported that Joe's Jeans are selling better than denim from other designers. Sixty-three percent said Joe's Jeans were selling at the same rate as other brands. Ninety-six percent of stores polled said they did not have excess inventory of any particular brand of designer jean. Only 17% of stores said the weak economy and housing market are hurting their sales.

Shifting production abroad and increasing sales leverage should continue to drive improving profitability – During the trailing twelve months, the company has generated 7% net income margin, which is twice as much as the 3.5% the company delivered during fiscal 2007. However, other competitors, like TRLG and VF Corp (NYSE: VFC), that sell high priced jeans generate net margins in the mid teens. In an effort to drive gross margins to 50% by the end of the year (FY07 gross margin was 42%), JOEZ recently shifted a significant portion of production to Mexico. Increasing gross margin combined with incremental sales leverage should make low to mid teens net income margin attainable.

Multi-channel strategy similar to TRLG's should drive profitable growth. The company plans to open 4 stores this year and 50 over the next five years. To manage its retail rollout, JOEZ hired a former VP of retail from Liz Claiborne's subsidiary, Lucky Brand Jeans, who helped manage the roll out of 150 company-owned stores for that brand.

KEY RISKS:

Fashion is fickle – While Joe's brand commands significant customer loyalty, brand and fashion preferences can change in a short period of time.

Customer concentration – Two customers accounted for 36% of 2007 sales. The loss of one of these customers could lead to losses temporarily until the company can replace the business or rationalize costs.

VALUATION:

The company currently trades at 9x the consensus FY09 EPS estimate $0.15. Next year's consensus appears to be based on conservative assumptions of 12.5% top line growth and 10% net margin. Based on that performance, ROE will be above 20%, which should allow JOEZ shares to command a higher multiple. Past 2009, there is still room for improvement in profitability and multiple expansion.

(Nasdaq: JOEZ)
Investment Data (as of 9/07/08)

Recent Price	**$1.34**
52-Week Range	0.60 - 2.10
Fiscal Year End	Nov
Dividend	NA
Yield	NA
Shares Outstanding	59.8 MM
Average Trading Volume (3 mos)	41,000
Market Capitalization	**80.1 MM**
Cash	2.6 MM
Long Term Debt	2.6 MM
Enterprise Value (EV)	80.1 MM
LT Debt/ Equity	0.08
Tangible BV/ Share	0.16
TTM Revenue	67.0 MM
P/ Revenue	**1.1x**
TTM EPS	0.09
P/ EPS	**14.9x**
TTM EBITDA	6.3 MM
EV/ TTM EBITDA	**12.7x**