

Mossberg's Investor Digest

Best Idea Profile

Tuesday Morning Corporation (NASDAQ:TUES)

DESCRIPTION:

Headquartered in Dallas, Texas; Tuesday Morning Corp. is leading closeout retailer of upscale home furnishings, housewares, gifts and related items sold in the United States. The company operates 857 stores in 45 states, which are generally open seven days a week and focus on periodic "sales events," that occur in each month except January and July. Tuesday Morning purchases quality, brand name merchandise at closeout pricing and sells it at prices significantly below those generally charged by department stores and specialty and catalog retailers. The company's customer base is primarily women from middle to upper-income households who are brand savvy, value-conscious customers seeking quality products at discount pricing. Tuesday morning customers are generally attracted to its stores by advertising and direct, or electronic mail programs (instead of location) that emphasize the limited quantities of brand name merchandise. This merchandise is then offered at attractive prices. This sales model has allowed the company to open stores in secondary locations of major suburban markets such as strip malls, near middle and upper-income customers in a no frills format with favorable leasing terms.

KEY INVESTMENT CONSIDERATIONS:

Proven Franchise – TUES has a proven business model with a history of profitability. Other than a small loss in FY09, TUES has had years of profitability. Investors should note that the company actually paid dividends in the calendar years 2005, 2006 and 2007, which ranged from \$0.65 per share to \$0.80 per share. The value proposition for customers should make for a retail model more suited to an environment with slow economic growth than that of full price retailers.

Unique Event Based Format – TUES has a different marketing approach from other retailers that is not as location driven. Tuesday Morning employs a unique "event-based" selling strategy by creating consumer awareness from multiple "grand openings" and "closeout sales" each year. Merchandise is available in limited quantities and specific items are generally not replenished during a sales event, however stores continue to receive new merchandise throughout any sales events. Limited quantities of specific items intensify customers' sense of urgency to buy the company's merchandise. This leaves the company free to open stores in secondary locations with a minimum of leasehold improvements at low cost. Leases are also obtained on favorable lower-cost terms.

Store Reorganization – TUES is currently implementing a redeployment of its stores for more favorable results. During 3Q10 (March), the company opened three new stores, relocated thirteen and closed fourteen. These store redeployments should offer similar or increased sales and in some cases lower costs.

Improving Same Store Sales – The company is experiencing an upward trend in same store sales. The company reported that comparable same stores sales increased 1.6% in the MRQ, and 1% for the last nine months. These increases were offset by lower ticket prices, which may improve over time as industry wide inventories shrink with the economic recovery.

Strong Financial Position – Tuesday Morning has \$26.6 million in cash and no long-term debt. The company also has an asset-based, five-year senior secured revolving credit facility in the amount of up to \$180.0 million (amended) with provisions for increases. Third quarter results showed no outstanding amounts under the revolving credit facility, \$9.3 million of outstanding letters of credit and availability of \$112.9 million under the revolving credit facility.

VALUATION:

Based on a \$0.39 FY11 estimate, TUES has a forward multiple of 12. With the company's same store sales trending up and some significant store redeployments out of the way, TUES seems reasonable priced.

(NASDAQ: TUES)

Investment Data (as of 6/25/10)

Recent Price	\$4.61
52-Week Range	2.10 - 8.80
Fiscal Year End	Jun
Shares Outstanding	42.14MM
Average Trading Volume (3 mos)	681,769
Market Capitalization	194MM
Cash	27MM
Long Term Debt	NA
Enterprise Value (EV)	168MM
LT Debt/ Equity	NA
BV/ Share	\$5.83
TTM Revenue	\$816MM
P/ Revenue	816MM
TTM EPS	\$0.22
P/ EPS	24.78x
TTM EBITDA	31MM
EV/ EBITDA	5.45x

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.