

# Mossberg's Investor Digest

## Best Idea Profile:

## Winmark Corporation (NASDAQ:WINA)

### DESCRIPTION:

Winmark Corporation owns five consignment retail brands, representing approximately 1,000 franchise stores. It does not operate the stores, rather it franchises them to small-business owners. Two of the concepts sell used clothing and accessories: Plato's Closet stores target the teenage and young adult market, and Style Encore stores focus on adult women. Play It Again Sports stores buy, sell, trade, and consign used and new sporting goods, equipment, and accessories for various athletic activities. The Once Upon A Child stores focus on children's clothing, toys, furniture, equipment, and accessories; and Music Go Round stores buy, sell, trade, and consign used and new musical instruments, speakers, amplifiers, and music-related electronics. Winmark also operates a middle-market leasing business for technology and a small-business leasing credit business. Winmark is based in Minneapolis and was founded in 1988.

### KEY INVESTMENT CONSIDERATIONS:

**Invested Insiders** –Winmark's chief executive officer immediately began purchasing stock upon joining the company in 2000 and has not stopped. He currently owns more than 30% of outstanding shares. The company directors are also making open-market purchases. These actions indicate a strong belief in the company's prospects from the inside. The stock price has appreciated at a compound annual growth rate of more than 45% since the beginning of 2009.

**High Margin Businesses** – There is very little capital required to run the businesses and they basically operate on the cash flow that is generated. More than 60% of the revenues come from royalties on franchise store sales, which results in gross margins above 90% and net income margins of approximately 30%. During 2003 and 2004, the company made some poor decisions on how to invest their substantial cash flow that have resulted in non-operating impacts to earnings. These investments have now been completely written off so Winmark's earnings power will become more apparent, and especially attractive to quantitative-based investors.

**Exciting New Concept** – Winmark has proven the growing acceptance and appeal of gently used merchandise with its successful Plato's Closet franchise, which targets teenage buyers who want to own the popular brands. There were 354 Plato's Closet stores at the end of 2012, with new stores opening rapidly, no stores closing and 100% renewal on franchise

agreements. The success of this concept inspired Winmark to recently launch a new franchise concept, Style Encore, which shares a similar business model with Plato's Closet. It also offers high-quality merchandise at substantial savings, but with a different target: women ages 20 to 50. These goods are not your typical Goodwill-type fare: they are high-end clothes that women outgrow or discard after little use.

**Enviably Balance Sheet and Cash Flow** – Winmark offers technology leasing services that are also a high margin, cash-generating business. More importantly, it provides a good place to invest excess cash flow generated by the franchise retail business. The balance sheet is incredibly sound. Additionally, Winmark pays a tiny dividend that was recently enhanced by a \$5 special dividend.

### VALUATION:

The appeal of WINA lies in the cash flow and the prospect of another exciting franchise opportunity to contribute to Winmark's diversified businesses. Add to that formula a management with successful concepts and financial incentive to optimize results and the long-term picture of the company evolves into positive returns for new and existing stockholders.

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Investment Data (as of 11/10/13)

<b>Recent Price</b>	<b>\$74.13</b>
52-Week Range	\$52.61 - \$75.97
Fiscal Year End	Dec 29
Dividend	\$0.20
Yield	0.3%
Shares Outstanding	5.1 M
Average Trading Volume (3 mos)	9k
Market Capitalization	\$381 M
Cash	\$9 M
Long-term Debt	\$1 M
Enterprise Value (EV)	\$365 M
Book Value	\$6.48
TTM Revenue	\$55 M
P/ Revenue	6.9x
TTM EPS	\$2.95
P/ EPS	25.0x
TTM EBITDA	\$30 M
EV/ EBITDA	12.3x

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