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

Last Close	Industry	Sector
1.59 USD	Specialty Retail	Consumer Cyclical

Profile

Pricing data through 01 Dec 2011

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A.C. Moore Arts & Crafts, Inc. was incorporated in Pennsylvania. It 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. As of January 2, 2010, it operated approximately 135 stores in the Eastern United States. The Company provides its customers with the tools and ideas for its 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. The market in which it competes is highly fragmented, containing multi-store arts and crafts retailers, mass merchandisers, small local specialty retailers, mail order vendors, e-commerce craft retailers and a variety of other retailers. Multi-store arts and crafts retailers category includes several multi-store arts and crafts chains operating more than 35 stores and comprises: Michaels Stores, Inc., a chain which operates approximately 1,000 Michaels stores throughout the United States and Canada; Jo-Ann Stores, Inc., which operates approximately 530 small-format stores and 228 large-format stores nationwide in addition to sales on its e-commerce site; and Hobby Lobby Stores, Inc., a chain which operates approximately 434 stores mainly in the Midwestern and Southeastern United States. Mass merchandisers category includes Wal-Mart Stores, Inc., Target Corporation and other mass merchandisers. These retailers typically dedicate a relatively small portion of its selling space to a limited assortment of arts and crafts supplies and floral merchandise, as well as seasonal merchandise and home deco. Small, local specialty retailers include thousands of local independent arts and crafts retailers. Typically, these are single store operations managed by the owner. The stores generally offer a limited selection and have limited resources for advertising, purchasing and distribution. Many of these stores have established a loyal customer base within a given community and compete based on customer service.

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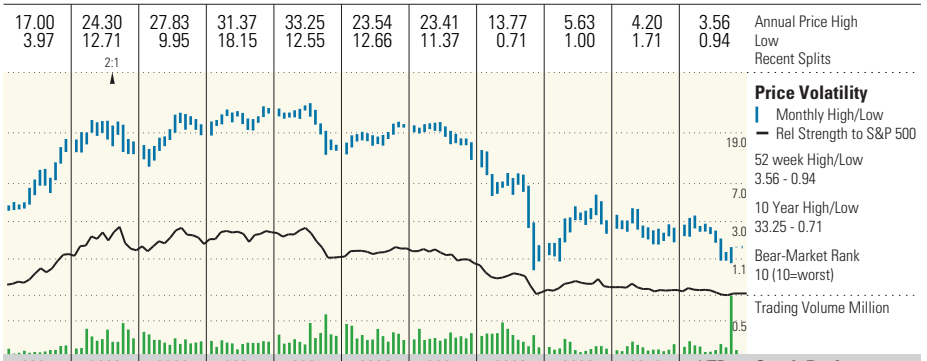
A.C. Moore Arts & Crafts, Inc. ACMR

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
444	40	Specialty Retail	Consumer Cyclical

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.

Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship Grade
-	1.59	-	-	-	-

per share prices in USD



130 A.C. Moore Drive
Berlin, NJ 08009
Phone: 1 856 768-4930
Website: http://www.acmoore.com

Employees: 4710

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
260.3	-13.8	51.5	49.6	-49.5	48.9	-36.5	-89.8	110.0	-14.6	-36.6	Total Return %
273.3	9.6	25.1	40.6	-52.5	35.3	-40.0	-51.3	86.6	-27.4	-36.7	+/- Market
205.8	-3.8	-21.7	22.4	-43.5	53.2	-44.5	-46.6	37.3	-42.2	-38.4	+/- Industry
—	—	—	—	—	—	—	—	—	—	0.0	Dividend Yield %
220	239	373	565	288	434	279	28	73	63	40	Market Cap USD Mil
2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**TTM**	**Financials**
332	393	434	498	539	590	560	535	469	448	444	Revenue USD Mil
37.3	37.8	37.3	39.7	39.5	39.1	40.9	40.6	39.9	41.3	40.7	Gross Margin %
16	23	28	27	17	5	5	-24	-30	-29	-33	Oper Income USD Mil
4.9	5.9	6.4	5.5	3.1	0.8	1.0	-4.4	-6.5	-6.4	-7.4	Operating Margin %
10	14	17	17	10	2	4	-27	-26	-30	-33	Net Income USD Mil
0.62	0.77	0.88	0.84	0.50	0.12	0.19	-1.31	-1.15	-1.23	-1.36	Earnings Per Share USD
—	—	—	—	—	—	—	—	—	—	—	Dividends USD
16	19	20	20	20	20	20	20	22	24	25	Shares Mil
4.94	7.66	8.62	9.50	10.02	10.38	9.84	8.59	6.48	5.23	4.10	Book Value Per Share USD
7	8	21	19	15	32	9	18	-18	4	-12	Oper Cash Flow USD Mil
-9	-10	-27	-41	-16	-20	-19	-16	-10	-9	-7	Cap Spending USD Mil
-2	-2	-5	-23	-1	12	-10	2	-28	-6	-19	Free Cash Flow USD Mil
2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**TTM**	**Profitability**
8.2	9.0	8.1	6.3	3.3	0.8	1.2	-8.6	-9.3	-12.0	-14.8	Return on Assets %
13.8	13.3	11.1	9.6	5.2	1.2	1.9	-14.2	-15.5	-20.7	-27.8	Return on Equity %
2.9	3.7	4.0	3.4	1.9	0.4	0.7	-5.0	-5.5	-6.7	-7.5	Net Margin %
2.88	2.46	2.03	1.86	1.75	1.83	1.72	1.74	1.68	1.78	1.97	Asset Turnover
1.7	1.4	1.4	1.6	1.6	1.6	1.6	1.7	1.7	1.8	2.0	Financial Leverage
2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**09-11**	**Financial Health**
56	124	113	150	159	159	145	102	97	73	51	Working Capital USD Mil
—	—	—	27	24	22	19	0	—	—	—	Long-Term Debt USD Mil
74	144	167	186	199	208	200	174	160	131	104	Total Equity USD Mil
0.03	—	—	0.14	0.12	0.10	0.10	—	—	—	—	Debt/Equity
2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**TTM**	**Valuation**
24.0	16.5	21.9	34.3	29.1	—	72.5	—	—	—	—	Price/Earnings
—	—	—	—	—	—	—	—	—	—	—	P/E vs. Market
0.7	0.6	0.9	1.2	0.5	0.8	0.5	0.1	0.1	0.1	0.1	Price/Sales
3.0	1.7	2.2	3.0	1.5	2.1	1.4	0.2	0.5	0.5	0.4	Price/Book
33.8	29.3	17.7	31.1	17.8	15.0	31.9	1.6	—	17.2	—	Price/Cash Flow

Growth Rates Compound Annual

	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	-4.4	-7.2	-3.6	5.5
Operating Income %	—	—	—	—
Earnings/Share %	—	—	—	—
Dividends %	—	—	—	—
Book Value/Share %	-19.5	-19.2	-12.3	1.9
Stock Total Return %	-29.9	9.5	-40.8	-19.7
+/- Industry	-30.7	-23.2	-46.6	-29.3
+/- Market	-32.8	-3.3	-38.5	-20.6

Profitability Analysis

	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	-27.8	-9.5	15.8	22.4
Return on Assets %	-14.8	-5.6	6.9	9.4
Fixed Asset Turns	6.1	5.8	9.2	7.3
Inventory Turns	2.1	2.4	4.9	15.7
Revenue/Employee USD K	94.3	107.8*	—	1042.6
Gross Margin %	40.7	40.4	31.4	38.3
Operating Margin %	-7.4	-3.1	4.7	16.3
Net Margin %	-7.5	-3.2	3.8	10.8
Free Cash Flow/Rev %	—	—	4.9	0.1
R&D/Rev %	—	—	—	9.8

Financial Position

	12-10 USD Mil	09-11 USD Mil
Cash	40	11
Inventories	111	123
Receivables	0	—
Current Assets	162	144
Fixed Assets	74	67
Intangibles	—	—
Total Assets	237	212
Payables	43	42
Short-Term Debt	19	24
Current Liabilities	90	94
Long-Term Debt	—	—
Total Liabilities	106	108
Total Equity	131	104

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	—	—	24.3	13.7
Forward P/E	—	—	—	13.6
Price/Cash Flow	—	—	12.4	6.8
Price/Free Cash Flow	—	—	19.6	15.7
Dividend Yield %	—	—	0.3	2.0
Price/Book	0.4	0.9	3.8	1.8
Price/Sales	0.1	0.3	0.9	1.2
PEG Ratio	—	—	—	1.6

Quarterly Results

Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	143.2	102.7	99.0	99.3
Prior Year Period	149.7	105.4	99.8	99.7

Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	-4.4	-2.5	-0.8	-0.3
Prior Year Period	-9.3	-3.0	-4.4	-6.0

Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11
Most Recent Period	-0.20	-0.30	-0.32	-0.54
Prior Year Period	0.01	-0.31	-0.40	-0.33

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
A.C. Moore Arts & Cr	40	444	—	-27.8

Major Fund Holders

	% of shares
	—
	—
	—

*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
DAVID ABELMAN	Executive VP/Other Executive Officer	0	17 Nov 2011	-
DAVID STERN	CFO/Chief Administrative Officer/ Executive VP	0	17 Nov 2011	-
RODNEY B. SCHRIVER	Chief Accounting Officer/ Controller/Treasurer/Vice President	0	17 Nov 2011	-
NEIL A. MCLACHLAN	Director	0	17 Nov 2011	-
LORI J. SCHAFER	Director	0	17 Nov 2011	-
THOMAS S. RITTENHOUSE	Director	0	17 Nov 2011	-
AMY RHOADES	General Counsel/Senior VP	0	17 Nov 2011	-

*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
NA		NA	NA	NA	NA

Concentrated Holders					
NA		NA	NA	NA	NA

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
NA		NA	NA	NA	NA

Top 5 Sellers					
NA		NA	NA	NA	NA

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Industry Focus: Retail - Apparel & Specialty

Apparel Investor Days Highlight Possible Winners and Losers

31 October 2011

Jaime M. Katz, CFA
Equity Analyst

Gap repositions its merchandising; Limited capitalizes on successful marketing.

Recent global volatility across global economic and political markets has permitted greater visibility into the separation of businesses we think can sustain profitability from those that might struggle to achieve sustained profitability. Gap, Inc. GPS and Limited Brands LTD recently held investor days, which highlighted the long-term strategy each company is pursuing. With consumers that remain financially strained due to consistently high unemployment alongside still-inflated gas prices and depressed home prices (providing a negative wealth effect), creating the appropriate merchandising and marketing strategy with a tailored unit growth plan was a common theme that seemed imperative for success. We first look at Gap, Inc., whose investor day we attended on October 13. The morning highlighted the company's efforts to improve its merchandising and brand image. While the Gap brand remains the laggard of the group for now, the company's other brands have proven mostly successful and provide a small but powerful growth engine. We think the Athleta store we visited was impressive and should be successful in tapping into the fast-growing and lucrative women's athletic market. One of the more notable developments from the investor day was the company's plan to close 21% of its namesake locations (189 units) and about 2% of its Old Navy locations by 2013 (22 units). Reducing dependency on the overpenetrated North American market should allow Gap to refocus its efforts on penetrating a bigger piece of the fragmented $1.4 trillion global apparel business by expanding through multiple channels and geographies. Gap is planning to make all of its distinct brands accessible globally with a strategy that incorporates specialty, outlet, online, and franchise locations in up to 90 countries. While we commend management for reaching out to a broader audience, we believe a more focused growth strategy might be easier to execute. With multiple brands growing in different locations, the company has a number of diverse growth goals. Also mentioned at the meeting: growth in China, Italy, and Japan (for Old Navy), increasing its online/outlet presence, increasing its Athleta locations, and opening Piperlime footwear locations. Although Gap is only one brand of a much larger group, it is the biggest piece of the pie, and we think the company would benefit from focusing on correcting previous merchandising missteps before growing abroad, even while the company increases its smaller brands presence. On the merchandising side, the company needs to deliver more consistently on its product by focusing on properly tailoring its merchandise to the end consumer. Recent talent changes in design and merchandising assure us that the company is moving toward this goal and the creative and management teams are on the same page. Generally speaking, we found Gap's low-single-digit revenue growth and modest positive comp goals reasonable and achievable, but we would like to see the product improve before we put a date on when any of these metrics might be achieved. Gap's shares are slightly undervalued, trading at a 3% discount to our $20 fair value estimate. However, the still uncertain global economic environment may bound this stock's range during the next few months. Until we are convinced the company's new merchandising strategy is a success, we would require a larger margin of safety before building a position in the name. One week later, on October 19, Limited Brands hosted its annual investor day. This morning was spent highlighting how management's disciplined approach to achieving its operating goals, evaluating its longer-term opportunities, and returning excess cash to shareholders has helped the company succeed in the past and will continue to do so going forward. Limited's growth of its strong brands, particularly market leaders Victoria's Secret and Bath Body Works, has been impressive in a difficult retailing environment. The focus moving forward is expected to be in the Victoria's Secret Brand and in International Markets. Victoria's Secret will be incorporating more of the Pink brand in additional locations (Pink currently has a full assortment in only 10 percent of Victoria's Secret locations), and new store locations with more square footage will add products

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Industry Focus: Retail - Apparel & Specialty

from adjacent markets, like sport, loungewear, and swim, which we believe is a smart move. Victoria's Secret has some of the most impressive sales per selling square feet in the industry, forecast at $721 for 2011, and we think adding volume in a productive capacity positions the overall company to win. It was estimated that the $2 billion combined Victoria's Secret Beauty and Pink businesses have the estimated combined revenue potential of $5 billion as square footage increases over the next five years, an estimate we find realistic, as it implies 20% compounded annual growth on a business opening more than 150 locations in the next year alone. Internationally, management has taken very slow and methodical steps to overseas expansion, which has proven successful. Victoria's Secret had only 12 international locations in Canada at year-end, which allowed the company to get its feet wet in a different currency, language, and culture without betting the bank. It plans to double that number globally by the end of 2012. New markets are similarly being tested using the VSBA (Beauty Accessories) concept in airport locations to understand new local markets. The company's willingness to open both corporate and franchised locations overseas indicates to us that management is willing to bring in expertise in certain local markets while maintaining creative control and creating a little financial flexibility overall (franchised locations use much less capital). At the beginning of the year, there were 580 international Limited Brands locations, and at the end of 2012, 850 units are expected, driven primarily by growth in La Senza (116 new units), VSBA (128 new units), and Bath and Body Works (44 new units). Despite the international push, the firm stated it believes there is a way to double the revenue in North America by improving on a number of concerns in the business (supply chain, customer experience, product testing). We think financial goals like these might be ambitious in the near term, and may take some time to accomplish. We view Limited's margin expansion goals as ambitious, but also more attainable. Management remains dedicated to improving the operating income rate to 15%, and last quarter's operating margin was a step in the right direction, as the margin expanded 200 basis points year over year to 12.5%. The team also makes inventory control a priority, as it is committed to growing expenses slower than sales, which it has done impressively over the last two years. These goals are both achievable, and we would hope sustainable, although it may take a little time to reach the operating income goal. Limited's shares have had a healthy run recently, and we currently view them as overvalued, trading at a significant premium to our $30 fair value estimate, though we plan to review a number of the company's key initiatives and their potential impact on our long-term valuation assumptions. We note if the company were to achieve its ambitious revenue growth and margin expansion targets, there would likely be upside to our current fair value estimate. Overall, the two investor days provided us with an interesting juxtaposition on one company (Limited Brands) that was experiencing strong growth and another (Gap) that was trying to get back on the right track. We note that even the best-run apparel retailers are subject to fashion cycles and competition from new entrants, but in the interim we are more concerned that the still-uncertain global economic environment may keep retail sales tempered over the holiday season. Still, we would not be surprised to see Limited Brands outperform while Gap, Inc. lags their competitors, at least in the near term.

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