

A.C. Moore Arts & Crafts, Inc. ACMR (NAS)

Last Close	Industry	Sector
2.80 USD	Specialty Retail, Other	Consumer Services

Profile

Pricing data through 16 Mar 2010

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A.C. Moore Arts & Crafts, Inc. is a specialty retailer of arts, crafts and floral merchandise for a range of customers. Its stores typically range from 20,000 to 25,000 square feet. It also serves customers nationally through its e-commerce site.

The company provides its customers with the tools and ideas for their creative endeavors through a solution-oriented arts and crafts shopping experience that is differentiated by its merchandise assortment, exciting stores, knowledgeable sales associates and competitive prices. Its assortment of merchandise consists of more than 60,000 stock-keeping units (SKUs), with approximately 40,000 SKUs offered at each store at any one time. In-store events and programs for children and adults provide hands-on arts and crafts experience and encourage the creativity of its customers.

A.C. Moore Arts & Crafts, Inc. **ACMR**

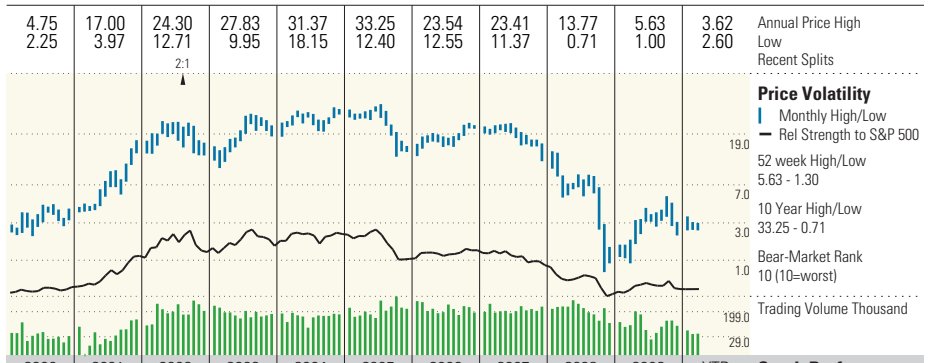
Sales USD Mil 484 **Mkt Cap USD Mil** 69 **Industry** Specialty Retail, Other **Sector** Consumer Services

A.C. Moore Arts & Crafts is a leading operator of arts and crafts superstores that offer a vast assortment of traditional and contemporary arts, crafts, and floral merchandise. Its products range from silk flowers and floral arrangements to candle, cake, and candy making. The company operates over 120 superstores in the mid-Atlantic and Northeast regions. Additionally, A.C. Moore offers in-store arts and crafts classes for children and adults.

500 University Court
Blackwood, NJ 08012
Phone: 1 856 228-6700
Website: <http://www.acmoore.com>

Employees: 4391

Morningstar Rating **Last Price** 2.80 **Fair Value** **Uncertainty** **Economic Moat™** **Stewardship Grade**



Growth Rates	Compound Annual			
	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	-4.5	-0.3	4.3	11.1
Operating Income %	—	—	—	—
Earnings/Share %	—	—	—	—
Dividends %	—	—	—	—
Book Value/Share %	-12.8	-5.0	-0.1	9.5
Stock Total Return %	100.3	-48.5	-36.1	0.6
+/- Industry	10.8	-41.5	-33.6	-3.1
+/- Market	46.5	-42.7	-35.6	2.7

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	-22.2	0.7	4.5
Return on Assets %	-13.6	0.6	1.9	7.3
Fixed Asset Turns	5.2	6.3	7.3	6.8
Inventory Turns	2.1	2.4	5.7	12.1
Revenue/Employee USD K	110.3	114.5*	—	669.4
Gross Margin %	39.5	40.0	33.6	41.1
Operating Margin %	-7.3	1.2	2.2	12.2
Net Margin %	-7.9	0.3	1.3	8.2
Free Cash Flow/Rev %	—	—	5.5	0.1
R&D/Rev %	—	—	—	10.7

Financial Position	12-08 USD Mil	09-09 USD Mil
	Cash	74
Inventories	109	138
Receivables	—	—
Current Assets	199	175
Fixed Assets	92	88
Intangibles	—	—
Total Assets	294	266
Payables	39	44
Short-Term Debt	29	19
Current Liabilities	97	86
Long-Term Debt	0	0
Total Liabilities	119	106
Total Equity	174	160

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	—	—	—
Forward P/E	—	—	—	14.3
Price/Cash Flow	—	—	9.7	7.1
Price/Free Cash Flow	—	—	14.9	17.6
Dividend Yield %	—	—	0.6	1.8
Price/Book	0.4	1.1	2.7	2.2
Price/Sales	0.1	0.4	0.8	1.3
PEG Ratio	—	—	—	1.7

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	YTD	Stock Performance
40.8	260.3	-13.8	51.5	49.6	-49.5	48.9	-36.5	-89.8	110.0	-4.6	Total Return %
50.9	273.3	9.6	25.1	40.6	-52.5	35.3	-40.0	-51.3	86.6	-8.6	+/- Market
68.6	204.8	-6.3	-6.9	6.7	-39.2	53.4	-26.7	-45.4	61.6	-13.8	+/- Industry
61	220	239	373	565	288	434	279	28	73	69	Dividend Yield %
61	220	239	373	565	288	434	279	28	73	69	Market Cap USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Financials
223	262	332	393	434	498	539	590	560	535	484	Revenue USD Mil
35.8	36.7	37.3	37.8	37.3	39.7	39.5	39.1	40.9	40.6	39.5	Gross Margin %
9	11	16	23	28	27	17	5	5	-24	-35	Oper Income USD Mil
4.0	4.1	4.9	5.9	6.4	5.5	3.1	0.8	1.0	-4.4	-7.3	Operating Margin %
6	7	10	14	17	17	10	2	4	-27	-38	Net Income USD Mil
—	0.44	0.62	0.77	0.88	0.84	0.50	0.12	0.19	-1.31	-1.78	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
—	14	15	18	19	20	20	20	19	20	21	Shares Mil
4.30	4.94	7.66	8.62	9.50	10.02	10.38	9.84	8.59	6.48	6.48	Book Value Per Share USD
10	7	7	8	21	19	15	32	9	18	-4	Oper Cash Flow USD Mil
-6	-11	-9	-10	-27	-41	-16	-20	-19	-16	-11	Cap Spending USD Mil
4	-4	-2	-2	-5	-23	-1	12	-10	2	-15	Free Cash Flow USD Mil

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	TTM	Profitability
—	6.6	8.2	9.0	8.1	6.3	3.3	0.8	1.2	-8.6	-13.6	Return on Assets %
—	10.9	13.8	13.3	11.1	9.6	5.2	1.2	1.9	-14.2	-22.2	Return on Equity %
2.5	2.5	2.9	3.7	4.0	3.4	1.9	0.4	0.7	-5.0	-7.9	Net Margin %
—	2.65	2.88	2.46	2.03	1.86	1.75	1.83	1.72	1.74	1.71	Asset Turnover
—	1.7	1.7	1.4	1.4	1.6	1.6	1.6	1.6	1.7	1.7	Financial Leverage

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	09-09	Financial Health
47	47	56	124	113	150	159	159	145	102	90	Working Capital USD Mil
—	—	—	—	—	27	24	22	19	0	0	Long-Term Debt USD Mil
57	64	74	144	167	186	199	208	200	174	160	Total Equity USD Mil
—	0.01	0.03	—	—	0.14	0.12	0.10	0.10	—	—	Debt/Equity

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TTM	Valuation
9.3	24.0	16.5	21.9	34.3	29.1	—	72.5	—	—	—	Price/Earnings
—	1.0	0.8	1.0	1.8	1.7	—	4.4	—	—	—	P/E vs. Market
0.2	0.7	0.6	0.9	1.2	0.5	0.8	0.5	0.1	0.1	0.1	Price/Sales
0.9	3.0	1.7	2.2	3.0	1.5	2.1	1.4	0.2	0.5	0.4	Price/Book
9.1	33.8	29.3	17.7	31.1	17.8	15.0	31.9	1.6	—	—	Price/Cash Flow

Quarterly Results						
Revenue USD Mil	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	165.0	108.7	104.4	106.1		
Prior Year Period	177.3	126.5	126.4	116.7		
Rev Growth %	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-6.9	-14.1	-17.4	-9.1		
Prior Year Period	-10.4	-6.5	1.6	-4.8		
Earnings Per Share USD	Dec 08	Mar 09	Jun 09	Sep 09		
Most Recent Period	-0.64	-0.21	-0.38	-0.53		
Prior Year Period	0.23	-0.09	-0.21	-0.37		

Industry Peers by Market Cap				
Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%	
A.C. Moore Arts & Cr	69	484	—	-22.2
Hennes & Mauritz AB	—	—	—	—
eBay, Inc.	34804	8727	14.6	19.2

Major Fund Holders			% of shares
Royce Value Plus Svc			7.85
T. Rowe Price New Horizons			3.96
JHancock Small Cap Equity A			2.38

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
NA	NA	NA	NA	NA

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Royce Value Plus Svc	QQQQ	7.85	0.17	0	31 Dec 2009
T. Rowe Price New Horizons	QQQQ	3.96	0.05	-22	31 Dec 2009
JHancock Small Cap Equity A	QQ	2.38	0.44	287	31 Dec 2009
DFA US Small Cap Value I	QQ	2.38	0.03	0	30 Nov 2009
T. Rowe Price Small-Cap Stock	QQQ	1.55	0.02	0	31 Dec 2009

Concentrated Holders

NA	NA	NA	NA	NA
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Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
JHancock Small Cap Equity A	QQ	2.38	0.44	287	31 Dec 2009
Evergreen Special Values A	QQQ	1.29	0.10	213	31 Dec 2009
Brown Advisory Sm-Cp Fundamental Val I		0.09	0.27	22	30 Nov 2009
Vanguard Instl Ttl Stk Mkt Idx InstlPlus	QQQQ	0.19	0.00	10	31 Dec 2009
Evergreen Small Cap Value I	QQ	0.05	0.10	9	31 Dec 2009

Top 5 Sellers

Schneider Small Cap Value	QQ	1.21	0.80	-77	31 Dec 2009
T. Rowe Price New Horizons	QQQQ	3.96	0.05	-22	31 Dec 2009
Wells Fargo Advantage Diversified Sm Adm	QQQ	0.07	0.01	-10	30 Sep 2009
Wells Fargo Advantage Diversified Eq Adm	QQQ	0.01	0.00	-1	30 Sep 2009

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Industry Focus: Retail - Specialty

Finding Shelter in the Volatile Home Furnishing Space

29 June 2009

R.J. Hottovy, CFA
Senior Stock Analyst

A near-term recovery is unlikely, but a handful of firms look safer than others

The home furnishing industry has been decimated by the current economic downturn. Consumer demand remains sluggish amid economic headwinds, restrictive credit markets, and a still-weak housing market. Sales among home-furnishing retailers have been abysmal over the past several months, driven by a combination of macroeconomic and housing market-specific issues. On average, sales trends have plummeted more than 20% for publicly traded furniture retailers and wholesalers over the past six months. Home goods retailers have fared a bit better, but comparable-store sales have been in the negative high-single-digit range for some time.

An industry shakeout is already under way, with bankruptcies at national chains like Linens 'n Things (May 2008) and privately held independent operators like Levitz Furniture (November 2007), Domain Home (January 2008), Wickes (February 2008), and Z Gallerie (April 2009) adding to a crowded retail graveyard. Design Within Reach (DWRI) recently announced that it was voluntarily delisting from the NASDAQ Global Market, due in part to ongoing efforts to conserve costs and difficulties raising capital. According to the CoStar Group, 1,006 home goods or furniture stores closed in the United States during 2008, and we expect several hundred more during 2009. While we see few indications of a near-term recovery, we remain confident that a handful of firms can weather the cyclical downturn better than others and should eventually capitalize on a sizeable market share opportunity.

Aggressive Overexpansion Amplified During a Cyclical Downturn

Many of the struggles faced by the furniture and home furnishing retailers can be attributed to aggressive unit expansion and market oversaturation. The unprecedented strength of the housing market from 2001-06 spurred a

significant increase in the consumer demand for home goods and furniture products. Accordingly, home furnishing retailers moved quickly to capitalize on this trend. Based on our internal estimates, we believe that the number of domestic home furnishing outlets nearly doubled over the same period, growing to more than 5,500-6,000 stores in 2006 from approximately 3,000-3,500 stores in 2001. While there are certainly economies of scale advantages to be realized with rapid expansion, it can also have disastrous effects when sales trends quickly reverse, as we have seen in recent periods. Fixed costs, such as store leases and other overhead expenses, are spread over a much smaller sales base and can quickly erode operating margins.

Given the lackluster consumer demand, it is not surprising that cost-containment measures have become a key priority for home furnishing retailers. According to the Bureau of Labor Statistics, employment is down about 10% across furniture and home goods stores in recent months, and we estimate that inventory levels have been reduced between 10%-15% on a square foot basis. Firms are also rationalizing their infrastructure. For instance, Ethan Allen (ETH) has consolidated its manufacturing and distribution facilities to 10 from 21 and reduced retail service center warehouses to 23 from 100. Pier 1 Imports (PIR) reduced its store count by more than 100 stores in the last two years and could close another 50 in fiscal 2009. Other cost-cutting measures include delaying capital projects and reduced advertising spending.

Although home furnishing firms have reduced their cost structures, we expect operating expense deleverage will continue over the coming periods. Generally speaking, we believe management teams have few options left with which to curb margin erosion given the soft consumer demand. With spending on home-related products unlikely to return to levels enjoyed during the peak of the recent housing boom, we believe the high-single-digit operating margins that the home furnishing industry enjoyed for the better part of the decade are likely a thing of the past for most retailers.

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New Sources of Competition

On top of the slumping housing market and other economic headwinds, home furnishing retailers must contend with increasing competition from mass merchants and middle-tier department stores. Wal-Mart WMT, Target TGT, and Kohl's KSS have vastly improved their home furnishing assortments over the past several years, giving consumers less incentive to pay premium prices for branded products (we believe this has been a key reason for the recent struggles of Williams-Sonoma's WSM Pottery Barn and Pottery Barn Kids brands). Furthermore, these retailers have the resources to continue developing their respective home furnishing businesses during a cyclical downturn, thereby enhancing their competitive positions, while traditional retailers must focus on rationalizing operations and curtailing their cash drain.

We have concerns that a more dramatic repositioning may be needed among several home furnishing retailers to better compete against encroaching mass channel competition. For example, Williams-Sonoma's key initiatives for 2009 include adding more exclusive or licensed product offerings as well as an expanded opening price point assortment. While we expect the mix shift to enable the firm to better weather the cyclical downturn, we think the increased emphasis on lower opening price points validates our concerns about mounting mass channel competition.

Some Signs of Stabilization, but Few Indications of a Dramatic Near-Term Recovery

We believe the housing market boom that took place from 2001-06 was quite possibly a once-in-a-generation occurrence. In our view, the "wealth effect" phenomenon--or the increase in spending driven by a perceived increase in wealth--that accompanied the housing market upswing drove a significant portion of home-furnishing purchases over the past decade. Even though consumer confidence has inched upward over the past few months, it's still unclear whether there will be a corresponding increase in spending, especially in discretionary categories like home goods and

furniture.

The Furniture Buying Index, a monthly survey compiled by America's Research Group based on interviews with 5,000-8,000 consumers across the country, suggests that demand for home furnishing products remains exceptionally weak. The June 2009 index reading was 59, which represents the percentage of consumers interviewed that actually have a specific furniture item they intend to buy. The June reading fell well short of the 10-year average of 78, but it does represent a modest increase from the November 2008 reading of 54 (the lowest reading recorded in the past 15 years). Historically, this survey has been a relatively reliable predictor of future homebuying trends, which does not bode well for home furnishing retailers over the next several quarters.

Restrictive credit markets have also limited financing alternatives for big-ticket furniture items, and we believe they may take several years to unwind. Furthermore, homeowners who may have previously tapped home equity lines to finance home furnishing purchases have been unable to do so due to diminishing home prices.

Significant Market Share up for Grabs

According to the United States Census Bureau, furniture and home furnishings represented about \$106 billion in retail sales during 2008. However, this represented an 8.5% contraction from 2007, the largest annual decrease since the Census Bureau began tracking data in 1992. We expect a mid- to high-single-digit decline in 2009 and roughly flat growth in 2010, before settling into a 3%-4% secular growth rate driven by consumers' renewed emphasis on their homes. Although our estimates don't assume a significant jump in industry sales over the next few years, we expect that new homebuyer incentives and depressed residential home prices will eventually lead to increased consumer demand for home goods and furniture.

We estimate that recent home furnishing store closures represent at least \$5 billion in aggregate sales, leaving

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significant market share up for grabs. While we do not expect that the full amount will be recouped, we believe some consumers have simply deferred home furnishing purchases instead of trading down to cheaper mass merchant alternatives. Hence, when economic conditions improve, demand could bounce back quite strongly.

The fragmented nature of the home furnishing category should lend itself to market share gains for stronger firms. (The combined market share of the 10 largest publicly traded firms represented about 19% of total industry sales in 2008.) In our view, a renewed interest in home goods and furniture would benefit retailers with low rent expense, minimal debt burdens, and strong cash positions. Furthermore, we believe national chains are better positioned to gain share due to scale advantages and a broad reach that reduces exposure to weaker regional geographies.

For those investors looking for some exposure to the home furnishing sector, we would recommend a closer look at the following stocks. Although we don't have any 5-star stocks in our home furnishing coverage universe following the broad market rally that began in March, we believe these firms are best positioned to gain market share as weaker rivals close stores or cease operations altogether:

Bed Bath Beyond BBBY **Uncertainty Rating: High | Price/Fair Value Ratio: 0.97 | 3 Stars** Bed Bath Beyond has withstood the turbulent consumer spending environment relatively well. We are confident that the firm can navigate the cyclical softness better than its rivals, thanks to decentralized structure in which store managers select 75% of the merchandise carried in their stores. As a result, stores uniquely reflect regional tastes and preferences, leading to higher sales productivity and industry-leading returns on invested capital. Despite its dominant position, Bed Bath Beyond controls just 7% of industry sales. Even if the housing market sags longer than anticipated, we expect Bed Bath Beyond to directly benefit from the bankruptcy of rival Linens 'n Things, and it is well positioned to gain market share from other rivals as well.

Williams-Sonoma WSM **Uncertainty Rating: Very High | Price/Fair Value Ratio: 0.79 | 3 Stars** Williams-Sonoma still enjoys the benefits of a strong multichannel presence and manageable debt requirements. With some of the most popular home furnishing mail-order catalog titles and e-commerce sites, Williams-Sonoma can test new brand concepts without making costly retail store investments. Additionally, an expansive customer database allows management to fine-tune its marketing messages and gauge customer response to new products. Although we have concerns about the Pottery Barn and Pottery Barn Kids brands, we remain upbeat about the growth prospects of the namesake Williams-Sonoma brand and the nascent West Elm retail concept. Furthermore, the firm is taking steps to minimize its exposure to the cyclical downturn by reducing inventory positions, scaling back store openings, and moderating other capital projects.