

January 5, 2009

Key Metrics

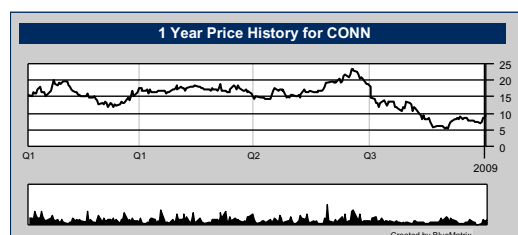
CONN - NASDAQ	\$9.78
Pricing Date	01/05/2009
Price Target	NA
52-Week Range	\$25.27-\$4.64
Shares Outstanding (mm)	22.4
Market Capitalization (\$mm)	\$219.1
3-Mo Average Daily Volume	164,235
Institutional Ownership	49%
Debt/Total Capital	0.0%
ROE	12.1%
Book Value/Share	\$14.47
Price/Book	0.7x
Dividend 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	0.42E	0.43E
2Q-Jul	0.40	--	0.45A	0.31E	0.32E
3Q-Oct	0.17	--	(0.35)A	--	0.23E
4Q-Jan	0.57	0.39E	0.43E	0.49E	0.47E
FY	1.68	0.97E	1.01E	--	1.45E
P/E	5.8x		9.7x		6.7x

Revenue(\$mm)

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	205.3	--	218.6A	227.9E	233.8E
2Q-Jul	203.5	--	218.5A	216.6E	220.4E
3Q-Oct	189.4	--	183.7A	203.2E	206.6E
4Q-Jan	225.9	231.9E	261.0E	230.5E	250.4E
FY	824.1	852.7E	881.8E	878.2E	911.2E



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

Bucking The Trend: Dec. Comps up 5%; Increasing 4Q EPS Estimate by \$0.04

Investment Highlights:

- **December product sales up strong 15% Y/Y - follows strong November.** Conn's announced preliminary estimates that December product sales expanded roughly 15% Y/Y on same store sales growth of 5%. This follows strong November results, which expanded Y/Y 23% (comp store sales up 12%), and puts the company on track to exceed our previous expectations for roughly 3% Y/Y sales growth. Accordingly, we are increasing our 4Q08 sales estimate by \$29mm to \$261mm, which would represent 16% Y/Y revenue gains.
- **Electronics apparently lead the way - appliances relatively flat.** Consumer electronics apparently provided strong Y/Y growth with solid results generated from furniture and mattresses. Appliance sales were essentially flat.
- **A competitor's bankruptcy filing, financing options, weather, and execution all possible keys to Conn's better-than-industry results.** According to data released by SpendingPulse, an information service provided by Master Card Advisor's, sales at electronics and appliance chains fell over 26% in December. Conn's materially better results could be attributable to strong execution, improved weather conditions (primarily Texas based store locations not impacted by December snow storms), post-hurricane replenishment sales, weaker Y/Y results from Circuit City (CC-\$0.10-NYSE) (recently filed for reorganization relief under Chapter 11), a relatively, versus other national regions, stronger Texas economy, and consumers seeking alternative sources of credit for purchases.
- **Increased sales expectations to be somewhat offset by reduced gross margin projections, 4Q EPS estimate raised by \$0.04.** Somewhat offsetting stronger than expected sales growth trends could be slightly lower gross margins due to an increased percentage of lower margined electronic sales. Promotional activity remains competitive with product margins estimated in line with 3Q results and roughly 300bps down Y/Y.
- **Increasing 2010 sales projection, maintaining EPS estimate.** Based upon recently improved trends, we are increasing our 2010 sales estimate by \$33mm to \$911mm. Similar to 4Q, increased sales could be somewhat offset by lower gross margins; therefore, we are maintaining our FY10 EPS estimate of \$1.45.
- **Maintain Hold rating; margins could remain pressured.** While we expect Conn's to continue to outperform the national average on a comp store sales basis, the company's relatively strong top-line results continue to be somewhat offset by ongoing product margin pressures. We maintain our Hold rating on the shares.

EQUITY RESEARCH

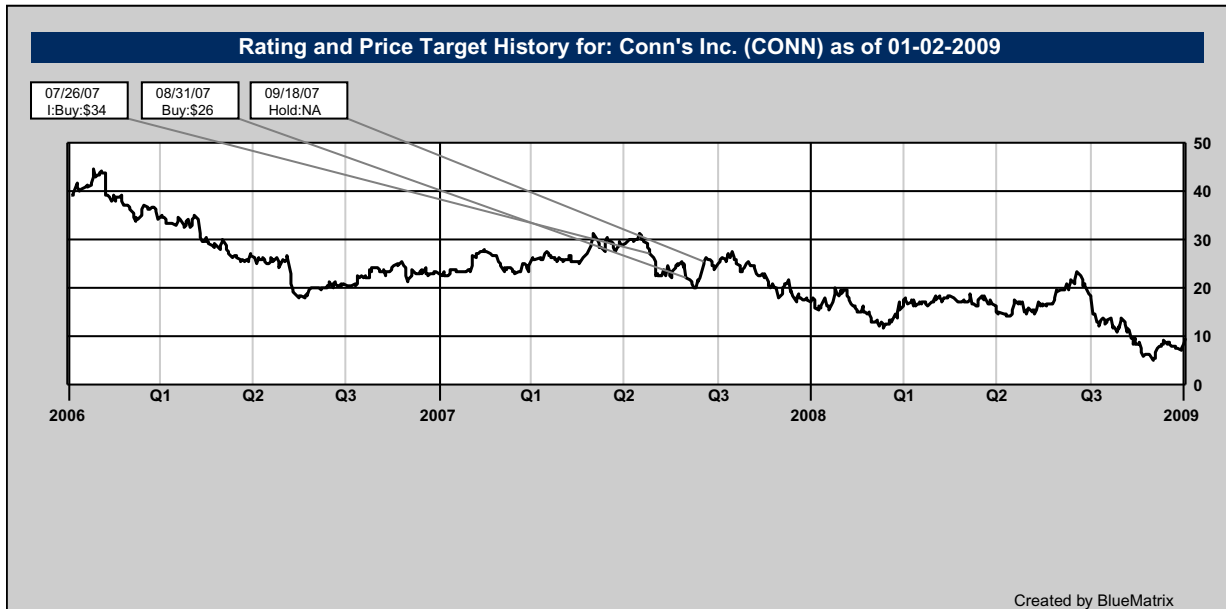
Conn's Inc. (CONN)

(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	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	261.0	881.8	233.8	220.4	206.6	250.4	911.2
<i>% Increase</i>	8.4%	6.8%	11.7%	9.0%	6.3%	8.3%	6.5%	7.4%	-3.0%	15.5%	7.0%	7.0%	0.9%	12.4%	-4.1%	3.3%
Cost of Goods Sold	473.1	126.3	127.4	120.4	143.0	517.2	141.4	139.1	129.5	174.2	584.1	154.3	143.3	133.3	160.5	591.3
<i>As % Sales</i>	62.2%	61.5%	62.6%	63.6%	63.3%	62.8%	64.7%	63.6%	70.5%	66.8%	66.2%	66.0%	65.0%	64.5%	64.1%	64.9%
<i>% Increase</i>	4.3%	5.1%	11.6%	13.7%	7.7%	9.3%	12.0%	9.1%	7.5%	21.8%	13.0%	9.1%	3.0%	2.9%	-7.9%	1.2%
Gross Profit	287.6	79.1	76.1	68.9	82.9	307.0	77.2	79.5	54.3	86.8	297.7	79.5	77.1	73.3	89.9	319.9
<i>Margin</i>	37.8%	38.5%	37.4%	36.4%	36.7%	37.2%	35.3%	36.4%	29.5%	33.3%	33.8%	34.0%	35.0%	35.5%	35.9%	35.1%
<i>% Increase</i>	16.0%	9.7%	11.8%	1.7%	4.0%	6.7%	-2.4%	4.4%	-21.3%	4.7%	-3.0%	3.0%	-2.9%	35.2%	3.6%	7.4%
SG&A	225.0	59.2	62.1	61.9	62.1	245.3	60.4	62.9	62.4	68.0	253.6	62.0	63.0	63.0	68.8	256.8
<i>As % Sales</i>	29.6%	28.8%	30.5%	32.7%	27.5%	29.8%	27.6%	28.8%	33.9%	26.1%	28.8%	26.5%	28.6%	30.5%	27.5%	28.2%
<i>% Increase</i>	23.1%	10.0%	12.1%	10.2%	4.3%	9.0%	1.9%	1.3%	0.7%	9.6%	3.4%	2.7%	0.2%	1.0%	1.1%	1.2%
Provision for bad debt	1.5	0.6	0.3	0.6	0.4	1.9	0.3	0.3	2.8	2.1	5.5	0.7	1.1	0.5	1.8	4.1
<i>As % Sales</i>	0.2%	0.3%	0.2%	0.3%	0.2%	0.2%	0.1%	0.2%	1.5%	0.8%	0.6%	0.3%	0.5%	0.2%	0.7%	0.4%
<i>% Increase</i>	-18.8%	NA	-10.8%	10.6%	-19.1%	29.3%	-53.8%	-4.3%	381.4%	402.4%	187.9%	170.3%	230.3%	-82.2%	-14.3%	-25.4%
Operating Profit	61.1	19.3	13.6	6.4	20.4	59.7	16.5	16.2	(10.9)	16.7	38.6	16.8	13.0	9.8	19.3	59.0
<i>Margin</i>	8.0%	9.4%	6.7%	3.4%	9.0%	7.2%	7.6%	7.4%	-5.9%	6.4%	4.4%	7.2%	5.9%	4.8%	7.7%	6.5%
<i>% Increase</i>	-3.7%	6.0%	11.5%	-41.8%	3.6%	-2.3%	-14.2%	19.1%	NM	-18.2%	-35.4%	1.5%	-19.7%	NM	16.0%	53.0%
Interest Expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	1.2	1.7	1.2	1.6	1.7	2.5	7.0
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)	15.5	36.9	15.6	11.4	8.1	16.8	52.0
<i>Margin</i>	8.2%	9.9%	6.9%	3.5%	9.0%	7.4%	7.6%	7.4%	-6.2%	5.9%	4.2%	6.7%	5.2%	3.9%	6.7%	5.7%
<i>% Increase</i>	-0.7%	10.6%	6.1%	-41.3%	2.4%	-2.2%	-18.5%	16.2%	NM	-23.9%	-39.7%	-6.0%	-29.4%	NM	8.8%	41.0%
Taxes(benefit)	22.3	7.4	4.3	2.5	7.3	21.5	6.0	6.0	(3.6)	5.7	14.1	5.8	4.2	3.0	6.2	19.2
<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)	9.8	22.8	9.8	7.2	5.1	10.6	32.8
<i>Margin</i>	5.3%	6.3%	4.7%	2.1%	5.8%	4.8%	4.8%	4.7%	-4.2%	3.7%	2.6%	4.2%	3.3%	2.5%	4.2%	3.6%
<i>% Increase</i>	-1.3%	8.3%	13.0%	-43.8%	3.1%	-1.6%	-18.2%	5.8%	NM	-25.3%	-42.5%	-7.3%	-29.4%	NM	8.8%	43.6%
EPS--Operations	1.66	0.54	0.40	0.17	0.57	1.68	0.47	0.45	(0.35)	0.43	1.01	0.43	0.32	0.23	0.47	1.45
<i>% Increase</i>	-1.7%	9.8%	14.4%	-43.8%	10.1%	1.0%	-12.5%	12.5%	NM	-24.1%	-39.6%	-7.5%	-29.4%	NM	8.8%	43.3%
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]	55.40	34.78
HOLD [H]	42.20	31.43
SELL [S]	2.40	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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