

NYSSA Student Research

Industry: Off-Price Apparel/Shoe Retailer

This report is published for educational purposes only by students competing in the New York Society of Security Analysts Investment Research Challenge.

Syms

Ticker: SYM [NYSE]
Price: • \$13.75 (3/11/05)

Recommendation: BUY
Price Target: \$16.10

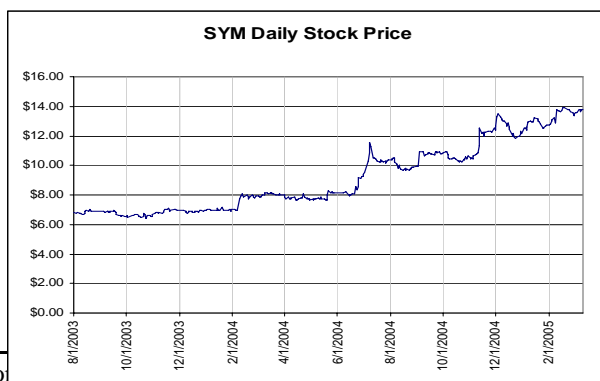
TEAM H

Earnings/Share

	May	Aug.	Nov.	Feb.	Year	P/E Ratio
2002A	\$0.04	(\$0.39)	\$0.05	(\$0.28)	(\$0.58)	NMF
2003A	(\$0.11)	(\$0.30)	\$0.06	\$0.05	(\$0.30)	NMF
2004E	\$0.00A	(\$0.25A)	\$0.13A	\$0.04E	(\$0.08E)	NMF
2005E	(\$0.01)	\$0.23	\$0.08	\$0.03	\$0.33	48.78x

Highlights

- **BUY recommendation based on liquidation value:** We believe Syms has significant hidden value in its real estate assets, and should be assessed on this basis, which would yield a break-up value of \$16.10 per share – a 17% premium to current share price.
- **Operational losses will continue:** We forecast a loss of \$0.08 per share for fiscal 2004. Our \$0.33 per-share profit forecast for FY 2005 factors in the gain from the sale of the Dallas store; operationally, we expect a decline of \$0.29 per share in FY '05. Despite various competitive pressures, management's only strategy to turn around its operations is defensive: to slightly improve gross margin. We believe this relatively minor response, combined with four straight years of losses, increases the likelihood of liquidation and discourages valuation based on operations.
- **Management shows signs of capitulation:** We see several indications that management may be considering liquidation, including the recent sale of its Dallas store, the closing of underperforming stores, and the CFO's admission that certain leases will not be renewed, among others.
- **Family control is the key risk to the liquidation thesis:** The Syms family owns 54% of the shares; Chairman and founder Sy Syms owns 51% of the firm's shares, so he effectively controls the company, as he has since 1959. Although Mr. Syms is 79 years old, and the probability of his retirement grows each year, it is impossible to determine if, or when, he might relinquish this control and/or agree to liquidate. However, this risk is somewhat mitigated by the fact that, even if liquidation does not occur soon, the real estate should retain most of its value.



Market Profile	
52 Week Price Range	\$7.62 - \$13.91
Beta	0.03
Dividend Yield (Estimated)	0.00%
Diluted Shares Outstanding	16.06M
Fully Diluted Market Capitalization	\$221M
Institutional Holdings	36%
Insider Holdings	58%
Book Value per Share (Last Quarter)	\$14.603
Debt to Equity	0.00x
Important disclosures appear at the back of this report	-0.40%

Investment Summary

Break-Up Value Yields \$16.10

We are recommending a BUY based on our belief that Syms should be valued as a soon-to-be-liquidated REIT rather than as an apparel retailer. The company owns 22 of its 36 stores, most of which are still undervalued on the balance sheet, despite recent price appreciation: the stock has outperformed the market not only in the past year (90% gain) but also since May 2000 (300% gain). This shows a much stronger correlation with a REIT index than with its closest retail competitors, suggesting that its real estate assets are valued more strongly by the investment community than its operations.

No Operational Turnaround Imminent: Suggests Management Capitulation

Meanwhile, management lacks a clear, aggressive strategy to turn around its operations. The last time Syms posted a profit was in the fiscal year 1999, and since then, competitive pressures on its retail operations have intensified. In our view, any operation that believes in its future as a going-concern would, when faced with these challenges, act aggressively, implementing an across-the-board plan to improve its entire operations -- particularly its declining sales. And yet management's response to this crisis, as confirmed by the CFO, is to focus on improving its gross profit margin. We find this unsatisfactory, and interpret it as a further sign that management is considering liquidation. Further, our analysis finds an alarming decline in business investments, suggesting management's lack of confidence in the future of its operations.

The Dallas Store Sale Suggests Liquidation

Another indication that liquidation is a strong possibility: Syms recently agreed to sell its Dallas store for \$13.5 million. This store was actually operating at a profit, but management was made an enticing offer (which was confirmed by the CFO). We believe this is a strong signal that management will sell other stores -- or all of its assets -- if offered the right price.

Hedge Fund Interest

We have discovered strong interest in the company on the part of "activist" hedge funds, including Dimensional Fund Advisors, who recently purchased 8.34% of outstanding shares. We believe they may play a role on the board in the near future, and use this leverage to advocate liquidation.

Valuation

Target Price: \$16.10 Per Share; Real Estate Is The Key Driver

We value Syms at \$16.10 per share based on three valuation methods: store-by-store, Dallas multiple, and price-to-book multiple. Details are illustrated in Table 1:

Value Item	Stores Valuation	Dallas Multiple	BV Multiple
Stores	194.34		
Land	51.80	270.00	1.56 x 14.603
Leases	28.71	28.71	x 16.06
Net Other Assets	72.35	72.35	
Net Tax On Assets Sale 35%	(14.99)	(23.34)	(16.62)
TOTAL	332.21	347.72	349.32
Real Estate Book Value	161.25	161.25	161.25
Diluted Shares	16.06365	16.06365	16.06365
Shares Controlled By The Family	8.6868	8.6868	8.6868
% Of Shares Controlled By The Family	54.08%	54.08%	54.08%
Control Discount	25%	25%	25%
Value of Minority Share	114.42	119.76	120.31
\$ Minority Share Price	15.51	16.23	16.31

Table 1. Deriving Syms share price using store-by-store, Dallas multiple and BV-per-share multiple. Values are in millions except for # of shares.

The price of Syms shares behaved like the BBREOUTL¹ index between August 2003 and December 2004, with R² equal to 0.84. Only since the beginning of 2005 has this relationship weakened – we believe this is due to a diminishing control premium². In contrast, the R² characterizing the regression between Burlington Coat Factory, the firm's closest competitor, and Syms prices was only 0.43. There is basically no relationship with the broad S&P 500 index (the beta equals zero). For the reasons stated above, we believe there is no value in Syms' operations; thus, we price its shares based on its real estate property and other assets. The graph illustrating the relative price movements of Syms, Burlington Coat Factory, REIT index, and the S&P 500 is included in Appendix A.

Store-by-Store Valuation

Using a store-by-store valuation method, we derive a value of the assets at \$347 million before taxes and \$332 million after taxes. The net tax effect of -\$15 million is due to an accounting gain taxed at 35%, minus deferred taxes.

As of March 11, 2005, Syms was in possession of 22 stores³. It also leased 14⁴ stores. Four of these leases are expiring in 2005 and are unlikely to be renewed. Given their short life, these leases are excluded from the valuation. In addition, Syms also owns land in North Kendall, Ohio. Its carrying value is approximately \$2.15 million⁵. Land with book value of \$40 million⁶ is assumed to be in 1/3 a part of the owned stores (and valued together with stores), while in 2/3 to be stand-alone (parking spaces, etc.) and is priced based on a 6.5% annual appreciation rate.

Owned Stores

We calculate the value of the owned stores using DDM (discounted rent income to perpetuity), which yields \$194 million, based on 13 current market lease prices and three recent transactions in neighboring areas. The discount rate applied is 8%. We have also applied a 20% "haircut" to reflect the stores' physical condition. For details please see Appendix B.

Leased Property

Syms pays between \$4.30 and \$40.79 in base rental per square foot on its leased property (two leased stores are rented based on sale prices). Off-the-market lease agreements constitute value for the company of \$28.5 million. The average rent between 2006 and 2011 is scheduled to be \$4.5 million. The real value of leases for Syms is in the difference between this amount and the market price (details are included in Appendix C) of \$13.5 million⁷ per year. Given the average rent life of four years, the present value of the excess \$9 million (\$13.5-\$4.5) discounted at 8% yields almost \$29 million.

Note: The Park Ave. location is especially valuable for Syms, since its price was negotiated in 1996 and the lease expires in 2011. It is not clear whether the company pays a flat fee per square foot or percentage of sales. In the first case it would not be more than \$40.79 per square foot. In the second, not much more than in '96, since sales have not increased significantly in any location. Compared to the current market rent of approximately \$150 per square foot (comparable prices vary between \$90 and \$200), the Park Ave. location is a real bargain for Syms.

Land

The third part of the real estate is land. We assess its value at over \$51.8 million. Our assumption is that in 1994, when most of the land was already on the books, it was recorded at fair value. Since then there were three significant additions of \$6.3 million, \$6 million, and \$4.2 million, as well as two reductions of \$2.3 million. An annual appreciation rate of 6.5% is also assumed⁸. The details of the valuation are presented in Appendix D.

¹ BBREOUTL is a capitalization-weighted outlet centers sub-index of a broad REIT index, BBREIT.

² Factors such as the purchase of 8.34% of shares by Dimensional Fund Advisors, Inc., the sale of shares by Marcy Syms (39,000) or rumors about Sy Syms' health condition could have had impact on the recent lower control premium and outperforming of the REIT index by Syms.

³ After announced sale of the Dallas property, February 8, 2005.

⁴ Two of the leases expired in 2004 (Charlotte, Baltimore) and one (Lawrenceville) was terminated.

⁵ This property was a subject to sale in February 2004. The transaction, however, has not been concluded.

⁶ \$40 million excludes the Dallas property but includes North Kendall property (previously itemized as a current asset – held for sale).

⁷ Should Syms renew the leases today, its operations would become clearly unprofitable. The current rents are deep out of the money.

⁸ OFHEO house price index is used as a proxy. The values vary from state to state, e.g. 6.9% for NJ and 6.2% for NY.

Remaining Net Asset Valuation

Having calculated the three pieces of real estate property, we add the net value of working capital, deferred taxes, and cash, then subtract long-term liabilities⁹. According to our calculation, they are worth over \$72 million. Under a conservative assumption, inventories would have to be marked down 30% in a liquidation sale to be sold. Cash due from the sale of the Dallas property of \$13.5 million is discounted at 3.2%, since the payment is due at the beginning of August¹⁰. Under these assumptions, net non-real-estate assets are worth about \$72 million.

Dallas Multiple

In February 2005, Syms entered into the Dallas property sale agreement. Since it is a very new transaction it can be used as a benchmark to value remaining properties. The subject property consists of land and the 42,000 square-foot store. Significantly, the selling space of the Dallas store alone represented almost 5% of Syms' total owned selling space. The price of \$13.5 million, multiplied by 20, returns \$270 million. On top of this amount we add the lease and other asset valuations calculated before. The total value before taxes yields over \$371 million, which corresponds to \$348 million, net of taxes.

Price-to-Book-Value Multiple

This valuation returns the fair market value of \$349 million net of taxes. We selected nine REITs whose market caps are similar to Syms' (please see Appendix F for details). The average¹¹ price-to-book value multiple for these companies is 1.56, which corresponds to a price of \$22.77 per Syms share. Since we assume the liquidation of the company, we need to adjust for the tax effect – this valuation returns \$349 million after taxes.

Adjustment For Control Premium/Minority Interest Discount

Since the Syms family controls the company, holding 54%¹² of shares, the valuations derived above need to be adjusted accordingly. This discount reflects the risk that the family will decide not to liquidate the stores and instead continue to operate unprofitably. An additional factor is that the longer it takes to liquidate the business, the greater the risk of a correction in the commercial real estate market.

We apply the commonly used formula to derive the value to minority shareholders:

Value to minority shareholders = FMV x (1 – minority interest discount) x minority ownership interest

In our calculation, we assume a 25% discount, as opposed to the implied market discount of 36%. Factors such as the purchase of 8.34% of shares by the hedge fund Dimensional Fund Advisors, Inc.; the sale of shares by Marcy Syms (39,000); and rumors about Sy Syms' health contribute to the lower control premium.

Further Appreciation Potential

Note that, at the moment of liquidation, the control premium practically falls to zero. When we remove the discount, the average share value jumps to \$21.36 – a 55% appreciation potential over the current price of \$13.75. (For details on how the price depends on the discount, please see Appendix G.)

Another upside possibility is that the assets will be liquidated in a non-cash transaction, such as a stock-for-stock agreement. In this case, the investor gains additionally, since marking the assets to market is tax-free.

Valuation Summary

The three methods – store-by-store valuation, Dallas multiple, and price-to-book multiple – return a narrow price range between \$15.51 and \$16.31 per share, with our target of \$16.10 in between. This implies a price appreciation potential of 17%, which, given further upside potential, is conservative.

⁹ L-T liabilities represent the under-funded status of pension liabilities.

¹⁰ There is a risk the transaction will not be concluded. The assumption is, however, such a circumstance will not be detrimental to the property market value, and hence it will be neutral to the valuation.

¹¹ Weighted with market cap

¹² Assumption is made that over 887,650 shares due to option exercise will be controlled by the Syms family. There is no need to adjust the cash balance since the company has 2,879,000 treasury shares.

Business Description: Off-Price Retailer

Syms is an off-price retailer, largely specializing in menswear, which accounts for 52% of its sales and most of its reputation. Unfortunately, it has fallen behind the times in merchandise and image, and its sales are flat as a result. Its saving grace may be its liquidation value: it has no long-term¹³ debt, and it owns 22 of its 36 stores, which are located throughout the Northeast, Southeast, Midwest, and Texas.

Industry Overview and Competitive Positioning

Industry Overview; Trends Affecting Syms

The apparel retail industry has an \$80.6 billion market cap, but Syms has only a small piece of this market – it's valued at \$221 million. Despite a positive fiscal 2003, when the apparel retail industry averaged 13% sales growth and 20.5% stock appreciation -- well above the S&P 500 Index – fiscal 2004 is widely expected to be disappointing for the industry. Holiday sales were weak across the board, but particularly for apparel retail; markdowns in department stores and specialty stores began as early as Thanksgiving, then continued unabated after that. As prices dropped, consumers shopped for bargains everywhere. Unfortunately, this was a negative for Syms, as its model prospers more in a stronger environment, when the gap between its discount prices and full-priced retail is more dramatic. If shoppers can get bargains everywhere, they are attracted to larger, more modern retailers than Syms.

More distressing is that, despite year-over-year growth in the off-price retail apparel sector, Syms' sales have been declining for the past four years, and we forecast further declines in fiscal 2004 and 2005. This declining market share in its core segment offers further evidence that Syms' future operations are in question, and supports our liquidation case. Additional support arises from the following observations.

Competitive Weaknesses Suggesting Further Operational Decline

Consumer Awareness

Ironically, Syms' tag line is "An educated customer is our best customer." Yet consumers have now been trained to realize they can find high-quality apparel for low prices elsewhere: via outlet stores, seasonal sales in specialty stores, frequent sales in department stores, and discount web sites. And since consumers now know this, discount retailers who sell low-end brands suffer.

Consumer Trends

The "Burberry phenomenon," a.k.a. "masstige," has driven sales at many of Syms' competitors. High-end brands are now mainstream. Middle-income consumers aspire to own luxury brands, which are of higher quality and prestige than the lower-quality goods Syms sells. Its direct competitors offer far more of these goods than Syms, whose off-brand, more traditional suits don't accomplish this.

Competitor Sophistication

Traditionally, the off-price channel has solved supply-demand imbalances by absorbing and distributing surplus goods. Today, however, off-price retailers do not merely absorb excesses; their needs are integral to manufacturers' production planning. As the off-price sector grows, these retailers have become more favored by manufacturers. And unlike department stores, they do not demand chargebacks, margin guarantees, return allowances, or advertising support.

But it's the leaders that benefit: Stores such as Ross, T.J. Maxx, Burlington Coat Factory, and even the manufacturers' own outlets now place orders well in advance. Suppliers now plan ahead to service this tier, and build the expected revenues into their models. As a result, these off-price competitors have set a new standard of quality and efficiency at low prices for the consumer. All of these retail stores offer higher-quality brand names at discounted prices, and they are all outperforming Syms in sales and revenue growth.

Meanwhile, Syms has been left behind. Its dated strategy of "pack-away" or opportunistic buys is no longer sufficient to succeed in this business. While competitors stock first-run merchandise, Syms gets only "waste." The sourcing of sought-after brands has not been achieved. Meanwhile, inventories grew \$20 million, or 30%, in Q3 of 2004; in other words, the quantity of this low-quality merchandise is stacking up.

¹³ The exception is the \$2.7 million under-funded status of the pension plan.

Supplier Sophistication

The domestic off-price channel accounted for 7.8% of total apparel retail sales in first-half 2003 versus 7.3% in 2001 (compared to the overall domestic apparel market, which contracted approximately 6% as of the first half of 2003 versus the first half of 2001). Given such growth in the off-price retail channel, manufacturers have embraced the off-price retail channel as a means of achieving growth by:

- Planning the demand for off-price goods into their production runs.
- Taking orders from off-price retailers on a recurring “program” and/or on a onetime “make-up” basis.

We estimate that 30%-50% of products at *major* off-price retailers are sourced in this manner. However, Syms is a minor off-price retailer, and does not benefit from these trends.

Tighter Supply

The supply of goods is tightening as a result of conservative production planning on the part of manufacturers, who have taken severe financial blows in the past several years. 2004 was even weaker for manufacturers, as most major retailers marked down too much inventory, returned goods, and demanded repayment for unsold goods on the back end, thus cutting further into manufacturers’ margins. Going forward, then, it is likely that manufacturers will cut even more inventory, which will further reduce opportunities for Syms to order merchandise – and the goods it does receive will again be the lowest-demanded and lowest quality.

Smaller Size, Fewer Resources

Size matters in this industry. Increasingly, retailers are faced with the challenge of meeting consumer expectations of high quality at low prices by leveraging their size for economies of scale. Wal-Mart can outbid on volume, as can Target, Sears/Kmart, T.J. Maxx, Ross, Burlington, and Men’s Wearhouse. The recent proposed merger of Federated and May speaks to the need for greater economies of scale in retail. And as explained above, economies of scale play a key role in favored status with suppliers, and Syms, with its annual sales of \$275 million, is an insignificant player.

Operational Inefficiency

Low price/high turnover is the key to winning if you follow a low-cost strategy. Wal-Mart has revolutionized retail by squeezing out every cent of value in operational efficiencies following this model. It’s set a new standard, and any discount retailer should follow it or risk getting trounced. You must similarly improve efficiencies by investing in technology and operational systems; if not, you’ll get beat by competitors who are doing so – they can undercut on price, drive higher volume, and win. Syms has not invested in technology such as supply-chain software, inventory-management software, RFID tagging, or similar systems to improve its operations. Meanwhile, our research has shown that key competitors Burlington Coat Factory and T.J. Maxx have invested in these systems.

Aging Stores

Our on-site observation shows that Syms stores are old and unattractive. The carpet is ragged, the smell is musty, and many outlets, in fact, have no windows – they look like warehouses or prisons. The layout is also typically cluttered and unappealing: in the Park Avenue store, the first sight a customer sees is shoe boxes, strewn about the main floor. A case can be made that a low-cost retailer should not invest in attractive stores, because consumers value the “treasure hunt” aspect of finding bargains, and so care little about appearances. But given the growing amount of competitors with far more modern, attractive displays, this is a clear disadvantage.

Store-by-Store Location Value

We performed an analysis of the locations of each of Syms’ 36 stores (see Appendix H) and compared each location to its proximity to Syms’ key competitors. We found that 35 of these Syms stores are located within a five-mile radius of at least two strong competitors – mostly Burlington Coat Factory outlets and Kohl’s stores, but also several instances of Marshall’s, Ross Stores, and T.J. Maxx. We draw two conclusions from this:

- When presented with options, consumers are more likely to be drawn away from Syms by these competitors.
 - The value of the real estate of these locations is strong; many are centrally located in prime shopping areas, and thus attractive to a larger retailer considering a buyout. In addition, Syms stores lend themselves quite well to alternative uses: buildings that are not as centrally located could prove attractive as office space. This is particularly true of the downtown New York City location.
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Aging Customer Base

Syms' model filled a niche when it opened its first store in 1959, and the fact that it has remained in business since then is admirable. However, its sales have declined steadily in recent years, suggesting that loyal customers are declining, and not being replaced by new ones. As any loyal customers further age or retire, this becomes even more of a vulnerability. Selling low-quality suits may have worked in the '50s, '60s, and '70s, but not today. Pressure is too intense to look modern and sharp in the workplace.

Aging Management

Retail trends change, so any management that sticks to its old ways is vulnerable. We believe the stories of Bradlees, Sears, Kmart, Woolworth, and Montgomery Ward, among others, are instructional. Syms' unwillingness to change is a key detriment to its future as a going-concern.

Financial Analysis

Several trends evident in the financials point to the increasing likelihood of liquidation. We base this on the following points:

Top-Line Decline Driven by Contraction; Meanwhile, Competitors Expand

Leading off-price retailers have achieved double-digit sales growth by increasing their selling square feet by double digits. Syms' sales have been on a decline since fiscal 1999 – mainly due to store closings and the non-renewal of leases where the store does not meet management's profitability criteria. Syms is not positioned to capitalize on the growth opportunities available in this sector because of its reluctance to invest in new stores.

In our model, we do forecast 3.5% growth in our sales-per-square-foot figure in fiscal 2005, which is in line with management expectations. In our sales estimate, we have adjusted 2005 Q2 sales to reflect the completion of the Dallas store sale. We have also adjusted 2005 Q4 sales assuming no new stores will be purchased to replenish sales of those stores whose leases do not have a renewal option. However, our overall sales estimate is optimistic, as we believe there are significant risks to achieving that target, including:

- Further store sales: We interpret the sale of the Dallas store as a signal that management intends to sell more profitable stores if the right price is offered.
- Lease renewal unlikely: Four leases expire in 2005, three of which have a renewal option. As lease renewal will likely entail upward revision of occupancy costs, we believe renewal is unlikely. Management has not renewed leases in the past for stores that fell short of its profitability criteria, and given weak sales at these stores, a rise in costs would ensure their closings.

Syms has experienced an unusually high amount of seasonality in its business as compared to its peers. We have accounted for these seasonal changes in our estimates by applying 3.5% growth to the quarterly figures of sales-per-square-foot of the corresponding period figures of the previous year.

Drastic Drop in Investments

Capital expenditures of the company have fallen from a peak of \$19.20 million in 1999 to \$1 million of net capital expenditure for the 39 weeks ended November 27, 2004. Management invested quite aggressively from 1996 to 2001: investments in that period totaled over \$81 million. More recently, it is evident that management has reconsidered this rampant investment strategy, as net capital expenditures have dropped to only \$8 million from 2002 through 2004 Q4E. The company operated 48 stores in the year 2000. After the sale of the Dallas store, the total number of stores operated will decline to 36 – a reduction of 25% in five years. We believe that the company is not seeking to invest any surplus cash generated from selling underperforming stores in either opening new stores, buying other stores, or reinvesting in any new significant projects that might improve the long-term outlook for its existing business operations. We have estimated the maintenance capital expenditure of ~ \$2.5 million for the fiscal 2005.

Defensive Strategy

We believe that the company's strategy to turn around its business is at best defensive, because it does not seek to substantially increase its sales revenue; instead it focuses on comparable-store sales, inventory management and margin improvement. Meanwhile, its number of stores has been declining.

Inability to Generate Sufficient Cash from Operations

For the 39 weeks ended November 27, 2004, the company generated \$10.71 million dollars. This amount is largely generated from two sources – Accounts Payable and Depreciation and Amortization charges.

Accounts Payable has increased by \$27 million for the same period, of which \$20.65 million was used in adding merchandise inventory. \$7.32 million is the Depreciation and Amortization charge, which represents the non-cash expense element of operating expenditure. The company has managed to generate cash from operations for the last seven consecutive quarters by not paying its creditors. In effect, the company is using creditors' money to substantially manage its working capital requirements – because the company's business has not displayed inherent strength to generate enough cash to sustain its operations. We anticipate that the company will generate an additional \$1.75 million by delaying payments to its creditors in fiscal 2005.

No Brand-Support Strategy

Meanwhile, advertising expenditure has fallen in absolute terms from \$3.8 million (3.8% of sales) to \$3.2 million (3.4% of sales) for the 39-week period ended November 27, 2004, compared to the same period in the previous year. This shows that the company is not supporting its brand very well. The company, as confirmed by its CFO, is on a cost-savings drive and has refocused its marketing initiatives by advertising more via direct mail and radio commercials rather than on the more expensive medium of television. We anticipate advertising costs as a percentage of sales to remain flat over the next fiscal year.

Weak Inventory Turnover and Merchandising Inefficiencies

It takes about 100 days for Syms to sell its inventory. This number has consistently fallen from a peak of 136 days in 1998. However, it has a significantly lower inventory turnover ratio of 3.30 compared to its peers, such as Burlington Coat Factory, which is at 5.00, and industry leaders Ross Stores (4.35) and T.J. Maxx (8.38). The CFO, Antoine Moreira, when questioned, confirmed that the company recently faced serious problems with certain distributors, and as a result, has made a change to a new primary distributor; however, we remain skeptical that this will solve the larger issues of merchandising (see Competitive Positioning for more detail on this point).

Declining Margins

In an attempt to increase its inventory turnover, Syms has had to sell its merchandise at slightly lower prices than its previous year, resulting in a decrease in gross profit margins from 42.2% in 2003 Q3 to 39.6% in 2004 Q3. It is crucial for Syms to be able to sell its inventory without many markdowns to maintain its profitability.

Syms' competitors in the off-price sector, such as Ross Stores and T.J. Maxx, have a distinct advantage of size. We believe Syms will have less bargaining power with manufacturers, jobbers and brokers within the sector, and have therefore reduced our average gross margins forecast by 13 basis points for fiscal 2005 – we expect it to fall from 38.80% for fiscal 2004 to 38.67% for fiscal 2005.

Too Much Cash = No Leverage, No Confidence in Future

Syms is virtually a zero-debt company and therefore has an un-levered position in a depressed retail market environment. This makes the company's balance sheet very strong and keeps the net earnings from fluctuating due to fixed interest commitments. However, we also believe it indicates an unwillingness to invest in the future of the business: interest rates have been low, so a company with a strong turnaround strategy would have likely invested some of its cash in operations, and/or tapped into the credit markets for leverage. Syms has done neither. We estimate that cash and cash equivalents as a percentage of total assets will increase from ~ 13% for fiscal 2004 to ~ 19% for fiscal 2005.

Deferred Tax Assets Attractive to Future Buyer

Due to its accumulated loss, Syms has accumulated deferred tax assets of \$14.50 million that it can offset against future years' profits and demonstrate a high net-margin ratio for a few quarters – if it ever returns to earning profits. The deferred tax asset works out to approximately \$0.90 per share in book value. We believe this also makes it attractive to a potential buyer (particularly a profitable one seeking to offset deferred tax liabilities); this added value could also increase a potential buyout price, resulting in further share appreciation.

Summary: Operational Losses Will Continue, Increasing Probability of Liquidation

For all of the above reasons – particularly the shrinking gross margins and top-line decline – we believe the company will show a loss of \$0.08 per share in fiscal 2004. In 2005, we expect a more dramatic operational loss of \$0.29 per share, offset only by the gain on the sale of the Dallas store. This adds to our contention that the probability of liquidation rises each year.

Investment Risks

Because we believe that realization of the asset value depends on liquidation, the investment risks pertain to a scenario in which the company does not liquidate, as follows:

Primary Risk: Family Control Makes Liquidation Catalyst Indeterminable

Syms is mostly a family business – Chairman Sy Syms owns 51% of the shares, while CEO Marcy Syms owns 3%, totaling 54% for the family. In addition, Sy Syms is the founder of the company, and has spearheaded the business since 1959. Although he is 79 years old, suggesting retirement is imminent; it is possible that he and his family may want to continue as a going concern.

In this scenario, time becomes a larger and larger factor: on the one hand, each year Mr. Syms ages increases the likelihood of his retirement, which should provide the catalyst to liquidate; on the other hand, each year the family continues to operate the business increases the risk that recent investors, who expect liquidation, will lose patience and abandon the stock. It is impossible to determine the degree of stock price impact, or when, but it exists.

If there is no such catalyst, and liquidation is deferred, the net asset value of the stock price could be measured using a discounted cash-flow analysis. We estimated this over a five-year timeframe, discounting our target price of \$16.10 (based on liquidation value) at a rate of 8%, to arrive at a value of \$11. Given the current price of \$13.75, this represents a downside risk of \$2.75, or 20%. However, this must be considered over a five-year timeframe; annualized, this is an average reduction of 3.71% per year.

Also, the controlling interest, coupled with the strength of the balance sheet and conservative fiscal management style, suggests that management is not easily influenced by external investors. The continued weakening of operations, however, could prove dramatic, as the gap between future profits and current market value of the real estate widens. Specifically, as leases expire, underperforming stores could be closed – this has been a pattern recently – but that will not affect the owned stores. Ultimately, liquidation is an internal decision.

Secondary Risk: The Family Waits Too Long; Real Estate Corrects

Assuming that Syms decides to liquidate, it's possible that it may wait too long. The current real estate market is quite attractive to a seller. But it's possible that by the time a deal is consummated for the assets; a real estate correction may have taken place. Many real estate investors and macro-economists believe there is a correction due¹⁴, in light of extraordinary recent growth and macro-economic warnings, which include:

- An expected rise in interest rates, which, if significant, lessens demand and squeezes out over-leveraged occupants.
- The falling dollar, as a result of trade deficits and budget deficits, also creates upward rate pressure.

At the same time, management could, in the near term, achieve profitable operations, increasing the likelihood of a larger commitment to a turnaround. We believe this is unlikely, given the critical challenges it faces.

Third Risk: Management Buyout Limits Price Appreciation

It is possible that management, sensing that shares are undervalued in the public market, could buy out the remaining shares outstanding, paying market price for them. We believe privatization is unlikely, however, given recent share price recent appreciation, management's conscious avoidance of debt, and the likelihood of incurred debt reaching critical levels in that scenario. Previous buyouts were considered at much lower share price levels, suggesting that it's a possibility. However, the CFO, when questioned, indicated that current price levels were too high to justify the idea.

Fourth Risk: New Management and a Turnaround Attempt

Alternatively, it is possible that current management could retire, and new management arrives with turnaround ambitions. In this management-change scenario, the risks are:

- The brand name is too ingrained to change its image. Despite all efforts to turn around operations, renovate and remodel the stores, and create new marketing campaigns, it may be a lost cause to transform the chain with a whole new image. Result: Eventual bankruptcy or liquidation.

¹⁴ The current upward sloping trend is 10 years old. The previous one lasted seven years, from 1982 to 1989.

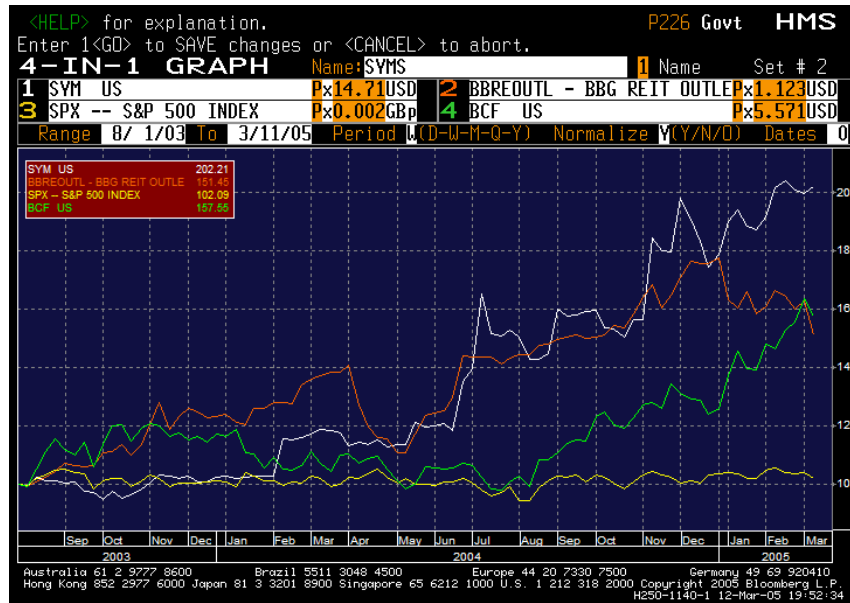
- It improves only slightly, prolonging the agony, as if old management were still in place. In this scenario, the stock price dwindles slowly as investors gradually lose confidence in new management. The end result: The firm eventually fails; it just takes even longer to occur.

Mitigation: Real Estate Value

Even if recent investors lose patience and flee the stock, we believe a central asset remains: the fundamental value of the real estate. This serves as a downside floor. Thus, investors with a longer-term orientation can rest assured that, even if the operations continue to decline, the assets will retain value consistent with the real estate market.

Appendix A: Relative Price Movement

Relative price movement of Syms (SYM), REIT index (BBREOUTL), Burlington Coat Factory (BCF) and S&P 500 between 08/01/03 and 03/11/05:



Source: Bloomberg

Appendix B: Valuation of Owned Stores

The valuation of the owned stores based on 13 current market lease prices and three recent transactions in neighboring areas:

Location	Space in sq. feet	Comparable location	Comparable REIT/RE Agent	Lease price per sq. foot	Implied value/Purchase price per sq. feet	Implied value/Purchase price per sq. feet after 20% haircut	Property value
Fairfield	32,000	Average		\$15.39	\$192.32	\$153.86	\$4,923,400
Fort Lauderdale	44,000	Orlando	Colonial		\$134.62	\$107.69	\$4,738,462
Miami	45,000	St. Petersburg	Colonial		\$112.01	\$89.61	\$4,032,306
West Palm Beach	36,000	Miami, South Florida	Internet	\$23.00	\$287.50	\$230.00	\$8,280,000
Tampa	38,000	Tampa	Colonial	\$14.61	\$182.63	\$146.10	\$5,551,800
Norcross	51,000	Gainesville	Colonial	\$20.02	\$250.25	\$200.20	\$10,210,200
Marietta	39,000	Gainesville	Colonial	\$20.02	\$250.25	\$200.20	\$7,807,800
Addison	47,000	Average		\$15.39	\$192.32	\$153.86	\$7,231,244
Rockville	61,000	Average		\$15.39	\$192.32	\$153.86	\$9,385,231
Southfield	46,000	Average		\$15.39	\$192.32	\$153.86	\$7,077,388
Trinity	40,000	457 West Broadway, NY	Sinvin	\$150.00	\$1,875.00	\$1,500.00	\$60,000,000
Westbury	72,000	Freeport, New Hyde Park	Vornado	\$15.00	\$187.50	\$150.00	\$10,800,000
Commack	36,000	Freeport	Vornado	\$13.43	\$167.88	\$134.30	\$4,834,800
Rochester	32,000	Rochester (Henrietta)	Vornado	\$3.00	\$37.50	\$30.00	\$960,000
Buffalo	39,000	Buffalo (Amherst)	Vornado	\$10.42	\$130.25	\$104.20	\$4,063,800
Paramus	56,000	Average		\$15.39	\$192.32	\$153.86	\$8,615,950
Secaucus	29,000	North Begen	Vornado	\$28.27	\$353.38	\$282.70	\$8,198,300
Cherry Hill	40,000	Bensalem, Broomall	Vornado	\$9.50	\$118.75	\$95.00	\$3,800,000
King of Prussia	41,000	Broomall	Vornado	\$9.57	\$119.63	\$95.70	\$3,923,700
Monroeville	31,000	Average		\$15.39	\$192.32	\$153.86	\$4,769,544
Houston	34,000	Colonial	Temple	\$21.02	\$262.75	\$210.20	\$7,146,800
Hurst	38,000	Colonial	Temple	\$21.02	\$262.75	\$210.20	\$7,987,600
TOTAL							\$194,338,323

Source: Company documents 2004 Annual Reports of, Colonial and Vornado, Sinvin web site, Student estimates

Appendix C: Lease Valuation

The valuation of existing lease agreements, based on rents charged by Vornado:

Location	Space in sq. feet	Comparable location	Comparable REIT/RE Agent	Implied lease price per sq. foot	Implied annual rent	Comment
Hartford	31,000	Newington	Vornado	\$15.47	\$479,570	
Kendall	32,000	Average		\$15.39	\$492,340	
Niles	32,000	Average		\$15.39	\$492,340	
Towson	41,000	Baltimore (Towson)	Vornado	\$11.33	\$464,530	
Norwood	36,000	Average		\$15.39	\$553,883	
Peabody	39,000	Average		\$15.39	\$600,039	
Troy	37,000	Average		\$15.39	\$569,268	
St. Louis	33,000	Average		\$15.39	\$507,726	
Park Avenue	45,000	1135 3rd Ave (63), 825 7th Ave	Vornado	\$150.00	\$6,750,000	\$90.4-\$198.45
Westchester	50,000	Average		\$15.39	\$769,281	
Woodbridge	32,000	Average	Vornado	\$14.63	\$468,160	
Highland Heights	36,000	Average		\$15.39	\$553,883	
N. Cranston	27,000	Average		\$15.39	\$415,412	
Falls Church	39,000	Baltimore (Towson)	Vornado	\$11.33	\$441,870	
TOTAL					\$13,558,301	

Source: Company documents 2004 Annual Reports of Vornado, Student estimates

Appendix D: Land Valuation

The valuation of 66% of land. The remaining 33% is assumed to be a part of the stores' valuation:

Year	Opening balance	Additions/ Reductions	PV of 66% of BV
1994	\$27,767,000		\$36,636,888
1995	\$34,060,000	\$6,293,000	\$7,796,465
1996	\$34,060,000	\$0	\$0
1997	\$40,061,000	\$6,001,000	\$6,554,875
1998	\$40,961,000	\$900,000	\$923,068
1999	\$40,628,000	(\$333,000)	(\$320,690)
2000	\$40,628,000	\$0	\$0
2001	\$40,584,000	(\$44,000)	(\$37,359)
2002	\$44,855,000	\$4,271,000	\$3,405,041
2003	\$44,855,000	\$0	\$0
2004	\$42,505,000	(\$2,350,000)	(\$1,651,815)
2005	\$40,226,790	(\$2,278,210)	(\$1,503,619)
TOTAL			\$51,802,855

Source: Company documents, Student estimates

The 2005 figure is the estimate based on the Dallas property sale. 50% of agreed price, i.e. \$6.5 million, was allocated to the land. \$6.5 million in 1994 dollars equals \$2.28 million, assuming 6.5% appreciation rate p.a.

Appendix E: Valuation of Other Assets

The valuation of working capital, deferred taxes, and cash less long-term debt:

A/L item	Value
Cash	\$33,311,000
Cash due the Dallas property sale	\$13,287,402
Inventories 70% of carrying value	\$62,918,100
Deferred Income Taxes	\$14,721,000
Prepaid expenses	\$9,788,000
Current Liabilities	(\$58,926,000)
LT Debt - Underfunded Pension Liab.	(\$2,714,000)
TOTAL	\$72,385,502

Source: Company documents, Student estimates

Appendix F: Benchmark P/BV

Calculation of the benchmark P-to-BV multiple as of 03/11/05:

Company	Price	BV per share	Market Cap in mil of \$	P-to-BV
SYMS CORP	\$13.75	\$14.603	\$208.33	0.82
INVESTORS REAL ESTATE TRUST	\$9.68	\$5.985	\$430.97	1.69
BEDFORD PROPERTY INVESTORS	\$21.89	\$15.542	\$357.37	1.60
MISSION WEST PROPERTIES	\$11.07	\$6.256	\$200.11	1.75
ONE LIBERTY PROPERTIES INC	\$19.45	\$14.921	\$190.18	1.25
SIZELER PROPERTY INVESTORS	\$12.07	\$5.597	\$159.76	1.96
FIRST UNION REAL ESTATE	\$4.28	\$3.046	\$132.93	1.07
INCOME OPP REALTY INVESTORS	\$16.30	\$29.306	\$23.45	0.54
HMG COURTLAND PROPERTIES	\$13.05	\$17.219	\$14.21	0.72
MEREDITH ENTERPRISES INC	\$14.64	\$18.406	\$14.30	0.78
TOTAL			\$1,523.29	1.56

Source: Bloomberg, Student estimates

Note: Basic Market Cap is used to calculate weighted average multiple.

Appendix G: Control Premium

Stock price as a function of the control premium/minority ownership discount. The net asset value per share, if the company liquidated, can reach \$21.75:

	Stores Valuation	Dallas Multiple	BV Multiple	Average
Minority Ownership Discount 36%	\$13.24	\$13.85	\$13.92	\$13.67
Minority Ownership Discount 30%	\$14.48	\$15.15	\$15.22	\$14.95
Minority Ownership Discount 20%	\$16.54	\$17.32	\$17.40	\$17.09
Minority Ownership Discount 10%	\$18.61	\$19.48	\$19.57	\$19.22
Minority Ownership Discount 0%	\$20.68	\$21.65	\$21.75	\$21.36

Source: Student estimates

Appendix H: Syms Location Table

Store Locations	Location compared to community	Main Competitor's Stores within 5 Miles	Competitor's Location compared to community
Connecticut			
Fairfield	On small road	Kohl's, Marshall's	Kohl's is on main road and Marshall's on small road
Berlin	On main highway	None	
Florida			
Miami Store # 1	Small road off highway	Burlington Coat Factory	Small road off main road.
Miami Store # 2	On main road	Marshall's, Sears, Kmart, Gap, TJ Maxx	On either same road as Syms or small roads close by.
Ft. Lauderdale	Main road near highway	Ross Stores (2 within 2 miles), Marshall's	Ross on main road and Marshall's on highway
West Palm Beach	Main road	Wall Mart, Kmart, TJ Maxx	On main roads within 2 miles of Syms
Tampa	Main road	Sears, Wall Mart, Dollar General	Main roads within 2 miles of Syms
Georgia			
Marietta	On Main road near highway	Kmart, Marshall's, Burlington Coat Factory,	Burlington on same road, and others on roads close by.
Norcross	Main road runs under highway	TJ Maxx, Target, Kohl's	Main roads near highways
Illinois			
Addison	Main Road	Kohl's, Target, Dollar General	On highway and main road in shopping district.
Des Plaines	On main road near mall.	Kohl's, Sears, Burlington Coat Factory	In mall down the road from Syms store.
Massachusetts			
Norwood	On a highway, near country club	Kohl's, TJ Maxx, Family Dollar Store	On main streets in center of town.
Peabody	Main road off turnpike.	Burlington Coat Factory, TJ Maxx	Located on main roads in city.
Maryland			
Rockville	Small back road.	Ross Stores, TJ Maxx	Main road across the street from Syms.
Towson	Main road off highway	Marshall's, Ross Dress For Less, TJ Maxx	Main roads within 3 miles of Syms Stores.
Michigan			
Southfield	Main Road	Burlington Coat Factory, Target	On same road as Syms and on main road near by.
Troy	Main Road Near Highway	Kohl's, Burlington Coat Factory	Both in or in same area as malls.
Missouri			
Brentwood	Main road in center of town	Burlington Coat Factory	Main road in town.
New Jersey			
Cherry Hill	Main road off highway	Kohl's, Ross Stores	On Main highways
Paramus	Off highway, hidden though	Kohl's, Nordstrom's	On highway in malls
Secaucus	Small back road	Kohl's, Target	Main Roads
Woodbridge	Back road off highway	Marshall's, Target	Main Roads in town
New York			
Williamsville	Main road near mall	Burlington Coat Factory, Target	Main roads near highway
Commack	Parrallel to Long Island Expressway	Burlington Coat Factory, Kohl's	Main roads in center of town
New York City (Park Ave)	Main avenue	Many Retail Stores	All on same avenue
Henrietta	Main road	Burlington Coat Factory, Target	Same road as Syms and on main road.
New York City (Trinity Pl)	Main road	Century 21	Main road
Westbury	Small Back road near park	Burlington Coat Factory, Kohl's	Main roads
Elmsford	Main Road off highway	Burlington Coat Factory, Kohl's	Main roads
Ohio			
Highland Heights	Small Road off main highway	Kohl's, Target, Marshall's	Main roads near highway.
Pennsylvania			
Berwyn	Main Road near highway	Pier 1 Imports, TJ Maxx	Off Main Roads
Monroeville	Main Road	Marshall's, Target	Main Roads
Texas			
Houston	Main Road near highway	Target, Ross Stores, Kohl's	On same road as Syms and on main roads in town.
Hurst	Main Road parallel to highway	Burlington Coat Factory, Kohl's	On Airport Highway and on main road near highway.
Virginia			
Falls Church	Small Street	Ross Stores, Burlington Coat Factory	Main Roads in town.

Appendix I: Income Statement

\$ in millions except per-share figures

	Fiscal Year Ended 2003					Fiscal Year Ended 2004					Fiscal Year Ended 2005				
	QI	QII	QIII	QIV	Total	QI	QII	QIII	QIVE	Total	QIE	QIIE	QIIIE	QIVE	Total
Sales	63.53	62.10	74.35	75.24	275.22	68.32	61.25	75.98	69.63	275.18	64.70	61.79	75.20	68.01	269.70
Cost of Sales	37.62	40.00	42.96	46.89	167.47	40.17	37.99	45.91	44.37	168.42	37.91	39.48	44.53	43.47	165.40
Selling General & Adm.															
Operating, General & Admin.	19.17	19.71	18.59	18.84	76.30	18.65	19.31	18.37	17.01	73.34	17.43	17.63	18.01	16.22	69.28
Advertising	2.38	1.42	3.81	0.80	8.41	2.74	0.90	3.27	0.74	7.65	2.60	0.91	3.24	0.72	7.46
Occupancy	4.16	4.46	4.39	4.41	17.42	4.22	4.61	4.17	3.94	16.94	4.53	4.94	4.69	4.32	18.47
Total SG & A Expenses	25.71	25.58	26.79	24.04	102.13	25.62	24.82	25.80	21.69	97.92	24.56	23.47	25.93	21.25	95.22
EBITDA	0.20	(3.48)	4.59	4.30	5.62	2.54	(1.55)	4.27	3.57	8.84	2.23	(1.17)	4.73	3.29	9.09
Depreciation & Amort.	2.62	2.78	2.78	2.71	10.90	2.61	2.42	2.29	2.68	10.00	2.67	2.67	2.67	2.67	10.68
Net - Interest	0.01	0.03	(0.06)	(0.00)	(0.03)	0.05	0.08	0.10	0.10	0.33	0.12	0.12	0.12	0.12	0.48
Income Tax	0.55	1.48	(0.80)	(0.48)	0.75	(0.00)	1.42	(0.80)	(0.40)	0.22	0.13	(2.46)	(0.87)	(0.30)	(3.50)
Net Income/(Loss) Before Non-Recurring Items	(1.86)	(4.75)	0.94	1.11	(4.56)	(0.02)	(2.47)	1.28	0.59	(0.61)	(0.19)	(6.18)	1.31	0.44	(4.61)
Non-Recurring Income/(Expenses)	0.11	0.07	0.08	(0.39)	(0.13)	0.02	(1.26)	0.74	-	(0.50)	-	9.87	-	-	9.87
Net Income	(1.75)	(4.68)	1.02	0.72	(4.69)	0.00	(3.73)	2.02	0.59	(1.12)	(0.19)	3.69	1.31	0.44	5.26
Diluted EPS Excluding Non-Recurring Items	(0.12)	(0.31)	0.06	0.07	(0.30)	(0.00)	(0.16)	0.08	0.04	(0.05)	(0.01)	(0.38)	0.08	0.03	(0.29)
Diluted EPS Including Non-Recurring Items	(0.11)	(0.30)	0.06	0.05	(0.30)	0.00	(0.25)	0.13	0.04	(0.08)	(0.01)	0.23	0.08	0.03	0.33
Diluted Shares Outstanding	15.44	15.41	15.80	15.09	15.09	15.10	15.12	15.90	16.10	16.10	16.10	16.10	16.10	16.10	16.10

Source: Company documents, Student estimates

Appendix J: Balance Sheet

\$ in millions except per-share figures

	Fiscal Year Ended			
	2002	2003	2004E	2005E
Assets				
Current Assets				
Cash and Cash Equivalents	19.20	21.39	33.33	46.83
Inventories	78.15	69.23	66.00	64.00
Other Current Assets	10.42	14.30	14.30	14.30
Total Current Assets	107.77	104.91	113.63	125.13
Fixed Assets				
Land, Buildings, Plant & Machinery - Gross	255.55	253.78	257.08	251.35
Depreciation	(120.09)	(130.02)	(140.02)	(150.70)
Land, Buildings, Plant & Machinery - Net	135.46	123.76	117.06	100.65
Other Assets	19.25	25.07	25.29	21.79
Total Assets	262.48	253.74	255.98	247.57
Liabilities and Stock Holders' Equity				
Current Liabilities				
Accounts Payable	12.64	16.15	20.26	22.00
Other Current Liabilities	17.79	12.55	5.34	-
Total Current Liabilities	30.43	28.70	25.60	22.00
Long Term Liabilities	1.89	1.86	1.86	1.86
Total Liabilities	32.32	30.57	27.47	23.86
Stock Holders Equity	230.15	223.17	222.05	227.31
Total Liabilities and Stock Holders' Equity	262.48	253.74	255.98	247.57

Source: Company documents, Student estimates

Appendix K: Revenue Model

\$ in millions except per share figures

	First Quarter				Second Quarter				Third Quarter				Fourth Quarter				Annual		
	2002	2003	2004	2005E	2002	2003	2004	2005E	2002	2003	2004	2005E	2002	2003	2004E	2005E	2004E	2005E	
Sales	67.95	63.53	68.32	64.70	65.06	62.10	61.25	61.79	73.27	74.35	75.98	75.20	75.23	75.24	69.63	68.01	275.18	269.70	
Cost of Sales	38.85	37.62	40.17	37.91	42.08	40.00	37.99	39.48	43.12	42.96	45.91	44.53	48.98	46.89	44.37	43.47	168.42	165.40	
Selling General & Adm.																			
Operating, General & Admin.	18.77	19.17	18.65	17.43	19.05	19.71	19.31	17.63	18.74	18.59	18.37	18.01	20.44	18.84	17.01	16.22	73.34	69.28	
Advertising	2.24	2.38	2.74	2.60	2.05	1.42	0.90	0.91	3.44	3.81	3.27	3.24	2.40	0.80	0.74	0.72	7.65	7.46	
Occupancy	4.50	4.16	4.22	4.53	4.65	4.46	4.61	4.94	4.30	4.39	4.17	4.69	4.25	4.41	3.94	4.32	16.94	18.47	
Total SG & A Expenses	25.51	25.71	25.62	24.56	25.75	25.58	24.82	23.47	26.48	26.79	25.80	25.93	27.09	24.04	21.69	21.25	97.92	95.22	
EBITDA	3.59	0.20	2.54	2.23	(2.77)	(3.48)	(1.55)	(1.17)	3.67	4.59	4.27	4.73	(0.84)	4.30	3.57	3.29	8.84	9.09	
Depreciation & Amort.	2.81	2.62	2.61	2.67	2.76	2.78	2.42	2.67	2.70	2.78	2.29	2.67	2.64	2.71	2.68	2.67	10.00	10.68	
Net - Interest	0.05	0.01	0.05	0.12	0.05	0.03	0.08	0.12	0.08	(0.06)	0.10	0.12	(0.05)	(0.00)	0.10	0.12	0.33	0.48	
Income Tax	(0.58)	0.55	(0.00)	0.13	2.96	1.48	1.42	(2.46)	(0.67)	(0.80)	(0.80)	(0.87)	3.09	(0.48)	(0.40)	(0.30)	0.22	(3.50)	
Net Income/(Loss) Before Non-Recurring Items	0.25	(1.86)	(0.02)	(0.19)	(2.52)	(4.75)	(2.47)	(6.18)	0.37	0.94	1.28	1.31	(0.44)	1.11	0.59	0.44	(0.61)	(4.61)	
Non-Recurring Income/(Expenses)	0.45	0.11	0.02	-	(3.65)	0.07	(1.26)	9.87	0.38	0.08	0.74	-	(3.89)	(0.39)	-	-	(0.50)	9.87	
Net Income	0.71	(1.75)	0.00	(0.19)	(6.17)	(4.68)	(3.73)	3.69	0.75	1.02	2.02	1.31	(4.33)	0.72	0.59	0.44	(1.12)	5.26	
Diluted EPS Excluding Non-Recurring Items	0.02	(0.12)	(0.00)	(0.01)	(0.16)	(0.31)	(0.16)	(0.38)	0.02	0.06	0.08	0.08	(0.03)	0.07	0.04	0.03	(0.05)	(0.29)	
Diluted EPS Including Non-Recurring Items	0.04	(0.11)	0.00	(0.01)	(0.39)	(0.30)	(0.25)	0.23	0.05	0.06	0.13	0.08	(0.28)	0.05	0.04	0.03	(0.08)	0.33	
Diluted Shares Outstanding	15.75	15.44	15.10	16.10	15.72	15.41	15.12	16.10	16.19	15.80	15.90	16.10	15.48	15.09	16.10	16.10	16.10	16.10	
Margin Analysis																			
Gross Profit	42.82%	40.79%	41.21%	41.41%	35.32%	35.60%	37.99%	36.10%	41.15%	42.22%	39.58%	40.78%	34.89%	37.68%	36.28%	36.08%	38.80%	38.67%	
Average Gross Profit Margin	41.61%				36.30%				40.98%				36.28%						
SG&A																			
Operating, General & Admin.	27.62%	30.17%	27.30%	26.94%	29.29%	31.73%	31.52%	28.53%	25.58%	25.01%	24.17%	23.95%	27.17%	25.04%	24.43%	23.84%	26.65%	25.69%	
Advertising	3.30%	3.75%	4.02%	4.02%	3.14%	2.29%	1.47%	1.47%	4.69%	5.12%	4.30%	4.30%	3.19%	1.06%	1.06%	1.06%	2.78%	2.77%	
Occupancy	6.62%	6.55%	6.18%	7.00%	7.15%	7.18%	7.53%	8.00%	5.87%	5.90%	5.48%	6.24%	5.65%	5.86%	5.66%	6.34%	6.15%	6.85%	
EBITDA	5.28%	0.32%	3.72%	3.45%	-4.26%	-5.60%	-2.52%	-1.89%	5.00%	6.18%	5.62%	6.30%	-1.12%	5.72%	5.13%	4.83%	3.21%	3.37%	
Net Income	1.04%	-2.75%	0.01%	-0.29%	-9.48%	-7.54%	-6.09%	5.98%	1.03%	1.38%	2.66%	1.74%	-5.75%	0.96%	0.85%	0.65%	-0.41%	1.95%	
Average Gross Book Value of Depreciable Assets	255.55	254.67	255.43	254.22	255.55	254.67	255.43	254.22	255.55	254.67	255.43	254.22	255.55	254.67	255.43	254.22	255.43	254.22	
Depreciation Expense	2.81	2.62	2.61	2.67	2.76	2.78	2.42	2.67	2.70	2.78	2.29	2.67	2.64	2.71	2.68	2.67	10.00	10.68	
Depreciation percentage	1.10%	1.03%	1.02%	1.05%	1.08%	1.09%	0.95%	1.05%	1.06%	1.09%	0.90%	1.05%	1.03%	1.06%	1.05%	1.05%	4.20%	4.20%	
Percentage Change																			
Sales		-6.50%	7.53%	-5.30%		-4.54%	-1.37%	0.87%		1.47%	2.20%	-1.03%		0.02%	-7.46%	-2.32%	-0.01%	-1.99%	
Gross Profit		-4.75%	1.04%	0.47%		0.78%	6.72%	-4.97%		2.60%	-6.24%	3.03%		8.00%	-3.70%	-0.55%	-0.92%	-2.30%	
SG&A																			
Operating, General & Admin.		2.15%	-2.69%	-6.55%		3.43%	-2.03%	-8.71%		-0.80%	-1.21%	-1.95%		-7.84%	-9.69%	-4.68%	3.89%	-5.53%	
Advertising		6.06%	15.29%	-5.30%		-30.51%	-36.81%	0.87%		10.79%	-14.20%	-1.03%		-66.72%	-7.46%	-2.32%	9.03%	-2.46%	
Occupancy		-7.49%	1.32%	7.33%		-4.17%	3.48%	7.16%		2.05%	-5.13%	12.61%		3.74%	-10.59%	9.48%	2.76%	9.08%	
Per Store Data																			
No. of Stores	41	40	39	37	41	40	38	36	40	40	37	36	40	40	37	35	37	35	
Average Sq.Ft. Per Store	40,119	40,150	39,795	38,811	40,119	40,150	39,711	38,722	40,150	40,150	38,811	38,722	40,150	40,150	38,811	38,722	38,811	38,722	
Selling Sq. Ft. (Million Sq.Ft.)	1.64	1.61	1.55	1.44	1.64	1.61	1.51	1.39	1.61	1.61	1.44	1.39	1.61	1.61	1.44	1.36	1.44	1.64	
Sales/Sq.Ft	41.31	39.56	44.02	45.06	39.55	38.67	40.59	42.01	45.62	46.29	52.91	53.95	46.84	46.85	48.49	50.18	191.63	163.97	
% Change in Sale Per Sq.Ft.		-4.24%	11.28%	2.35%		-2.23%	4.97%	3.50%		1.47%	14.30%	1.96%		-13.17%	0.02%	3.50%			
Selling General & Admin. (Per Sq.Ft)																			
Operating	11.41	11.94	12.02	12.14	11.58	12.27	12.79	12.92	11.67	11.58	12.79	12.92	12.73	11.73	11.85	11.96	51.07	42.12	
Occupancy	2.74	2.59	2.72	3.15	2.83	2.77	3.06	3.54	2.68	2.73	2.90	3.36	2.65	2.74	2.74	3.18	11.79	11.23	

Source: Company Documents, Student Estimates

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