

Mossberg's Investor Digest

Best Idea Profile

Wet Seal, Inc. (Nasdaq:WTSLA)

DESCRIPTION:

Headquartered in Foothill Ranch, California, Wet Seal is a specialty retailer selling contemporary clothing, apparel and accessories designed for female customers aged 13 to 35 years old. The company operates 496 retail stores in 47 states, Puerto Rico and Washington D.C. along with a company website for online sales. Wet Seal markets products through two mall-based nationwide chains named "Wet Seal" and "Arden B." The Wet Seal chain offers a trend focused and affordably priced junior apparel brands for teenage girls with a target customer age of 13 to 19 years of age. The Arden B. chain sells contemporary fashion brands for women in the 25 to 35 years age category. During 2008 and 2009, Wet Seal has focused on cost control, inventory mix issues and a turnaround in the Arden B. chain.

KEY INVESTMENT CONSIDERATIONS:

Price Point Value - Wet Seal is not a "high-end" luxury retailer. The company seeks to offer fashion conscious buyers a desirable product at affordable price points. This segment of the market should be a sustainable and attractive alternative during a difficult and recovering economy. The company has made considerable progress in adjusting price points and markdowns during the difficult market environment in 2009.

Restructuring - Wet Seal has taken a number of actions to adjust its balance sheet and cost structure to the economic environment. During the second quarter of 2009, the company recorded a \$1.6 million non-cash charge for the impairment of the carrying value of certain underperforming stores. The company is nearing the end of a two year cost reduction program. These reductions netted several million dollars in savings during FY2008 and the company has had additional headcount reduction during FY2009.

A Turnaround at Arden B. - Wet Seal has been working on turning around the Arden B chain during the last two years. WTSLA has brought in new merchandise management and made a number of operational changes to the division. After sustaining large comparable same store sales declines the last two years, the chain has now had three successive quarters of profitability, with \$1.4 million in operating income for 3Q09...an improvement of \$3.7 million on a year-over-year basis.

A Strong Cash Position with Sustainable Cash Flow - Wet Seal has \$144 million in cash and generated \$6.5 million in cash flow from operations in the MRQ. The company has a history of strong cash flow generation.

New Managerial Depth - In July of 2009, the company brought in two new experienced merchandise managers. In November of 2009 the company announced the appointment of Sharon Hughes as President and Chief Merchandise Officer of Arden. All three of these merchandise managers have helped improve operations and Sharon Hughes was originally the consultant that helped orchestrate the Arden B Turnaround.

Stock Repurchase Program - On November 18, 2009, Wet Seal authorized spending of up to \$12.5 million to repurchase stock. There is currently no expiration date for this repurchase plan. During the fourth quarter, the company repurchased 2,025,720 shares of its Class A common stock for approximately \$7.3 million. As of January 30, 2010, WTSLA has \$5.2 million of capacity remaining under its share repurchase program.

VALUATION:

Wet seal recently raised fourth quarter 2009 earnings guidance to a range of \$0.08 to \$0.09 per diluted share, an improvement from the prior guidance range of \$0.06 to \$0.07 per diluted share. Analysts current estimates are 21 cents for FY2010 and 26 cents for FY2011. Sales for teen retailers have been surprising strong recently. This strength along with the turnaround at Arden B., and new operational strengths, may set the stage for some upside earnings estimate revisions at Wet Seal as well as expansion in the price multiple.

(NASDAQGS: WTSLA)

Investment Data (as of 3/22/10)

Recent Price	\$4.60
52-Week Range	2.77 - 4.68
Fiscal Year End	January
Shares Outstanding	95.8 MM
Average Trading Volume (3 mos)	1MM
Market Capitalization	434MM
Cash	144MM
Long Term Debt	3MM
Enterprise Value (EV)	293MM
LT Debt/ Equity	NA
BV/ Share	\$1.94
TTM Revenue	565M
P/ Revenue	0.8x
TTM EPS	0.18
P/ EPS	26x
TTM EBITDA	39MM
EV/ EBITDA	7.5

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