

January 13, 2009

**Key Metrics**

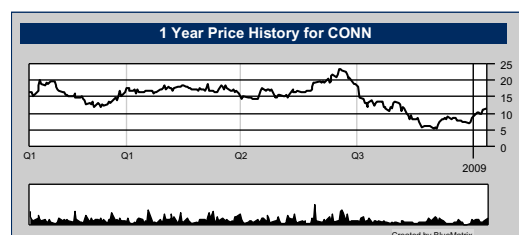
CONN - NASDAQ	\$11.36
Pricing Date	01/12/2009
Price Target	NA
52-Week Range	\$25.27-\$4.64
Shares Outstanding (mm)	22.4
Market Capitalization (\$mm)	\$254.5
3-Mo Average Daily Volume	163,121
Institutional Ownership	49%
Debt/Total Capital	9.4%
ROE	8.2%
Book Value/Share	\$14.30
Price/Book	0.8x
Dividend Yield	NM
LTM EBITDA Margin	6.47%

**EPS(\$)** FY: January

	2008A	Prior 2009E	Curr. 2009E	Prior 2010E	Curr. 2010E
1Q-Apr	0.54	--	0.47A	--	0.43E
2Q-Jul	0.40	--	0.45A	--	0.32E
3Q-Oct	0.17	--	(0.35)A	--	0.23E
4Q-Jan	0.57	0.43E	0.56E	--	0.47E
FY	1.68	1.01E	1.14E	--	1.45E
P/E	6.8x		10.0x		7.8x

**Revenue(\$mm)**

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



**Company Description:** Conn's Inc. ([www.conns.com](http://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

#### 4Q Sales/Margins Appear Ahead of Schedule; Raising 4Q EPS Estimate to \$0.56

**Investment Highlights:**

- **Product gross profit margins appear down Y/Y but in-line sequentially; increasing 4Q EPS estimate to \$0.56 from \$0.43.** While strong sales growth could be associated with material discounting, it appears as if 4Q product margins are trending in-line with 3Q09 results and have not yet (quarter ends January 31, 2009) been materially impacted by more aggressive than expected promotional activity. While 4Q09 product margins could decline Y/Y roughly 300bps, product margins appear to be trending above our previous expectation and roughly flat with 3Q09 results. Accordingly, we are increasing our 4Q09 EPS estimate to \$0.56 from \$0.43.
- **December product sales up strong 15% Y/Y - follows strong November.** Conn's recently 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 for double digit 4Q revenue growth. Consumer electronics apparently provided strong Y/Y growth with solid results generated from furniture and mattresses. Appliance sales were essentially flat.
- **Credit portfolio loss ratios apparently improving following hurricane challenges.** Conn's additionally announced that the credit portfolio continues to perform in line with expectations following the September hurricane disruptions. Expectations were for improvements on 3Q results, which saw net charge-offs increase to 3.4% versus 3.2% LY.
- **4Q sales results scheduled for February 9th; EPS results expected on March 26th.** Conn's is expected to release its 4Q09 sales results on February 9th with 4Q09 EPS results scheduled for release on March 26th.
- **Q4 visibility improving but FY10 remains somewhat clouded; Maintain Hold rating.** While the company recently released one-time guidance for 4Q EPS, excluding potential fair value and goodwill adjustments, in a range of \$0.53 to \$0.58, longer-term guidance remains suspended due to uncertain economic conditions. We maintain our FY10 EPS estimate and Hold rating.

EQUITY RESEARCH

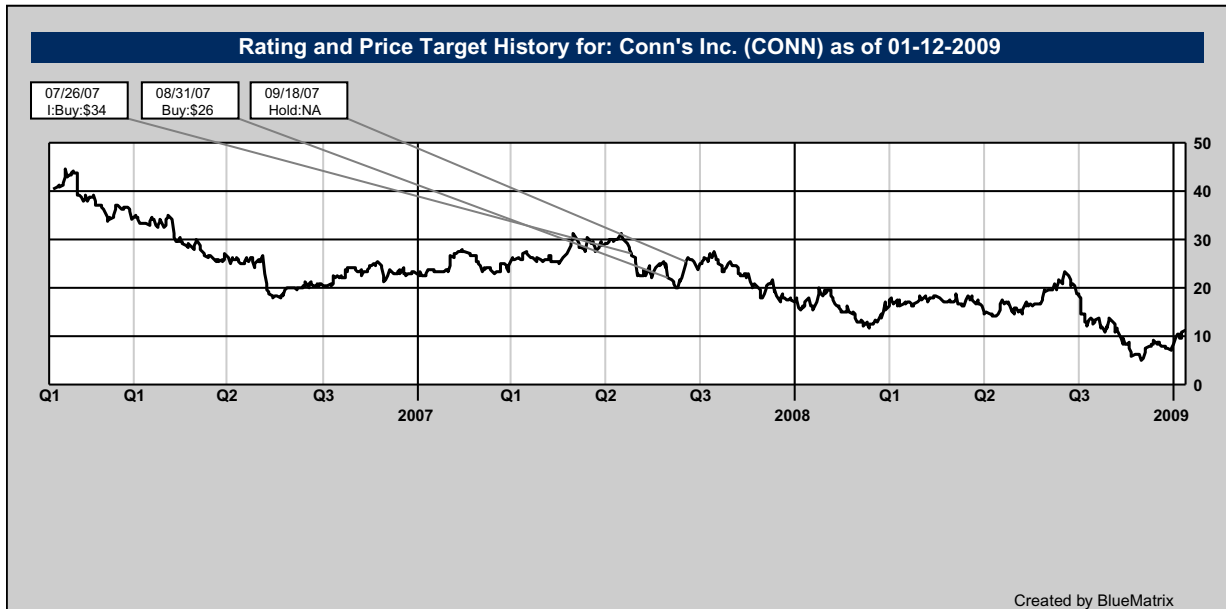
## Conn's Inc. (CONN)

(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
<b>Sales</b>	<b>760.7</b>	<b>205.3</b>	<b>203.5</b>	<b>189.4</b>	<b>225.9</b>	<b>824.1</b>	<b>218.6</b>	<b>218.5</b>	<b>183.7</b>	<b>261.0</b>	<b>881.8</b>	<b>233.8</b>	<b>220.4</b>	<b>206.6</b>	<b>250.4</b>	<b>911.2</b>
<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	172.3	582.2	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%	66.0%	66.0%	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%	20.4%	12.6%	9.1%	3.0%	2.9%	-6.8%	1.6%
<b>Gross Profit</b>	<b>287.6</b>	<b>79.1</b>	<b>76.1</b>	<b>68.9</b>	<b>82.9</b>	<b>307.0</b>	<b>77.2</b>	<b>79.5</b>	<b>54.3</b>	<b>88.7</b>	<b>299.7</b>	<b>79.5</b>	<b>77.1</b>	<b>73.3</b>	<b>89.9</b>	<b>319.9</b>
<i>Margin</i>	37.8%	38.5%	37.4%	36.4%	36.7%	37.2%	35.3%	36.4%	29.5%	34.0%	34.0%	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%	7.1%	-2.4%	3.0%	-2.9%	35.2%	1.3%	6.7%
SG&A	225.0	59.2	62.1	61.9	62.1	245.3	60.4	62.9	62.4	65.5	251.1	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%	25.1%	28.5%	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%	5.5%	2.4%	2.7%	0.2%	1.0%	5.0%	2.2%
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%
<b>Operating Profit</b>	<b>61.1</b>	<b>19.3</b>	<b>13.6</b>	<b>6.4</b>	<b>20.4</b>	<b>59.7</b>	<b>16.5</b>	<b>16.2</b>	<b>(10.9)</b>	<b>21.1</b>	<b>43.0</b>	<b>16.8</b>	<b>13.0</b>	<b>9.8</b>	<b>19.3</b>	<b>59.0</b>
<i>Margin</i>	8.0%	9.4%	6.7%	3.4%	9.0%	7.2%	7.6%	7.4%	-5.9%	8.1%	4.9%	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	3.6%	-28.0%	1.5%	-19.7%	NM	-8.5%	37.2%
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
<b>Pretax Profit</b>	<b>62.6</b>	<b>20.3</b>	<b>14.0</b>	<b>6.6</b>	<b>20.3</b>	<b>61.2</b>	<b>16.6</b>	<b>16.2</b>	<b>(11.4)</b>	<b>19.9</b>	<b>41.4</b>	<b>15.6</b>	<b>11.4</b>	<b>8.1</b>	<b>16.8</b>	<b>52.0</b>
<i>Margin</i>	8.2%	9.9%	6.9%	3.5%	9.0%	7.4%	7.6%	7.4%	-6.2%	7.6%	4.7%	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	-2.0%	-32.4%	-6.0%	-29.4%	NM	-15.5%	25.8%
Taxes(benefit)	22.3	7.4	4.3	2.5	7.3	21.5	6.0	6.0	(3.6)	7.4	15.7	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%	38.0%	37.0%	37.0%	37.0%	37.0%	37.0%
<b>Net Income--Oper.</b>	<b>40.3</b>	<b>12.9</b>	<b>9.7</b>	<b>4.0</b>	<b>13.1</b>	<b>39.7</b>	<b>10.6</b>	<b>10.2</b>	<b>(7.7)</b>	<b>12.6</b>	<b>25.6</b>	<b>9.8</b>	<b>7.2</b>	<b>5.1</b>	<b>10.6</b>	<b>32.8</b>
<i>Margin</i>	5.3%	6.3%	4.7%	2.1%	5.8%	4.8%	4.8%	4.7%	-4.2%	4.8%	2.9%	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	-3.8%	-35.4%	-7.3%	-29.4%	NM	-15.5%	27.9%
<b>EPS--Operations</b>	<b>1.66</b>	<b>0.54</b>	<b>0.40</b>	<b>0.17</b>	<b>0.57</b>	<b>1.68</b>	<b>0.47</b>	<b>0.45</b>	<b>(0.35)</b>	<b>0.56</b>	<b>1.14</b>	<b>0.43</b>	<b>0.32</b>	<b>0.23</b>	<b>0.47</b>	<b>1.45</b>
<i>% Increase</i>	-1.7%	9.8%	14.4%	-43.8%	10.1%	1.0%	-12.5%	12.5%	NM	-2.2%	-32.2%	-7.5%	-29.4%	NM	-15.5%	27.6%
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]	57.60	32.65
HOLD [H]	40.00	32.35
SELL [S]	2.40	0.00

**Meaning of Ratings**

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
- C) A Sell rating is assigned when we believe the stock price more than adequately reflects a company's prospects over 12-18 months.

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