

THE GRAIL REPORT

A Buy Recommendation

Investment Style: PEG Growth

Issue No. 15 2013

Part 1 – Summary of Key Data

Market Condition: **Uptrend under pressure**

Website <http://www.conns.com>

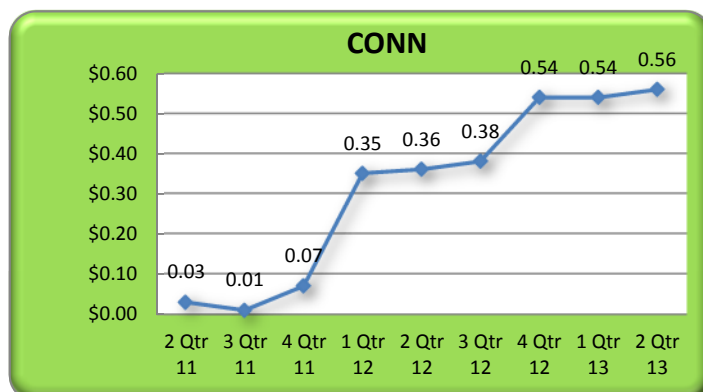
Name:	Conn's Inc	
Industry Sector:	Electronics Stores	Industry Rank: 6 of 31
Market Cap:	\$1.7 Billion	Small Cap

Conn's, Inc., is a specialty retailer of durable consumer products, and it also provides consumer credit to support its customers' purchases of the products that it offer. It derives revenue primarily from two sources: retail sales and delivery of consumer electronics, home appliances, furniture and mattresses, lawn and garden equipment and repair service agreements, and its in-house consumer credit program, including sales of related credit insurance products. Through its in-house consumer credit programs, it provides financing. It also offers third-party payment options through GE Capital, for customers with high credit scores, and RAC Acceptance, a rent-to-own payment plan for customers that do not qualify for the other options it offer. It offers over 2,100 product items, or stock keeping units (SKUs) in its retail product categories. In February 2013, it announced the the sale and long-term lease back of four owned properties to STORE Capital Acquisitions, LLC.



50 Day MA:

Price Performance						Other Key Metrics			
31-Dec-11	To Date	± in %	31-Dec-12	YTD	± in %	SP500 YTD	P/E Ratio	PEG	Grail Beta
\$11.10	\$48.46	337%	\$30.66	\$48.46	58%	13%	24	0.11	0.99



Additional Information

- Earning Report date 6 Sep 2013
- Last 3 Qtrs Avg EPS growth 653% 😊
- 3 Year EPS Growth Rate 60% 😊
- 3 Year Sales Growth Rate 15% 😞
- Annual ROE 13% 😊
- Debt/Equity Ratio 55% 😊

Earnings Surprises					YoY Earnings Growth	
4 Qtr 11	1 Qtr 12	2 Qtr 12	3 Qtr 12	4 Qtr 12	1 Qtr 13	2 Qtr 13
\$0.02	\$0.01	\$0.11	\$0.00	\$0.00	56%	66%

Part 2 . Detailed Analysis

P/E/GROWTH RATIO: [PASS]

The investor should examine the P/E (**31.16**) relative to the growth rate (**36.29%**), based on the average of the 3, 4 and 5 year historical eps growth rates, for a company. This is a quick way of determining the fairness of the price. In this particular case, the P/E/G ratio for **CONN** (0.86) makes it favorable.

SALES AND P/E RATIO: [NEUTRAL]

For companies with sales greater than \$1 billion, this methodology likes to see that the P/E ratio remain below 40. Large companies can have a difficult time maintaining a growth rate high enough to support a P/E above this threshold. **CONN**, whose sales are **\$865.0 million**, is not considered large enough to apply the P/E ratio analysis. However, an investor can analyze the P/E ratio relative to the EPS growth rate.

EPS GROWTH RATE: [PASS]

This methodology favors companies that have several years of fast earnings growth, as these companies have a proven formula for growth that in many cases can continue many more years. This methodology likes to see earnings growth in the range of 20% to 50%, as earnings growth over 50% may be unsustainable. The EPS growth rate for **CONN** is **36.3%**, based on the average of the 3, 4 and 5 year historical eps growth rates, which is considered 'OK'. However, it may be difficult to sustain such a high growth rate.

TOTAL DEBT/EQUITY RATIO: [PASS]

This methodology would consider the Debt/Equity ratio for **CONN** (**62.19%**) to be mediocre. If the Debt/Equity ratio is this high, the other ratios and financial statistics for **CONN** should be good enough to compensate.

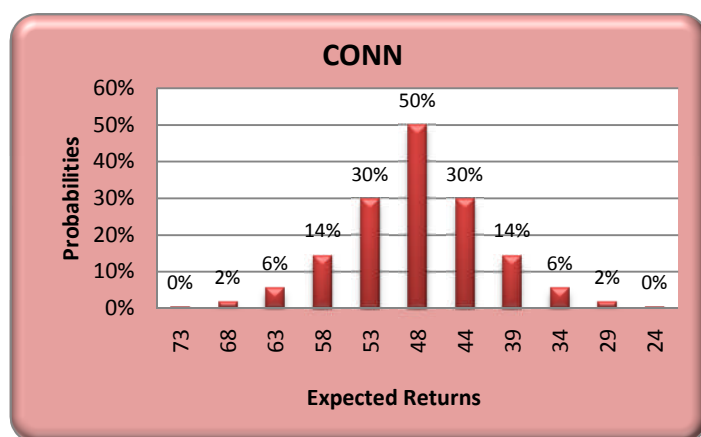
FREE CASH FLOW: [NEUTRAL]

The Free Cash Flow/Price ratio, though not a requirement, is considered a bonus if it is above 35%. A positive Cash Flow (the higher the better) separates a wonderfully reliable investment from a shaky one. This methodology prefers not to invest in companies that rely heavily on capital spending. This ratio for **CONN** (**-3.36%**) is too low to add to the attractiveness of the stock. Keep in mind, however, that it does not adversely affect the company as it is a bonus criteria.

NET CASH POSITION: [NEUTRAL]

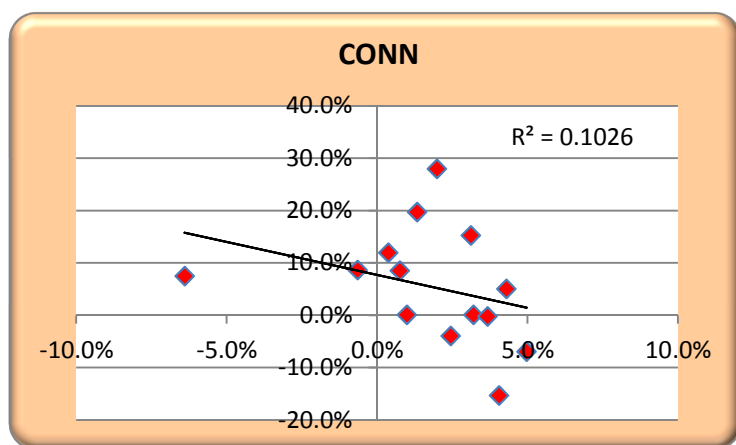
Another bonus for a company is having a Net Cash/Price ratio above 30%. Lynch defines net cash as cash and marketable securities minus long term debt. According to this methodology, a high value for this ratio dramatically cuts down on the risk of the security. The Net Cash/Price ratio for **CONN** (**-15.25%**) is too low to add to the attractiveness of this company. Keep in mind, however, that it does not adversely affect the company as it is a bonus criteria.

Part 3 – Risk Metrics



Value at Risk				
At Price	Losses	Price	Loss	Probability
\$48.46	-10%	43.61	-\$4.85	30%
	-20%	38.77	-\$9.69	14%
	-30%	33.92	-\$14.54	6%
	-40%	29.08	-\$19.38	2%
	-50%	24.23	-\$24.23	0%

TheConn'sl Inc's Alpha value of 10% measures the consistency of excess returns against the SP500 in monthly periods.



Part 4 – Recent Key Development

4/3/2013

Conn's Inc Raises FY 2014 EPS Guidance; Comments on FY 2014 Same Stores Sales Guidance

Conn's Inc increased earnings guidance for fiscal 2014 to diluted earnings per share (EPS) of \$2.40 to \$2.50 on an adjusted basis. The Company expects same stores sales up 3% to 8% in fiscal 2014. According to I/B/E/S Estimates, analysts were expecting the Company to report EPS of \$1.53 for fiscal 2014.

2/13/2013

Conn's Inc Announces Sale and Lease Back of Four Store Locations

Conn's Inc announced that the sale and long-term lease back of four owned properties to STORE Capital Acquisitions, LLC. The Company received net proceeds of approximately \$22.4 million in connection with the sale, which was used to repay borrowings under its real estate loan and asset-based lending facility. Three of the locations are in Texas and the fourth is in New Mexico.

12/21/2012

Conn's Inc Opens Three New HomePlus Stores

Conn's Inc announced the opening of three Conn's HomePlus stores in El Paso and Fort Worth, Texas and Tucson, Arizona. The new Conn's HomePlus store format showcases furniture and mattresses in addition to brands and the latest technologies in consumer electronics and home appliances. The new stores are in the following locations: 6101 Gateway West Blvd., El Paso, Texas; 6592 Lake Worth Blvd., Fort Worth, Texas; and 5530 E. Broadway Blvd., Tucson, Arizona.

12/12/2012

Conn's Inc Announces Closing of Common Stock Offering

Conn's Inc announced the closing of its previously announced underwritten registered public offering of 5,500,000 shares of common stock. The Company also announced the exercise in full of the over-allotment option granted to the underwriters by Conn's with respect to the purchase of an additional 825,000 shares of common stock at a public offering price of \$26.75 per share. Of the total 6,325,000 shares of common stock sold, the Company sold 2,233,379 shares and the selling stockholders sold 4,091,621 shares. As a result of the exercise of the over-allotment option, the Company received net proceeds from the offering of approximately \$56.2 million, after deducting underwriting discounts and commissions and other estimated offering expenses. The Company intends to use the net proceeds from the offering primarily for the repayment of debt under the Company's asset-based loan facility and to pay the fees and expenses that it incurred in connection with the offering. The Company did not receive any proceeds from the sale of shares of common stock offered by the selling stockholders in the offering. Piper Jaffray & Co. and Stephens Inc. acted as joint book-running managers for the offering, and Stifel Nicolaus & Company, Incorporated, Canaccord Genuity Inc. and KeyBanc Capital Markets Inc. acted as co-managers for the offering

12/7/2012


Conn's Inc Announces Pricing of Common Stock Offering

Conn's Inc announced the pricing of its public offering of 5,500,000 shares of its common stock at a price to the public of \$26.75 per share. Of the 5,500,000 shares of common stock being offered, the Company is offering 1,408,379 shares and the selling stockholders are offering 4,091,621 shares. The Company has also granted the underwriters a 30-day option to purchase up to an additional 825,000 shares to cover over-allotments, if any. The offering size was increased from 5,000,000 shares to 5,500,000 shares at pricing. The additional 500,000 shares are being offered by the selling stockholders. The offering is expected to close on or around December 12,

Part 5 – Analyst Recommendation Trends

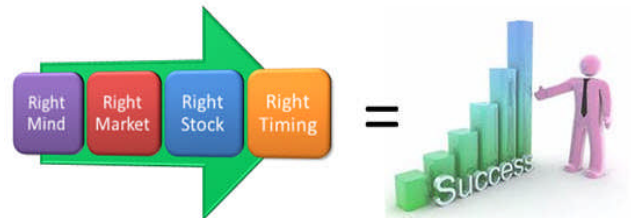
Recommendations	Current	1 Month Ago	2 Months Ago	3 Months Ago
Strong Buy	7	7	6	6
Moderate Buy	1	1	1	1
Hold	1	1	1	1
Moderate Sell	0	0	0	0
Strong Sell	0	0	0	0

Source: MSN Money <http://investing.money.msn.com/investments/analyst-ratings?symbol=conn>

Composite Rating represents the percentage that the stock beats the market - maximum of 99%		CONSISTENCY IS THE BEST FORECASTER!	Grail Equity Ratings	Metric Strengths	Metric Weaknesses
			Weak buy <> 60% & 64% Moderate buy <> 65% & 69% Firm Buy <> 70% & 74% Strong Buy > 75%	74%	26%
			FIRM BUY		



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6 June 2013

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