

November 28, 2008

Key Metrics

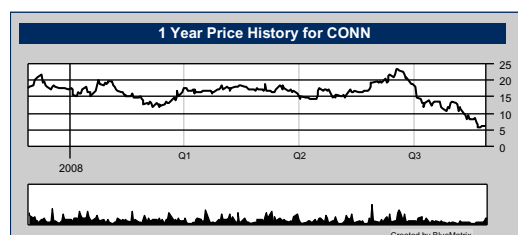
CONN - NASDAQ	\$6.22
Pricing Date	11/27/2008
Price Target	NA
52-Week Range	\$25.27-\$5.06
Shares Outstanding (mm)	22.4
Market Capitalization (\$mm)	\$139.6
3-Mo Average Daily Volume	222,420
Institutional Ownership	49%
Debt/Total Capital	0.0%
ROE	12.1%
Book Value/Share	\$14.47
Price/Book	0.4x
Dividend 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	0.43E	0.42E
2Q-Jul	0.40	--	0.45A	0.42E	0.31E
3Q-Oct	0.17	0.22E	(0.35)A	0.30E	0.23E
4Q-Jan	0.57	0.49E	0.39E	0.53E	0.49E
FY	1.68	1.64E	0.97E	1.68E	1.45E
P/E	3.7x		6.4x		4.3x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	205.3	--	218.6A	235.6E	227.9E
2Q-Jul	203.5	--	218.5A	226.6E	216.6E
3Q-Oct	189.4	206.4E	183.7A	217.6E	203.2E
4Q-Jan	225.9	239.4E	231.9E	247.9E	230.5E
FY	824.1	882.9E	852.7E	927.7E	878.2E



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

3Q09 EPS (\$0.35) - Ex-Fair Value Adjustment EPS at \$0.11 - Below Expectations

Investment Highlights:

- **F3Q09 EPS (ex-non-cash-charge) of \$0.11 - \$0.11 below our estimate.** Conn's reported F3Q09 EPS, excluding a \$15.8mm non-cash fair value adjustment (FVA) to the company's interest in securitized assets, of \$0.11. The results were \$0.11 below our estimate due lower sales, margins and an estimated \$0.06 impact related to hurricane expenses. Including the non-cash FVA, EPS were (\$0.35) versus \$0.17 LY.
- **Sales down on FVA and (5.8%) comp store sales.** Product sales increased 2.3% to \$174mm with consumer electronics/track sales offsetting home appliance declines. Same store sales of (5.8%) were slightly positive in August/October yet (20%) in September (133 store-days lost due to hurricanes). FVA's negatively impacted 3Q09 and 3Q08 sales \$16mm and \$4mm, respectively. While November comps appear to be trending positive, we are reducing our comp and sales expectations going forward to reflect a potentially weakening economy and fewer projected store openings in FY10.
- **Fair value adjustment/lower merchandise margins drop gross margins.** Gross margins declined Y/Y 690bps to 29.5% with the FVA and product margins negatively impacting results by 430bps and 270bps, respectively. Pricing competition could remain intense and continue pressuring 4Q margins. SG&A was up slightly in dollars with little growth, in dollars, expected going forward as new store growth expectations have been curtailed.
- **Hurricane weakens credit portfolio slightly - net charge-offs at 3.4%.** Net charge-offs expanded Y/Y to 3.4% from 3.2% LY and 2.8% in 2Q09 as hurricane disruption appeared to negatively impact collections. With roughly \$50mm currently available under its revolving credit facility and an escalator clause, that could expand availability to \$150mm, tied to receivable growth, capital to fund receivable growth appears sufficient for at least another 12 mths.
- **Three stores opened in 3Q/4Q - future growth put on hold.** One new store opened in October with two opened in November. No new store openings are currently planned. We had been anticipating 4 new unit openings in FY10.
- **Reducing estimates on lower comp and gross margin expectations.** We are reducing our F4Q09 EPS estimate \$0.10 primarily on lower gross margin expectations and FY10 EPS estimate \$0.23 on reduced sales projections.
- **Uncertainty over holiday sales and profits remains - Maintain Hold rating.** With a challenging and highly promotional holiday season expected, earnings visibility remains limited, as demonstrated by the company's discontinuance of earnings guidance. We maintain our Hold rating.

EQUITY RESEARCH

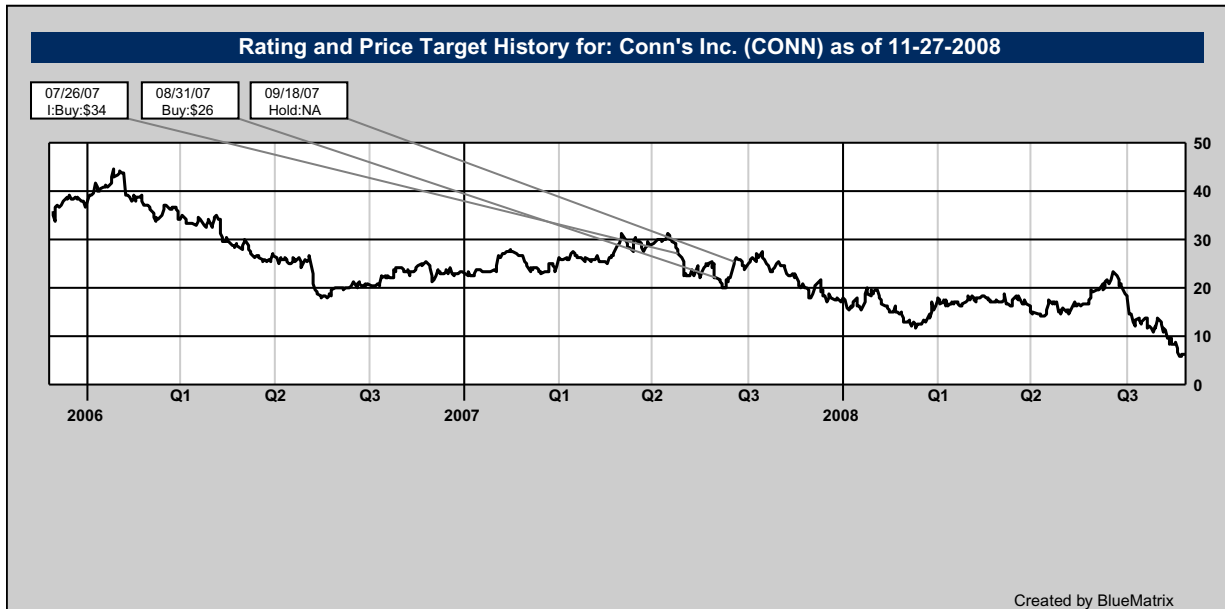
Conn's Inc. (CONN)

(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	Q3 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	183.7	231.9	852.7	227.9	216.6	203.2	230.5	878.2
<i>% Increase</i>	8.4%	6.8%	11.7%	9.0%	6.3%	8.3%	6.5%	7.4%	-3.0%	2.6%	3.5%	4.3%	-0.9%	10.6%	-0.6%	3.0%
Cost of Goods Sold	473.1	126.3	127.4	120.4	143.0	517.2	141.4	139.1	129.5	152.6	562.5	148.8	139.7	129.6	147.8	565.9
<i>As % Sales</i>	62.2%	61.5%	62.6%	63.6%	63.3%	62.8%	64.7%	63.6%	70.5%	65.8%	66.0%	65.3%	64.5%	63.8%	64.1%	64.4%
<i>% Increase</i>	4.3%	5.1%	11.6%	13.7%	7.7%	9.3%	12.0%	9.1%	7.5%	6.7%	8.8%	5.3%	0.5%	0.1%	-3.2%	0.6%
Gross Profit	287.6	79.1	76.1	68.9	82.9	307.0	77.2	79.5	54.3	79.3	290.2	79.1	76.9	73.5	82.8	312.3
<i>Margin</i>	37.8%	38.5%	37.4%	36.4%	36.7%	37.2%	35.3%	36.4%	29.5%	34.2%	34.0%	34.7%	35.5%	36.2%	35.9%	35.6%
<i>% Increase</i>	16.0%	9.7%	11.8%	1.7%	4.0%	6.7%	-2.4%	4.4%	-21.3%	-4.3%	-5.5%	2.5%	-3.3%	35.5%	4.3%	7.6%
SG&A	225.0	59.2	62.1	61.9	62.1	245.3	60.4	62.9	62.4	63.0	248.6	62.0	63.0	63.0	62.0	250.0
<i>As % Sales</i>	29.6%	28.8%	30.5%	32.7%	27.5%	29.8%	27.6%	28.8%	33.9%	27.2%	29.2%	27.2%	29.1%	31.0%	26.9%	28.5%
<i>% Increase</i>	23.1%	10.0%	12.1%	10.2%	4.3%	9.0%	1.9%	1.3%	0.7%	1.5%	1.4%	2.7%	0.2%	1.0%	-1.6%	0.6%
Provision for bad debt	1.5	0.6	0.3	0.6	0.4	1.9	0.3	0.3	2.8	1.4	4.8	0.7	1.1	0.5	1.1	3.4
Operating Profit	61.1	19.3	13.6	6.4	20.4	59.7	16.5	16.2	(10.9)	14.9	36.8	16.4	12.8	10.0	19.7	58.9
<i>Margin</i>	8.0%	9.4%	6.7%	3.4%	9.0%	7.2%	7.6%	7.4%	-5.9%	6.4%	4.3%	7.2%	5.9%	4.9%	8.5%	6.7%
<i>% Increase</i>	-3.7%	6.0%	11.5%	-41.8%	3.6%	-2.3%	-14.2%	19.1%	NM	-26.9%	-38.4%	-0.9%	-21.2%	NM	31.8%	60.0%
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.0	1.5	1.2	1.6	1.7	2.2	6.7
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	(11.4)	13.9	35.3	15.2	11.2	8.3	17.5	52.2
<i>Margin</i>	8.2%	9.9%	6.9%	3.5%	9.0%	7.4%	7.6%	7.4%	-6.2%	6.0%	4.1%	6.7%	5.2%	4.1%	7.6%	5.9%
<i>% Increase</i>	-0.7%	10.6%	6.1%	-41.3%	2.4%	-2.2%	-18.5%	16.2%	NM	-31.6%	-42.3%	-8.4%	-30.9%	NM	25.5%	47.7%
Taxes(benefit)	22.3	7.4	4.3	2.5	7.3	21.5	6.0	6.0	(3.6)	5.1	13.5	5.6	4.1	3.1	6.5	19.3
<i>Rate</i>	35.6%	36.4%	30.8%	38.6%	35.8%	35.1%	36.1%	37.0%	31.9%	37.0%	38.2%	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	(7.7)	8.8	21.8	9.6	7.1	5.3	11.0	32.9
<i>Margin</i>	5.3%	6.3%	4.7%	2.1%	5.8%	4.8%	4.8%	4.7%	-4.2%	3.8%	2.6%	4.2%	3.3%	2.6%	4.8%	3.7%
<i>% Increase</i>	-1.3%	8.3%	13.0%	-43.8%	3.1%	-1.6%	-18.2%	5.8%	NM	-32.9%	-45.0%	-9.7%	-30.9%	NM	25.5%	50.6%
EPS--Operations	1.66	0.54	0.40	0.17	0.57	1.68	0.47	0.45	(0.35)	0.39	0.97	0.42	0.31	0.23	0.49	1.45
<i>% Increase</i>	-1.7%	9.8%	14.4%	-43.8%	10.1%	1.0%	-12.5%	12.5%	NM	-31.8%	-42.3%	-9.8%	-30.9%	NM	25.5%	50.3%
Shares Out. Diluted	24.3	24.1	24.1	24.2	23.0	23.7	22.6	22.6	22.4	22.6	22.6	22.6	22.6	22.6	22.6	22.6

Source: Company reports and Morgan Joseph estimates

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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [B]	56.52	36.54
HOLD [H]	41.30	34.21
SELL [S]	2.17	0.00

- Meaning of Ratings
- A) Buy means reasonable outperformance relative to the market (Russell 2000) over 12-18 months.
 - B) Hold means market-type (Russell 2000) risk adjusted performance; potential source of funds.
 - C) Sell means expected to underperform the market (Russell 2000) over 12-18 months.

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