

October 15, 2008

Key Metrics

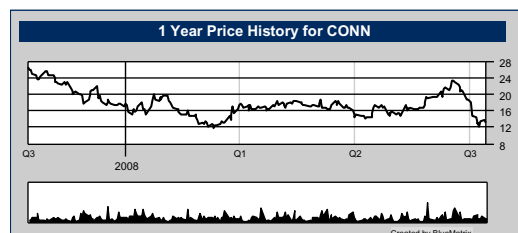
| | |
|------------------------------|-----------------|
| CONN - NASDAQ | \$13.23 |
| Pricing Date | 10/14/2008 |
| Price Target | NA |
| 52-Week Range | \$28.54-\$11.32 |
| Shares Outstanding (mm) | 22.4 |
| Market Capitalization (\$mm) | \$296.4 |
| 3-Mo Average Daily Volume | 257,578 |
| Institutional Ownership | 49% |
| Debt/Total Capital | 0.0% |
| ROE | 12.1% |
| Book Value/Share | \$14.47 |
| Price/Book | 0.9x |
| Dividend Yield | NM |
| LTM EBITDA Margin | 8.46% |

EPS(\$) FY: January

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|-------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 0.54 | -- | 0.47A | 0.59E | 0.43E |
| 2Q-Jul | 0.40 | -- | 0.45A | 0.49E | 0.42E |
| 3Q-Oct | 0.17 | 0.28E | 0.22E | 0.35E | 0.30E |
| 4Q-Jan | 0.57 | 0.55E | 0.49E | 0.63E | 0.53E |
| FY | 1.68 | 1.75E | 1.64E | 2.06E | 1.68E |
| P/E | 7.9x | | 8.1x | | 7.9x |

Revenue(\$mm)

| | 2008A | Prior 2009E | Curr. 2009E | Prior 2010E | Curr. 2010E |
|--------|-------|-------------|-------------|-------------|-------------|
| 1Q-Apr | 205.3 | 218.5A | 218.6A | 240.5E | 235.6E |
| 2Q-Jul | 203.5 | -- | 218.5A | 231.9E | 226.6E |
| 3Q-Oct | 189.4 | 211.5E | 206.4E | 228.7E | 217.6E |
| 4Q-Jan | 225.9 | 245.8E | 239.4E | 263.6E | 247.9E |
| FY | 824.1 | 894.4E | 882.9E | 964.7E | 927.7E |



Company Description: Conn's Inc. (www.conns.com) operates as a specialty retailer of home appliances and consumer electronics in the United States. It sells appliances, consumer electronics, lawn and garden, furniture, and mattresses. Conn's Inc. was founded in 1890 and is headquartered in Beaumont, Texas.

Conn's Inc.

Rating: Hold

144 Lost Store Days To Hurricane; Reducing EPS Estimates On Softening Economy

Investment Highlights:

- **Hurricane impact: 144 store-days lost; replacement orders may offset.** Due to Hurricane Ike, Conn's lost 144 store-days between August 31, 2008, and September 24, 2008. While replacement sales could materialize over the next few months, they may not be sufficient to offset already lost store days; therefore, we are lowering our 3Q sales estimate to \$206mm from \$212mm.
- **Some impact expected from credit portfolio/bad debt exposure.** While the addition of its San Antonio collection center should limit some of the potential disruption to collections, the hurricane could negatively impact near-term collections and expand bad debt expense. As collections normalize and consumers settle back into their homes, we would expect bad debt expense to return to normalized levels.
- **Reducing sales expectations on potential weakening economy.** With strong population growth, no state income tax, and strong ties to oil and natural gas, Texas has been viewed as somewhat isolated from economic weakness. Recently, other Texas-based companies have experienced weakening consumer demand, which could continue in 2009. Accordingly, and more conservatively, we are reducing our comparable store sales expectations in 2009 (from positive 2% to negative 2%) and store expansion projections (from 7 to 3). As a result, our FY09 revenue projection has been reduced by roughly \$37mm to \$928mm.
- **Economic slowdown could continue pressuring margins.** A larger percentage of lower margined electronic sales coupled with increased pricing competition has pressured recent gross margins. We currently see limited visibility regarding those conditions improving and, accordingly, are modeling flat Y/Y gross margins versus our previous expectations for a 100 bps increase.
- **Reducing FY09 and FY10 EPS estimates by \$0.11 and \$0.38, respectively. Maintain Hold rating.** Based upon our reduced sales and margin expectations, we are reducing our FY09E EPS to \$1.64 from \$1.75 and FY10E EPS to \$1.68 from \$2.06. Should economic conditions improve, we believe material upside to current expectations exists, yet visibility for an economic turnaround appears limited at this point. We maintain our Hold rating on the shares.

EQUITY RESEARCH

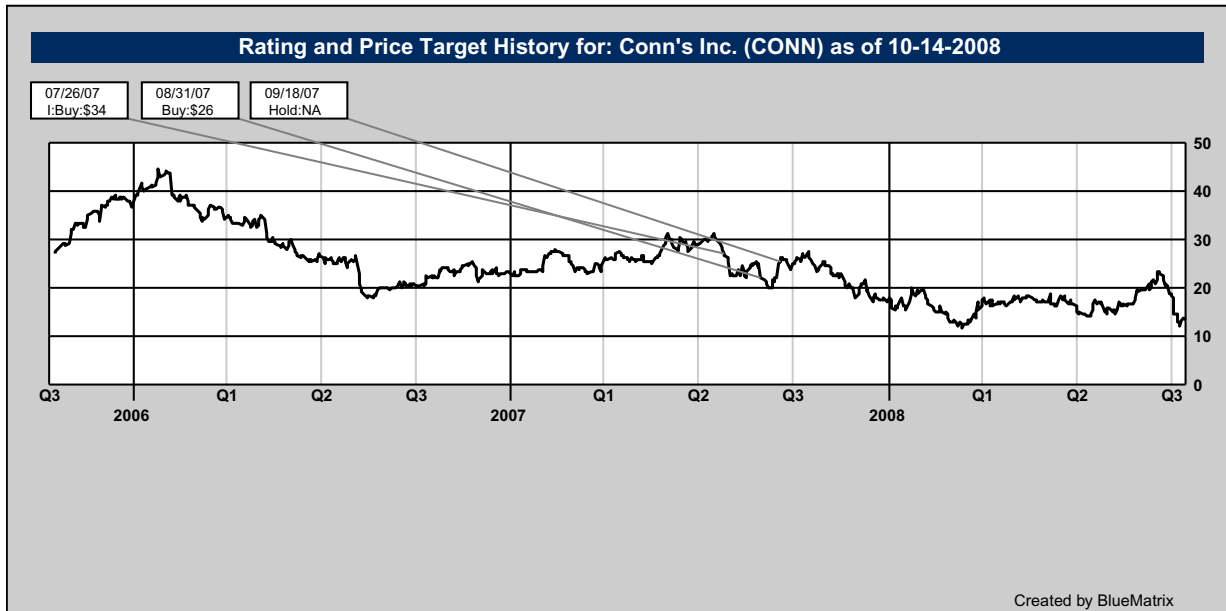
Conn's Inc. (CONN)

(In Millions, Except Per Share Data)

| | FY 2007 | Q1 Apr-07 | Q2 Jul-07 | Q3 Oct-07 | Q4 Jan-08 | FY 2008 | Q1 Apr-08 | Q2 Jul-08 | Q3E Oct-08 | Q4E Jan-09 | FYE 2009 | Q1E Apr-09 | Q2E Jul-09 | Q3E Oct-09 | Q4E Jan-10 | FYE 2010 |
|--------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|
| Sales | 760.7 | 205.3 | 203.5 | 189.4 | 225.9 | 824.1 | 218.6 | 218.5 | 206.4 | 239.4 | 882.9 | 235.6 | 226.6 | 217.6 | 247.9 | 927.7 |
| <i>% Increase</i> | 8.4% | 6.8% | 11.7% | 9.0% | 6.3% | 8.3% | 6.5% | 7.4% | 9.0% | 6.0% | 7.1% | 7.8% | 3.7% | 5.4% | 3.6% | 5.1% |
| Cost of Goods Sold | 473.1 | 126.3 | 127.4 | 120.4 | 143.0 | 517.2 | 141.4 | 139.1 | 132.7 | 153.9 | 567.1 | 153.6 | 145.0 | 140.3 | 159.4 | 598.4 |
| <i>As % Sales</i> | 62.2% | 61.5% | 62.6% | 63.6% | 63.3% | 62.8% | 64.7% | 63.6% | 64.3% | 64.3% | 64.2% | 65.2% | 64.0% | 64.5% | 64.3% | 64.5% |
| <i>% Increase</i> | 4.3% | 5.1% | 11.6% | 13.7% | 7.7% | 9.3% | 12.0% | 9.1% | 10.2% | 7.6% | 9.7% | 8.7% | 4.3% | 5.7% | 3.6% | 5.5% |
| Gross Profit | 287.6 | 79.1 | 76.1 | 68.9 | 82.9 | 307.0 | 77.2 | 79.5 | 73.7 | 85.5 | 315.8 | 82.0 | 81.6 | 77.2 | 88.5 | 329.3 |
| <i>Margin</i> | 37.8% | 38.5% | 37.4% | 36.4% | 36.7% | 37.2% | 35.3% | 36.4% | 35.7% | 35.7% | 35.8% | 34.8% | 36.0% | 35.5% | 35.7% | 35.5% |
| <i>% Increase</i> | 16.0% | 9.7% | 11.8% | 1.7% | 4.0% | 6.7% | -2.4% | 4.4% | 6.9% | 3.1% | 2.9% | 6.3% | 2.6% | 4.8% | 3.6% | 4.3% |
| SG&A | 225.0 | 59.2 | 62.1 | 61.9 | 62.1 | 245.3 | 60.4 | 62.9 | 61.9 | 64.6 | 249.8 | 64.0 | 63.4 | 64.0 | 65.5 | 256.9 |
| <i>As % Sales</i> | 29.6% | 28.8% | 30.5% | 32.7% | 27.5% | 29.8% | 27.6% | 28.8% | 30.0% | 27.0% | 28.3% | 27.2% | 28.0% | 29.4% | 26.4% | 27.7% |
| <i>% Increase</i> | 23.1% | 10.0% | 12.1% | 10.2% | 4.3% | 9.0% | 1.9% | 1.3% | 0.0% | 4.2% | 1.8% | 6.0% | 0.9% | 3.4% | 1.3% | 2.8% |
| Provision for bad debt | 1.5 | 0.6 | 0.3 | 0.6 | 0.4 | 1.9 | 0.3 | 0.3 | 2.6 | 1.6 | 4.8 | 0.7 | 1.1 | 0.2 | 1.4 | 3.4 |
| <i>As % Sales</i> | 0.2% | 0.3% | 0.2% | 0.3% | 0.2% | 0.2% | 0.1% | 0.2% | 1.3% | 0.7% | 0.5% | 0.3% | 0.5% | 0.1% | 0.6% | 0.4% |
| Operating Profit | 61.1 | 19.3 | 13.6 | 6.4 | 20.4 | 59.7 | 16.5 | 16.2 | 9.2 | 19.2 | 61.2 | 17.3 | 17.0 | 13.0 | 21.7 | 69.0 |
| <i>Margin</i> | 8.0% | 9.4% | 6.7% | 3.4% | 9.0% | 7.2% | 7.6% | 7.4% | 4.4% | 8.0% | 6.9% | 7.3% | 7.5% | 6.0% | 8.7% | 7.4% |
| <i>% Increase</i> | -3.7% | 6.0% | 11.5% | -41.8% | 3.6% | -2.3% | -14.2% | 19.1% | 43.0% | -5.8% | 2.4% | 4.6% | 4.8% | 42.2% | 12.6% | 12.8% |
| Interest Expense | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 1.2 | 1.5 | 2.7 | 1.8 | 2.0 | 2.2 | 2.7 | 8.7 |
| Other Income | 1.4 | 1.1 | 0.3 | 0.1 | -0.1 | 1.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Pretax Profit | 62.6 | 20.3 | 14.0 | 6.6 | 20.3 | 61.2 | 16.6 | 16.2 | 8.0 | 17.7 | 58.5 | 15.5 | 15.0 | 10.8 | 19.0 | 60.3 |
| <i>Margin</i> | 8.2% | 9.9% | 6.9% | 3.5% | 9.0% | 7.4% | 7.6% | 7.4% | 3.9% | 7.4% | 6.6% | 6.6% | 6.6% | 5.0% | 7.6% | 6.5% |
| <i>% Increase</i> | -0.7% | 10.6% | 6.1% | -41.3% | 2.4% | -2.2% | -18.5% | 16.2% | 21.6% | -12.9% | -4.4% | -6.5% | -7.3% | 36.1% | 6.9% | 3.2% |
| Taxes(benefit) | 22.3 | 7.4 | 4.3 | 2.5 | 7.3 | 21.5 | 6.0 | 6.0 | 2.9 | 6.6 | 21.5 | 5.7 | 5.6 | 4.0 | 7.0 | 22.3 |
| <i>Rate</i> | 35.6% | 36.4% | 30.8% | 38.6% | 35.8% | 35.1% | 36.1% | 37.0% | 37.0% | 37.0% | 36.7% | 37.0% | 37.0% | 37.0% | 37.0% | 37.0% |
| Net Income--Oper. | 40.3 | 12.9 | 9.7 | 4.0 | 13.1 | 39.7 | 10.6 | 10.2 | 5.0 | 11.2 | 37.0 | 9.8 | 9.5 | 6.8 | 11.9 | 38.0 |
| <i>Margin</i> | 5.3% | 6.3% | 4.7% | 2.1% | 5.8% | 4.8% | 4.8% | 4.7% | 2.4% | 4.7% | 4.2% | 4.1% | 4.2% | 3.1% | 4.8% | 4.1% |
| <i>% Increase</i> | -1.3% | 8.3% | 13.0% | -43.8% | 3.1% | -1.6% | -18.2% | 5.8% | 24.8% | -14.5% | -6.8% | -7.8% | -7.3% | 36.1% | 6.9% | 2.7% |
| EPS--Operations | 1.66 | 0.54 | 0.40 | 0.17 | 0.57 | 1.68 | 0.47 | 0.45 | 0.22 | 0.49 | 1.64 | 0.43 | 0.42 | 0.30 | 0.53 | 1.68 |
| <i>% Increase</i> | -1.7% | 9.8% | 14.4% | -43.8% | 10.1% | 1.0% | -12.5% | 12.5% | 33.4% | -13.1% | -2.3% | -8.0% | -7.2% | 36.1% | 6.9% | 2.7% |
| Shares Out. Diluted | 24.3 | 24.1 | 24.1 | 24.2 | 23.0 | 23.7 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 | 22.6 |

Source: Company reports and Morgan Joseph estimates

Required Disclosures



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| | Investment Banking Services/Past 12 Mos. | |
|-----------------|---|--------------|
| Rating | Percent | Percent |
| BUY [B] | 56.67 | 37.25 |
| HOLD [H] | 42.22 | 31.58 |
| SELL [S] | 1.11 | 0.00 |

- Meaning of Ratings
- A) Buy means reasonable outperformance relative to the market over 12-18 months.
 - B) Hold means market-type risk adjusted performance; potential source of funds.
 - C) Sell means expected to underperform the market.

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