

EQUITY RESEARCH



2000

**EXTREME VALUE RETAILING**

EQUITY RESEARCH

IDENTIFYING GROWTH  
AND PERFORMANCE  
CHARACTERISTICS

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ADVANCING IDEAS

**usbancorp**  
Piper Jaffray®



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Introduction And Summary  
Of Investment  
Recommendations

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*Extreme Value Retailers* are capable of superior financial performance compared to most other segments of retailing, positioning the stocks of these select companies to outperform other retailers over the long term. The best *Extreme Value Retailers* generate unusually high financial returns, giving them an innate ability to grow rapidly without dilution. Companies delivering the strong financial returns typically share many common traits, including product-sourcing strategies, an emphasis on inventory productivity, and powerful assortments of brands and/or consumable merchandise.

It is our view that the best performing retail stocks typically have extraordinarily profitable store-level economic models. The cash-on-cash returns on these models are high, allowing these companies to grow rapidly from primarily internal funding. Nowhere is this more clear than in the *Extreme Value Retailing* segment, in which a handful of companies outperform all peers on a consistent basis.

These high-performing *Extreme Value Retailers* typically share several growth and performance characteristics that drive the strong store-level economic models. For example, most leading *Extreme Value Retailers* are proactive in their merchandising strategies, carefully planning the assortment and merchandising buy down to the SKU levels. In contrast, the weaker models tend to focus more on departmental buying strategies that emphasize category representation but not SKU-level specifics. Other factors differentiating performance include the merchandise mix of branded and consumable goods, sales productivity, strong gross margins, and inventory productivity. Several of the *Extreme Value Retailing* concepts, including Dollar Tree Stores and 99¢ Only Stores, earn store-level ROIs in excess of 100% annually—i.e., they earn back all of the money invested in the store in less than one year.

The high store-level ROI needs to translate into impressive corporate productivity. Many retailers have claimed extraordinary store-level financial returns, but have been unable to demonstrate an ability to translate these returns into a highly productive return on the corporate-wide assets.

Hence, we believe it is important to compare the productivity of retailing concepts by evaluating the corporate return on assets (ROA). Broadlines and hardlines retailers typically earn an ROA in the 4% to 10% range, while softline retailers tend to have higher ROAs because of higher inventory turns. We estimate that the leading broadline retailers (those with an equity market capitalization of more than \$1 billion) have an average ROA of 10.3%, while the leading hardline retailers post an average ROA of 9.3%. Softline retailers focused on the value segment have an average near 11.3%, reflecting the high inventory turns in that category.

## Exhibit 1

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**RETURN ON ASSETS RANKINGS FOR SELECTED LEADING BROADLINES AND HARDLINES RETAILERS**

<b>Company</b>	<b>Symbol</b>	<b>Return on Assets</b>
Ethan Allen Interiors, Inc.	ETH	17.9%
Bed Bath & Beyond Inc. (#)	BBBY	15.4%
Home Depot, Inc. (#)	HD	15.2%
Kohl's Corp	KSS	10.6%
Staples, Inc.	SPLS	9.5%
Wal-Mart Stores (#)	WMT	9.3%
Best Buy Co, Inc. (#)	BBY	8.8%
Target Corp.	TGT	7.2%
Average for 14 leading broadlines retailers		10.3%
Average for 19 leading hardlines retailers		9.3%

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Source: FactSet and U.S. Bancorp Piper Jaffray

*Extreme Value Retailers* generally post favorable ROAs compared to other retailing participants. In fact, four of the top seven ROAs in broadlines and hardlines retailing belong to *Extreme Value Retailers*: Dollar Tree Stores, Family Dollar Stores, 99¢ Only Stores, and Dollar General (the other three in the top seven are Ethan Allen Interiors, Home Depot, and Bed Bath & Beyond).

## Exhibit 2

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**RETURN ON ASSETS RANKINGS FOR *EXTREME VALUE* PARTICIPANTS**

<b>Company</b>	<b>Symbol</b>	<b>Return on Assets</b>
Burlington Coat Factory Warehouse	BCF	4.8%
Consolidated Stores Corp. (#)	CNS	4.5%
Dollar General (#)	DG	16.5%
Dollar Tree Stores, Inc. (#)	DLTR	20.3%
Factory 2-U, Inc (#)	FTUS	12.5%
Family Dollar Stores (#)	FDO	13.7%
99¢ Only Stores (#@)	NDN	15.3%
Ross Stores, Inc.	ROST	17.0%
TJX Companies, Inc. (#)	TJX	18.3%
Tuesday Morning Corp. (#)	TUES	9.2%
Value City Department Stores, Inc.	VCD	3.6%
Average for 6 broadlines EVR companies		13.3%
Average for 5 softlines EVR companies		11.3%

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Source: FactSet and U.S. Bancorp Piper Jaffray

We believe the inherently high profitability of the better performing *Extreme Value Retailing* participants should translate into more substantial valuation premiums compared to the general population of retailers. Consider the case of Dollar Tree Stores. It has attained superior financial performance compared to most other retailers in almost every important measure. Yet Dollar Tree Stores' P/E of 23.6 times estimated 2000 EPS is attractive relative to other broadlines and *Extreme Value Retailers*. For example, broadlines retailers are presently valued at 31.5 times estimated 2000 EPS on an unweighted basis (the weighted P/E is significantly distorted by Wal-Mart's high P/E and extremely large market capitalization, which exceeds the combined market value of all other broadlines retailers). The *Extreme Value Retailing* sector presently has an average P/E of 16.2 times estimated 2000 EPS. We believe over time Dollar Tree Stores' valuation premium will expand to the range accorded the top performing broadlines retailers, including companies like Wal-Mart, Costco, and Kohls. Although this valuation comparison may seem a stretch, we note that Dollar Tree Stores has grown sales and EPS faster than these three firms, and the forward outlook suggests this trend will continue.

Exhibit 3

VALUATION ANALYSIS—LEADING BROADLINES AND HARDLINES RETAILERS

Symbol	Company	3/15/00	52-Week		Equity Mkt Value (\$MM)	Sales - LTM (\$MM)	EPS Est.		P/E Ratios	
		Price	High	Low			1999	2000	1999	2000
BBY	Best Buy Co.	63.00	80.50	40.50	12,814	11,635	1.51	1.93	41.6	32.6
BBBY	Bed Bath & Beyond, Inc.	24.88	39.38	22.00	3,202	1,723	0.84	1.05	29.5	23.6
CC	Circuit City Stores	42.25	53.88	29.31	8,623	10,153	1.52	1.85	27.9	22.9
COST	Costco Wholesale Corp.	48.63	55.19	32.69	19,246	29,546	1.25	1.45	39.0	33.4
HD	Home Depot, Inc.	55.00	69.75	35.75	120,403	38,434	0.98	1.22	56.4	45.0
KSS	Kohl's Corp.	84.50	89.00	61.50	13,592	4,557	1.52	1.85	55.6	45.8
SPLS	Staples, Inc.	19.94	35.94	16.44	8,482	8,842	0.69	0.87	29.1	22.8
TGT	Target Corporation	63.06	77.00	53.75	27,775	33,702	2.50	2.88	25.2	21.2
WAG	Walgreen Co.	25.38	32.88	22.06	25,136	18,646	0.66	0.78	38.5	32.7
WMT	Wal-Mart Stores	49.56	70.25	38.88	212,666	165,013	1.26	1.43	39.5	34.6
<b>Mean</b>									<b>38.2</b>	<b>31.5</b>

Source: FactSet and First Call

As a result of this analysis, we believe several *Extreme Value Retailing* companies represent excellent opportunities, while several others are considerably less attractive. Clearly, **Dollar Tree Stores** and **99¢ Only Stores** should be placed above the other *Extreme Value Retailers* when it comes to valuation. These companies have unusually high levels of store profitability, and their corporate ROA position these two companies as two of the leading four broadlines and hardlines retailers when ranked by this measure. Both Dollar Tree Stores and 99¢ Only Stores are rated a Strong Buy.

We also like the shares of Factory 2-U Stores, Family Dollar Stores, and Tuesday Morning. **Factory 2-U Stores** is the fastest growing participant in the apparel segment of *Extreme Value Retailing*, positioned to compete with companies like TJX and Ross Stores. Factory 2-U Stores recently announced an acceleration in its store development plans. This combined with an easing of difficult comps as 2000 progresses gives us confidence regarding this stock's outlook for the next 12 months; we rate Factory 2-U Stores a Strong Buy.

Exhibit 4

**VALUATION ANALYSIS—EXTREME VALUE RETAILING**

(\$ in Millions, Except Per Share)

Symbol	Company	3/15/00	52-Week		Equity Mkt Value (\$MM)	Sales - LTM (\$MM)	EPS Est.		P/E Ratios	
		Price	High	Low			1999	2000	1999	2000
BCF	Burlington Coat Factory Wrhse.	13.25	20.75	9.69	609	2,057	1.27	1.58	10.5	8.4
CNS	Consolidated Stores Corp.	12.44	38.13	11.13	1,358	4,700	0.86	0.87	14.5	14.4
DG	Dollar General	21.00	32.63	18.00	5,319	3,888	0.80	0.99	26.3	21.2
DLTR	Dollar Tree Stores, Inc.	42.13	54.50	28.75	2,337	1,198	1.45	1.79	29.1	23.6
FDO	Family Dollar Stores	16.25	26.75	14.00	2,754	2,837	0.87	1.06	18.7	15.3
FTUS	Factory 2-U Stores	26.81	34.13	11.00	339	421	1.05	1.32	25.6	20.3
NDN	99¢ Only Stores	34.75	39.38	18.75	1,157	443	1.00	1.20	34.8	28.9
ROST	Ross Stores, Inc.	18.13	26.13	12.00	1,547	2,469	1.67	1.97	10.8	9.2
TJX	TJX Companies, Inc.	15.06	37.00	13.94	4,690	8,590	1.63	1.90	9.2	7.9
TUES	Tuesday Morning Corp.	11.13	26.75	9.63	420	467	0.73	0.87	15.2	12.8
<b>Mean</b>									<b>19.5</b>	<b>16.2</b>

Source: FactSet and First Call

**Family Dollar Stores** represents another attractive opportunity in the broadlines segment of *Extreme Value Retailing*. Its valuation is among the lowest in the group at 18.0 times estimated 2000 EPS (four quarters ending February), a reflection of a slower unit growth rate than most of the other high-performing companies. Family Dollar Stores grows its store base conservatively, at roughly 11% annually. Although this lessens execution risk, it also causes a historical valuation discount because this company grows considerably slower than other leading participants, like Dollar Tree Stores and 99¢ Only Stores. We find this discount attractive and rate the shares of Family Dollar Stores a Strong Buy.

**Tuesday Morning** is poised to join Dollar Tree Stores and 99¢ Only Stores as one of the leading broadlines and hardlines *Extreme Value Retailers*. Tuesday Morning has an exceptionally profitable store-level model that delivers strong financial performance. As the Company grows and realizes greater operating efficiencies, we believe its impressive ROA of 9.2% will increase into the 11% to 13% range, making it one of the most profitable retailers. Tuesday Morning's shares have recently been under pressure, as a result of investor disappointment that December same-store sales trends cooled from the torrid pace seen in November. While acknowledging this disappointment, we believe the investor reaction has been overdone and contend Tuesday Morning's valuation is compelling and rate these shares a Strong Buy. We note that sales trends in early February have been encouraging relative to our assumptions.

**Consolidated Stores** is a company we view less favorably for several reasons. First, its value store concepts—Big Lots and Odd Lots stores in the eastern United States and Mac Frugal's in the west—have proven considerably less profitable than other *Extreme Value Retailing* participants. In addition, the Company is burdened with a large, relatively unsuccessful toy operation that includes KB Toys and KBkids.com, a recent entrant in the incredibly unprofitable world of online toy retailing. We believe the risks associated with this story are high, and the stock is suitable only for those buying a stock simply because its cheap. We rate these shares a Buy.

**Historical Overview Of Company And Share Price Performance For *Extreme Value Retailers***

With the exception of a small group of stocks, 1999 was a disappointing year for bricks-and-mortar retailers. The S&P Retail Composite Index gained 20.6% for the year, slightly ahead of the 19.5% gain in the S&P 500. However, all of this gain can be attributed to one stock: Wal-Mart. Wal-Mart gained 69.8% in 1999 and finished the year with weighting of 37.3% in the S&P Retail Composite Index. Hence, Wal-Mart's gain contributed near 25% to the S&P retail performance, implying that all of the other retail stocks actually posted a combined loss for the year. Looked at differently, fully 23 of the 37 stocks in this index saw share prices decline in 1999.

Exhibit 5

**PERFORMANCE OF S&P RETAIL COMPOSITE INDEX AND CONSTITUENTS DURING 1999**

(\$ in Millions)

Company	Ticker	12/31/99		Est 2000 P/E	Index Weighting
		Mkt Value (\$MM)	% Price Chg		
Wal-Mart Stores	WMT	307,865	69.8%	34.6	37.3%
Home Depot, Inc.	HD	158,236	68.5%	45.0	19.2%
Gap, Inc.	GPS	39,140	22.9%	28.5	4.7%
Target Corp.	TGT	32,179	35.4%	21.2	3.9%
Walgreen Co.	WAG	29,409	-0.1%	32.7	3.6%
Lowe's Cos.	LOW	22,841	16.7%	20.3	2.8%
Costco Wholesale Corp.	COST	20,273	26.4%	33.4	2.5%
Safeway, Inc.	SWY	18,261	-41.3%	17.1	2.2%
Kroger Co.	KR	15,742	-37.6%	10.9	1.9%
Cvs Corp.	CVS	15,631	-27.5%	18.0	1.9%
Albertsons, Inc.	ABS	13,662	-49.4%	10.1	1.7%
Kohls Corp.	KSS	11,766	17.5%	45.8	1.4%
Sears Roebuck & Co.	S	11,480	-28.5%	6.7	1.4%
May Department Stores Co.	MAY	10,670	-19.9%	9.3	1.3%
Federated Dept Stores	FD	10,617	16.1%	9.7	1.3%
Best Buy Co, Inc.	BBY	10,272	63.7%	32.6	1.2%
Tandy Corp.	TAN	9,505	138.8%	23.2	1.2%
Staples, Inc.	SPLS	9,481	-28.8%	22.8	1.2%
Limited, Inc.	LTD	9,304	57.3%	15.3	1.1%
Circuit City Str Crct Cty Gp	CC	9,170	80.5%	22.9	1.1%
TJX Companies, Inc.	TJX	6,337	-29.5%	7.9	0.8%
Dollar General	DG	6,013	20.4%	21.2	0.7%
Penney (J C) Co.	JCP	5,184	-57.5%	7.1	0.6%
K Mart Corp.	KM	4,902	-34.3%	6.8	0.6%
Bed Bath & Beyond, Inc.	BBBY	4,877	1.8%	23.6	0.6%
Autozone, Inc.	AZO	4,465	-1.9%	11.0	0.5%
Office Depot, Inc.	ODP	3,728	-55.5%	9.6	0.5%
Nordstrom, Inc.	JWN	3,557	-24.1%	12.7	0.4%
Winn-Dixie Stores, Inc.	WIN	3,499	-46.7%	18.2	0.4%
Sherwin-Williams Co.	SHW	3,495	-28.5%	10.1	0.4%
Toys R Us, Inc.	TOY	3,434	-15.5%	8.1	0.4%
Rite Aid Corp.	RAD	2,881	-77.6%	16.3	0.3%
Dillard's, Inc -CLA	DDS	2,118	-28.9%	6.2	0.3%
Consolidated Stores Corp.	CNS	1,801	-19.5%	14.4	0.2%
Great Atlantic & Pac Tea Co.	GAP	1,069	-5.9%	11.7	0.1%
Long Drug Stores, Corp.	LDG	1,016	-31.2%	8.4	0.1%
Pep Boys-Manny, Moe & Jack	PBY	455	-43.0%	8.5	0.1%
<b>Mean</b>			<b>-2.6%</b>	<b>17.9</b>	
<b>S&amp;P Retail Composite Index</b>			<b>20.6</b>		

Sources: FactSet and FirstCall

The overall weakness in retailing was clearly reflected in valuations for the *Extreme Value Retailing* segment. In fact, six of the nine stocks in the *Extreme Value Retailing* Index ended 1999 with share prices lower than those at the start of the year, and the Index itself ended 1999 down 10.6% from year-earlier levels. Only Dollar General, Dollar Tree Stores, and Factory 2-U Stores ended the year with higher share prices. The other six stocks saw an average share price decline of 20.1% on an unweighted basis.

## Exhibit 6

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**PERFORMANCE OF U.S. BANCORP PIPER JAFFRAY EXTREME VALUE RETAILING INDEX AND RELATED STOCKS IN 1999**

Company	Symbol	1999 Ending Price	52-Week Change
Burlington Coat Factory	BCF	\$13.88	-14.9%
Consolidated Stores	CNS	\$16.25	-19.5%
Dollar General	DG	\$22.75	+20.4%
Dollar Tree Stores	DLTR	\$48.44	+10.9%
Factory 2-U Stores	FTUS	\$28.38	+243.9%
Family Dollar Stores	FDO	\$16.31	-25.9%
99¢ Only Stores	NDN	\$38.25	-22.1%
Ross Stores	ROST	\$17.94	-8.9%
TJX Companies	TJX	\$20.44	-29.5%
Tuesday Morning*	TUES	\$18.44	NA
<i>Extreme Value Index</i>			-10.6%

\*Tuesday Morning was not public full year due to IPO in February  
Source: FactSet and U.S. Bancorp Piper Jaffray

Many companies in the *Extreme Value Retailing* Index have performed admirably over the long term, however, with several stocks appreciating 20% or more annually over extended periods of time. Family Dollar Stores, for example, saw its share appreciate from \$1.77 a share at the end of 1989 to \$22.00 a share at the end of 1999, which provided a 24.9% compound annual rate of return for the 10-year period. Over the same time the S&P 500 gained 15.3% annually and the S&P Retail Index averaged 18.1% annually. Dollar Tree Stores posted a 60% annual appreciation from the end of 1995 (the year it went public) to the end of 1999, trouncing the average returns of 24% for the S&P 500 during this period and 34% for the S&P Retail Index. And 99¢ Only Stores share price appreciated 53% annually from the end of 1996 to the end of 1999. (Note, historical prices referenced above fully reflect any stock splits over the indicated time period.)



Exhibit 7

**LONG-TERM COMPARISON OF *EXTREME VALUE RETAILING* INDEX,  
S&P 500 INDEX, AND S&P RETAIL COMPOSITE INDEX**

	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>99/95 Change</b>
EVR Index	375.7918	420.5581	353.8832	213.6176	106.2346	+253.7%
Annual change	-10.6%	+18.8%	+65.7%	+101.1%	—	
S&P 500	1469.25	1229.23	970.43	740.74	615.93	+138.5%
Annual change	+19.5%	+26.7%	+31.0%	+20.2%	—	
S&P Retail Index	1023.39	848.86	529.98	370.06	317.38	+222.4%
Annual change	+20.6%	+60.2%	+43.2%	+16.6%	—	

Source: FactSet and U.S. Bancorp Piper Jaffray

We believe the long-term positive performance relative to both the S&P 500 and S&P Retail Composite Index reflects characteristics specific to *Extreme Value Retailers* that allows them to generate incredibly high financial returns at both the store and corporate levels. First, the high performing *Extreme Value Retailers* tend to share some performance and positioning points, including product sourcing methods, emphasis on consumable and branded merchandise, and exceptional emphasis on inventory productivity. These efforts translate into relatively strong operating margins, helping drive impressive capital productivity at both the store and corporate levels.

Exhibit 8

**LONG-TERM STOCK MARKET PERFORMANCES OF SELECTED *EXTREME VALUE RETAILERS***

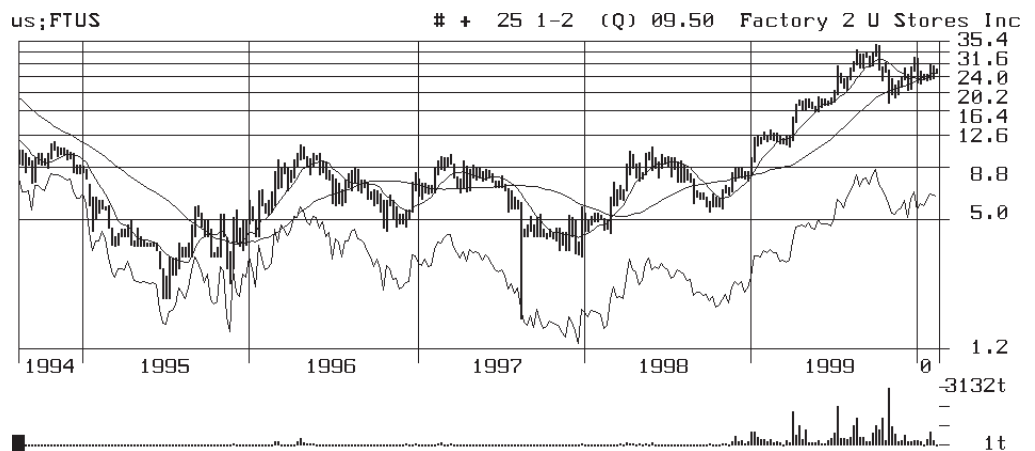
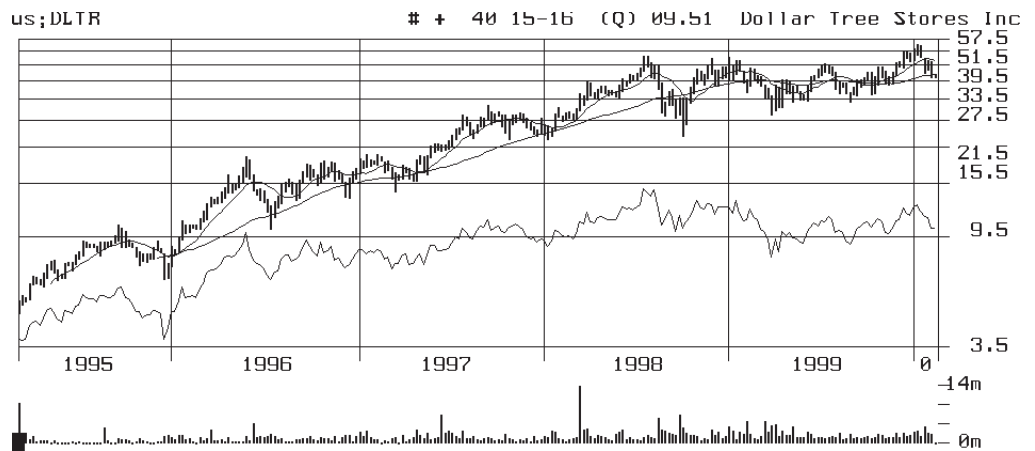
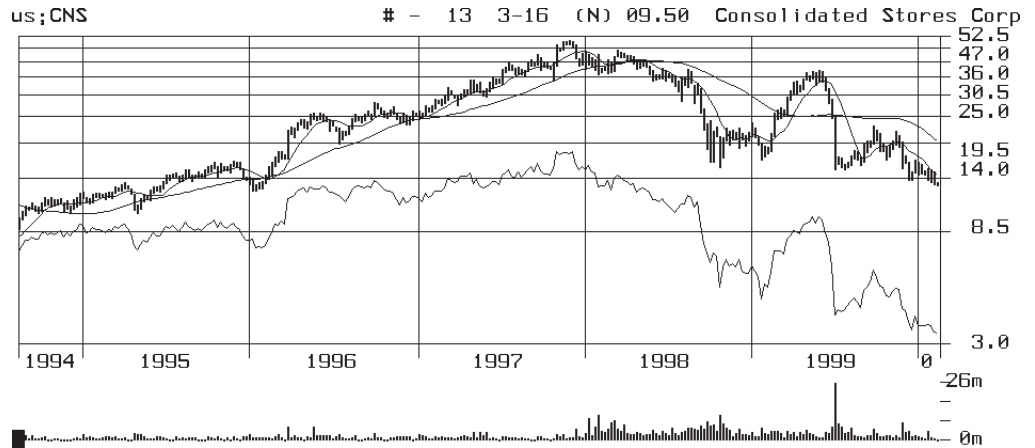
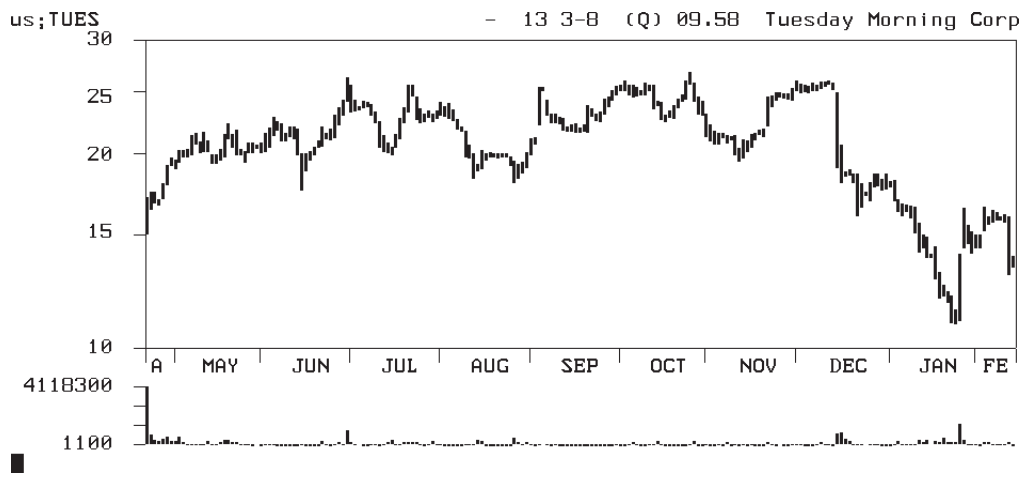
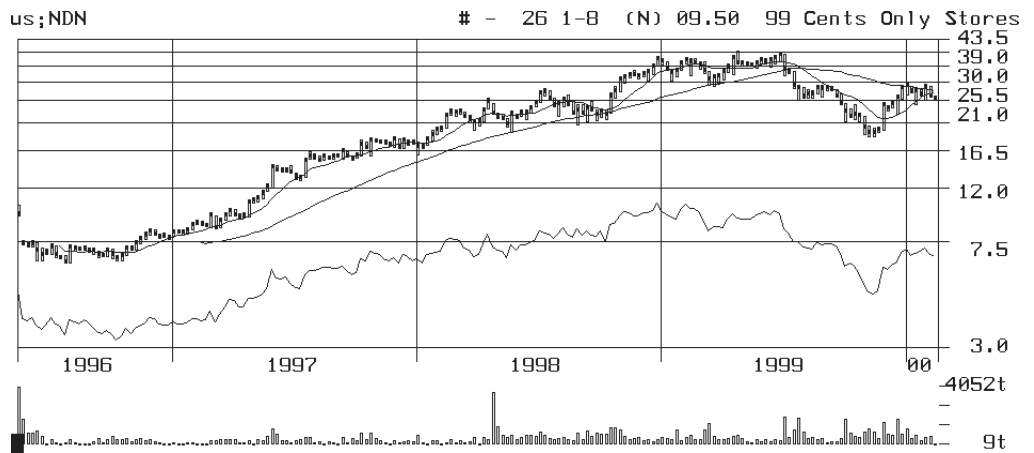
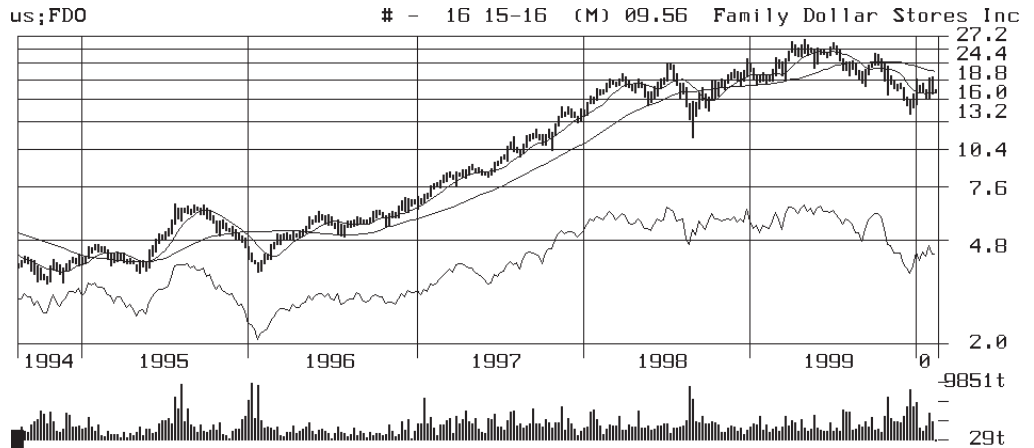


Exhibit 8

**LONG-TERM STOCK MARKET PERFORMANCES OF SELECTED *EXTREME VALUE RETAILERS*, CONTINUED**



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Differentiating  
Performance Of *Extreme  
Value Retailers*

High-performing *Extreme Value Retailers* typically share several growth and performance characteristics that drive the strong store-level economic models. For example, most of the leading *Extreme Value Retailers* are proactive in their merchandising strategies, carefully planning the assortment and making the buy down to the SKU levels. In contrast, the weaker models tend to focus more on departmental buying strategies that emphasize category representation but not SKU-level specifics. Several of the *Extreme Value Retailing* concepts, including Dollar Tree Stores and 99¢ Only Stores, earn store-level ROIs in excess of 100% annually—i.e., they earn back all of the money invested in the store in less than one year.

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Merchandising  
Strategies Have  
Important Influence

We differentiate the merchandising strategies of *Extreme Value Retailers* as either proactive or reactive. *Extreme Value Retailers* employing proactive merchandising are actively involved in planning and sourcing the majority of their merchandise at the SKU level. Examples of proactive merchandising would include assortments of reorderable products, direct sourcing of private-label merchandise, or indirect sourcing of private-label goods. Company-specific examples include the heavy assortment of reorderable merchandise (soda, coffee, cereals, shaving cream, etc.) at 99¢ Only Stores or the directly sourced private-label housewares goods (spatulas, stirring spoons, vegetable peeler, knives, etc.) at Dollar Tree Stores.

Reactive merchandising involves the management of products to departmental level, and is most easily described by the word “closeout.” Achieving success through reactive merchandising is more difficult than proactive strategies. Closeouts by nature are often products that met failure or limited success in other retail channels or products that are late in a life cycle (Power Ranger toys or bread makers). These products are often bought late in season or after a season ends, thus creating inventory productivity issues that are difficult to overcome (markdown risk and substantial hurdles against strong inventory turns).

*Extreme Value Retailers* successfully employing proactive merchandising tend to significantly outperform other category participants in several important measures, including sales per square foot, inventory productivity, operating margins, and store-level ROI. Although reactive merchandising is difficult, a few companies have succeeded wildly in these same productivity parameters, including Factory 2-U Stores and Tuesday Morning. The success at Factory 2-U Stores reflects the importance in softlines of category representation rather than SKU, due to the changing nature of merchandise offered. Tuesday Morning’s success reflects a merchandise focus emphasizing high-end branded products.

The Importance Of Consumable Merchandise And Brands In Driving Sales Productivity

Another important trait in the success of most *Extreme Value Retailers* is a strong presentation of consumable merchandise. We view consumable merchandise as important for several reasons. First, it usually creates tighter continuity at both the departmental and SKU level. Also, when consumers are confident of the availability of consumable merchandise at a given retailer they will shop that retailer with greater frequency. Consider the positioning of 99¢ Only Stores. A typical 99¢ Only Store derives 60% of sales from consumable merchandise, which includes food products, health and beauty aids (makeup, shampoo, toothpaste, deodorant), and household chemicals (detergent, window cleaner). In this process, these stores generate average sales per square foot of \$240-\$260 at mature locations. No other publicly held *Extreme Value Retailer* come close to this level of consumable presentation, and coincidentally no other retailer sees sales per square foot exceed \$200.

Exhibit 9

MIX DIFFERENTIATION VERSUS SALES PRODUCTIVITY

Company	Merchandise Mix Characteristics			Annual Sales Per Square Foot (Gross)
	Fashion-Forward	Consumables Concentration	Brand Concentration	
Consolidated Stores Corp.	No	Low	Medium	\$90 - \$100
Dollar General	No	Medium	Medium	\$110 - \$120
Dollar Tree Stores, Inc.	No	Low	Low	\$170 - \$190
Family Dollar Stores	No	Medium	Medium	\$105 - \$110
Factory 2-U Stores	Mixed	None	Medium	\$195 - \$205
99 Cents Only Stores	Mixed	High	High	\$240 - \$260
Tuesday Morning Corp.	Mixed	None	Medium	\$170 - \$180

Source: U.S. Bancorp Piper Jaffray estimates

Branded merchandise also appears to be another important element for successful *Extreme Value Retailers*. On the hardlines side, 99¢ Only Stores again leads in this measure with a branded assortment mix that captures near 60% of sales. In a softlines retail format, Factory 2-U Stores realizes nearly 70% of sales from major brands, which is high relative to its demographic positioning. These two retailers clearly see excellent sales productivity compared to other *Extreme Value Retailers*, as shown in Exhibit 9.

Powerful Inventory Productivity Is An Important ROA Component

Combinations of proactive merchandising, consumable emphasis, and strong brand presentations typically yield powerful inventory productivity. Dollar Tree Stores and 99¢ Only Stores clearly exemplify inventory productivity in hardlines/broadlines, while Factory 2-U Stores provides compelling performance in softlines.

In the case of Dollar Tree Stores, consider the following: Dollar Tree Stores' buyers are proactive merchants, traveling several times each year to source private-label merchandise from Asia. At 15% of sales, Dollar Tree Stores' consumable presentation is also above average and yields benefits. Only in the area of branded offerings does Dollar Tree Stores fall short of the group average.

Exhibit 10

**INVENTORY PRODUCTIVITY COMPARISON**

Broadlines Versus Hardlines

	Sales / Inv Turnover	CGS / Inv Turnover
<b>BROADLINES:</b>		
Target Corp.	7.2	5.4
Wal-Mart Stores	7.7	6.0
Costco Wholesale Corp.	11.1	11.1
Kohl's Corp.	4.9	4.9
Walgreen Co.	7.2	7.2
Dollar Tree Stores, Inc.	5.5	5.5
Family Dollar Stores	4.8	4.8
Tuesday Morning Corp.	2.6	2.6
Dollar General	3.8	3.8
<b>Mean</b>	<b>6.1</b>	<b>5.7</b>
<b>HARDLINES:</b>		
Best Buy Co, Inc.	6.2	5.0
Home Depot, Inc.	8.2	5.7
Circuit City Str. Crct Cty Gp.	4.9	3.7
Lowe's Cos.	6.3	4.7
Bed Bath & Beyond Inc.	3.7	2.2
Tandy Corp.	4.2	2.2
Tiffany & Co. (#)	2.7	1.1
<b>Mean</b>	<b>5.2</b>	<b>3.5</b>

In contrast, Factory 2-U Stores leads the pack by emphasizing brand offerings, with a secondary focus on proactive merchandising. A consumer is never assured of finding a specific product in a Factory 2-U Store. However, they know Factory 2-U Stores always carries an assortment of branded and licensed apparel in fixed departments and categories. In addition, Factory 2-U Stores capably integrates proactive merchandising through "pre-" and "in-season" buying of closeout goods, thus reducing the need to store goods year to year for particular seasons.

Exhibit 11

**INVENTORY PRODUCTIVITY COMPARISON**

Softlines

	Sales / Inv Turnover	CGS / Inv Turnover
<b>SOFTLINES:</b>		
Factory 2-U Stores, Inc.	12.7	8.2
Gap, Inc.	7.3	4.1
Limited Inc.	6.5	4.3
Ross Stores, Inc.	4.4	3.1
Burlington Coat Factory	3.1	2.1
TJX Companies, Inc.	5.5	4.1
<b>Mean</b>	<b>6.6</b>	<b>4.3</b>

**Distribution Capabilities  
And Productivity Highly  
Important**

Distribution capability and productivity are exceptionally important to the operational and financial success of *Extreme Value Retailers*. Some of the *Extreme Value Retailers*, like Dollar Tree Stores, have substantial import-related warehouse requirements. Christmas goods sold at Dollar Tree Stores often started landing domestically in late spring, which requires the company to hold these goods until shipped to the stores in late summer and fall. Closeout retailers like Consolidated Stores, 99¢ Only Stores, and Tuesday Morning have acute distribution needs driven by the vagaries of the closeout business. The timing dictates, for example, that most Valentine's Day goods are purchased in late February and sold at retail the following year!

We have compiled a table that compares the distribution capabilities of many of the *Extreme Value Retailers*, including all of the companies in our coverage. One method of judging distribution center productivity is by comparing retail sales to distribution center square footage. To make this comparison fully effective, one would need to know the percentage of goods moved through each company's distribution centers, a statistic not readily available. The trends in the comparison do provide some interesting conclusions, however. First, a heavy apparel mix clearly helps as three of the top four performers (Factory 2-U Stores, Family Dollar Stores, and Dollar General) when comparing sales to distribution center square footage generate a significant percentage of sales from apparel. Also, closeout retailers (Consolidated Stores, 99¢ Only Stores, and Tuesday Morning) clearly lag in this comparison due to the lengthy periods in which goods reside in distribution centers.

## Exhibit 12

**COMPARISON OF DISTRIBUTION CENTER CAPABILITIES AND EFFICIENCY FOR  
EXTREME VALUE RETAILERS**

	Store Count		Gross Sq. Ft. (MM)		Sales (\$MM)		Comps %		Distribution Centers			Retail S.F./ DC S.F.			
	1999	% chg	1999	% chg	1999	% chg	1999	1998	Count	Sq. Ft. (MM)	% chg	BOP S.F.	Avg S.F.	1999	1998
	CNS	1,230	9%	31.6	9%	2,892.3	15%	7.6%	-2.1%	8	7.3	0%	\$397	\$397	4.3
DG	4,294	16%	39.5	16%	3,888.0	21%	6.4%	8.3%	9	6.2	48%	\$927	\$746	6.3	8.1
DLTR	1,383	17%	6.7	24%	1,198.0	27%	5.2%	6.8%	4	1.2	0%	\$986	\$986	5.5	4.4
FDO	3,397	10%	27.2	10%	2,836.7	16%	6.9%	9.1%	4	3.4	36%	\$1,136	\$961	8.0	9.9
FTUS	187	11%	2.4	11%	421.4	25%	10.3%	10.9%	1	0.2	0%	\$1,881	\$1,881	10.9	9.8
NDN	78	22%	1.4	31%	312.3	31%	6.1%	4.3%	1	0.9	0%	\$355	\$355	1.6	1.2
TUES	382	10%	2.6	11%	488.9	23%	13.3%	12.1%	3	1.2	33%	\$543	\$466	2.2	2.6

Notes: CNS figures are for closeout division only

FDO figures have been estimated on a calendar basis

NDN figures represent just the 99¢ Only Stores segment

Source: Company filings and U.S. Bancorp Piper Jaffray estimates

Some of these comparisons are misleading. Dollar General, for example, aggressively built its distribution infrastructure in the last year, and now plans to leverage this investment as new stores will easily spoke from the existing DCs. 99¢ Only Stores, in contrast, has a distribution centers that massively exceeds that company's needs. In fact, we estimate that 99¢ Only Stores could easily support more than 200 stores with this facility compared to the present count of 78.

Another interesting comparison is the number of retail square feet supported by each distribution square foot. This confirms the high productivity of both those companies carrying apparel and the relatively lower productivity of the retailers with a heavy mix of closeout goods. Interestingly, on both lists Dollar Tree Stores' compares extremely well, despite lacking any meaningful assortment of apparel. This sort of distribution leverage becomes important when comparing Dollar Tree Stores gross profit margin of 38% to the 28% to 35% earned by the three other leading participants. This combined with sales leverage and operating leverage is an important element of that company's extremely high return on assets performance.



**High Performing *Extreme Value Retailers* Deliver Superior Operating Margins And Capital Productivity**

With merchandising efforts helping deliver immense sales and inventory productivity, the best *Extreme Value Retailers* realize exceptional margins and store-level returns on investment (ROI). This translates into powerful competitive advantages over other retailers in general and other *Extreme Value Retailers* specifically. Ultimately, we believe this should continue translating into superior stock market performance.

**Generally Excellent Operating Margins**

*Extreme Value Retailers* typically earn extraordinary operating margins compared to most other retailers. In fact, three of the six highest operating margins in broadlines and hardlines retailing belong to *Extreme Value Retailers*: Dollar Tree Stores at 13.41%, 99¢ Only Stores at 12.23%, and Tuesday Morning at 11.97%.

Exhibit 13

**OPERATING MARGINS FOR *EXTREME VALUE* PARTICIPANTS AND OTHER LEADING RETAILERS IN BROADLINES AND HARDLINES SEGMENTS**

Rank*	Company	Symbol	Gross Margin**	Operating Margin
1	Ethan Allen Interiors	ETH	46.65%	17.39%
2	Tiffany & Co.	TIF	56.80%	15.18%
3	Dollar Tree Stores	DLTR	37.66%	13.41%
4	May Department Stores	MAY	31.35%	12.50%
5	99¢ Only Stores	NDN	40.90%	12.36%
6	Tuesday Morning	TUES	35.10%	11.97%
7	Tandy	TAN	48.92%	11.94%
8	Bed Bath & Beyond	BBBY	42.08%	11.31%
9	Zale	ZLC	46.23%	11.09%
10	Autozone	AZO	42.08%	10.64%
11	Home Depot	HD	29.26%	9.73%
12	Kohl's	KSS	31.99%	9.54%
13	Federated Department Stores	FD	35.69%	9.24%
14	Dollar General	DG	28.05%	8.79%
15	Sears, Roebuck & Co.	S	31.36%	8.56%
16	Family Dollar Stores	FDO	33.47%	8.09%
38	Consolidated Stores	CNS	40.77%	3.87%
	Broadlines average			7.12%
	Hardlines average			7.65%

\* Rank among all broadlines and hardlines retailers with market capitalization in excess of \$600 million. This includes 22 broadlines and 26 hardlines retailers.

\*\* Dollar General, Dollar Tree Stores, Family Dollar Stores, and Tuesday Morning gross profit margins are after distribution expenses; 99¢ Only Stores is before distribution expenses. Dollar General, Dollar Tree Stores, and Tuesday Morning gross profit margins also reflect occupancy expenses.

Source: FactSet and U.S. Bancorp Piper Jaffray

We believe the extraordinary operating profits earned by the high-performing *Extreme Value Retailers* are due to several factors. First, sales productivity is impressive by category standards. The three leading *Extreme Value Retailers* all have sales per square foot in the \$170 to \$200-plus range; the worst performing *Extreme Value Retailer*, Consolidated Stores, is likely experiencing sales per square foot below \$100 in its closeout division. And Dollar General and Family Dollar Stores are comfortably in between these two extremes, with ROIs also positioned similarly. Clearly, sales productivity matters.

Gross profit margins also influence operating profits, although the comparison within the group is less conclusive than the impact of sales productivity. Dollar Tree Stores and 99¢ Only Stores clearly earn higher gross margins than Tuesday Morning, Dollar General, and Family Dollar Stores. The higher gross profit margins have to partially account for the extremely high store-level ROI for these two companies. Oddly, Consolidated Stores earns a higher gross profit margin than any other *Extreme Value Retailer* does (and the number in the table above is distorted by margins at Consolidated Stores toy subsidiary, which are markedly lower than the closeout division). This likely reflects Consolidated Stores heavy closeout mix, relatively light presentation of consumables, and, ultimately, may illustrate the lack of productivity because prices may be too high.

#### Exceptional Store-Level ROI

The combination of strong profits and strong inventory turns yields very successful returns on investment (ROI) performance at the store level for most *Extreme Value Retailers*. We estimate that the single-price-point retailers, Dollar Tree Stores and 99¢ Only Stores, both earn an ROI in excess of 100%, a level that is virtually unheard of in other retailing categories. Tuesday Morning and Factory 2-U Stores also have impressive models, with store-level ROIs near 57% and 70%, respectively. And Family Dollar Stores and Dollar General both appear to attain store-level ROIs of 40% to 60%. Even Consolidated Stores, with an estimated store-level ROI of 30% to 40%, compares reasonably to the levels attained by other leading broadlines and hardlines retailers, which typically reach 25% to 35%. In the case of Factory 2-U Stores, leading softlines retailers reach ROIs in the 50% range, positioning this company strongly relative to softlines peers.

Exhibit 14

#### STORE-LEVEL ROI COMPARISON—*EXTREME VALUE RETAILING*

Company	Est. Store-Level ROI (yr 1)
Consolidated Stores Corp.	30% - 40%
Dollar General	35% - 45%
Dollar Tree Stores, Inc.	115%
Family Dollar Stores	35% - 45%
Factory 2-U Stores, Inc.	70%
99¢ Only Stores	110% - 115%
Tuesday Morning Corp.	40% - 45%

Source: U.S. Bancorp Piper Jaffay estimates

Return On Assets For  
Leading *Extreme Value  
Retailers* Exceeds Any  
Other Relevant  
Retailing Categories

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The powerful positioning of the high-performance *Extreme Value Retailers* is easily visible when comparing corporate return on assets (ROA). Dollar Tree Stores is the most profitable broadlines and hardlines retailer in the United States when ranked by this measure, and four of the top seven retailers in this ranking are *Extreme Value Retailers*. All other things being equal, those retailers earning a higher ROA should be able to sustain high levels of growth with minimal need to issue additional equity to fund growth (i.e., high quality growth from an investment perspective). Hence, we believe the top-performing *Extreme Value Retailing* companies should see significant multiple expansion to reflect the inherent superiority of their financial returns and the powerful positioning this creates for growth.

The *Extreme Value Retailers* focused on softlines are also generally quite profitable. TJX and Ross Stores clearly demonstrate that scale delivers substantial asset productivity, a model that we believe Factory 2-U Stores is poised to replicate as it aggressively grows its store base. Long term this category should generate excellent ROAs because of the focus on strong sales productivity, excellent gross margins, minimal markdown risk (these retailers face considerably less fashion risk than traditional softlines retailers), and high operating margins.

## Exhibit 15

**EXTREME VALUE PARTICIPANTS AND SELECTED RETAILERS RANKED BY RETURN ON ASSETS**

Rank	Company	Symbol	ROA (LTM)	Return on Average Total Equity %	5-Year Growth Net Sales %
<b>Broadlines and Hardlines Retailers</b>					
1	Dollar Tree Stores, Inc.	DLTR	20.3%	32.6%	#N/A
2	Ethan Allen Interiors, Inc.	ETH	17.9%	25.3%	12.0%
3	Dollar General	DG	16.5%	26.6%	22.8%
4	Bed Bath & Beyond Inc.	BBBY	15.4%	26.5%	35.2%
5	99 Cents Only Stores	NDN	15.3%	18.0%	#N/A
6	Home Depot, Inc.	HD	15.2%	22.0%	26.2%
7	Tandy Corp	TAN	14.4%	35.0%	2.9%
8	Family Dollar Stores	FDO	13.7%	22.3%	14.4%
9	BJ'S Wholesale Club, Inc.	BJ	11.2%	20.9%	#N/A
10	Kohls Corp.	KSS	10.6%	18.1%	23.7%
11	Pier 1 Imports, Inc./De (#)	PIR	10.4%	17.2%	11.9%
12	Williams-Sonoma, Inc.	WSM	10.4%	22.2%	21.7%
13	Staples, Inc.	SPLS	9.5%	19.3%	42.3%
14	Wal-Mart Stores	WMT	9.3%	23.7%	14.6%
15	Tuesday Morning Corp.	TUES	9.2%	#N/A	18.3%
16	Best Buy Co., Inc.	BBY	8.8%	28.1%	24.3%
17	Cost Plus, Inc.	CPWM	8.8%	14.9%	#N/A
18	Lowes Cos.	LOW	8.8%	17.2%	21.0%
19	May Department Stores Co.	MAY	8.6%	23.3%	2.8%
20	Linens N Things, Inc.	LIN	8.4%	14.7%	#N/A
21	O Reilly Automotive, Inc.	ORLY	8.2%	14.7%	31.9%
22	Autozone, Inc.	AZO	7.9%	19.7%	22.0%
23	Target Corp.	TGT	7.2%	21.2%	9.7%
24	Costco Wholesale Corp.	COST	7.1%	16.2%	10.6%
25	Circuit City Str Crct Cty Gp.	CC	6.6%	14.0%	15.9%
26	Office Depot, Inc.	ODP	6.1%	13.1%	24.8%
27	Shopko Stores, Inc.	SKO	6.1%	13.0%	11.2%
28	Michaels Stores, Inc. (#)	MIKE	6.1%	11.9%	18.2%
29	Barnes & Noble, Inc.	BKS	5.9%	19.3%	18.3%
30	Federated Dept Stores	FD	5.1%	13.0%	17.8%
31	Borders Group, Inc. (#)	BGP	4.9%	11.9%	#N/A
32	Consolidated Stores Corp	CNS	4.5%	7.7%	36.6%
33	Toys R Us, Inc.	TOY	3.9%	10.4%	7.3%
	Broadlines avg. (14 companies)		10.3%		
	Hardlines avg. ( 19 companies)		9.3%		
	Combined avg. (33 companies)		9.8%		
<b>Softlines with Value Focus</b>					
1	TJX Companies, Inc.	TJX	18.3%	45.2%	19.7%
2	Ross Stores, Inc.	ROST	17.0%	38.4%	14.9%
3	Factory 2-U Stores	FTUS	12.5%	33.5%	28.5%
4	Burlington Coat Factory Wrhs.	BCF	4.8%	9.7%	9.2%
5	Value City Dept Stores, Inc.	VCD	3.6%	7.6%	7.0%

Source: FactSet and U.S. Bancorp Piper Jaffray

Single-Price-Point Participants Clearly Generate Highest Productivity Within *Extreme Value* Segments

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Another conclusion we draw is that Dollar Tree Stores and 99¢ Only Stores are in a world set apart from other retailing when it comes to financial performance. Both of these companies rank near the top in every important measure, including sales productivity, gross profit and operating margins, store-level return on investment, and corporate return on assets.

If it were simply one company achieving this unusually strong performance, we probably would not pay too much attention. However, given the confirmation of two public companies attaining these levels bolsters our belief that strong single-price-point retailers possess powerful franchises that should be regarded as superior to almost any other type of retail concept.

Given the relatively small size of these two companies—we estimate Dollar Tree Stores 2000 sales at \$1.5 billion and 99¢ Only Stores 2000 sales at \$527 million - the opportunity remaining for both of these companies is immense. In fact, we estimate that 99¢ Only Stores could triple sales by simply penetrating its current primary market of Los Angeles. Dollar Tree Stores could grow sales by more than 300% by simply penetrating the rest of the United States as deeply as it has its most established markets (which are still comping positively despite continuing cannibalization).

Internet Provides More Opportunity Than Threat; Slowing Economy Typically Illustrates Superiority Of *Extreme Value Retailing*

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Concern over Internet-driven competition has likely hurt retail stocks over the past year. In fact, retail stocks broadly outperformed the overall market for much of 1997 and 1998, and only started to underperform the overall market as Internet retailing concepts went public in 1998 and 1999 (Amazon.com [#], eToys [#], Barnes & Noble.com, etc.). The *Extreme Value Retailing* stocks were not insulated from this, and almost all of these stocks moved down in price during the first half of 1999. Lately, retail stocks have also been under pressure as investors worry about higher interest rates and a slowing economy.

We believe there are a variety of reasons *Extreme Value Retailers* are well-positioned in regard to Internet-driven changes. First, it is very difficult to establish buying relationships with vendors and other suppliers. Trust and experience with past interactions are extremely important. As a result, new entrants have found *Extreme Value Retailing* a difficult category to effectively source merchandise. Second, the capital demands in this business are intense. The working capital needs can be overwhelming, either to make special merchandise buys, closeout buys, or the purchase of privately sourced imports. In addition, the high inventory turns in this business require extensive distribution capabilities and investment.

The Internet should provide an important means of enhancing productivity. In particular, it creates great opportunity in the buying process, in which Internet-driven sourcing could lead to a much larger variety of available merchandise. A number of companies are successfully implementing business-to-business (B2B) strategies in this area, fulfilling a wholesale or auction role in moving closeout and other distressed goods. Expansion of this would clearly broaden the availability of product for *Extreme Value Retailers*.

Finally, *Extreme Value Retailers* have an opportunity to expand bricks-and-mortar franchises into the Internet channel. Branded hardlines goods could be particularly well suited for this channel, while consumable merchandise may prove more difficult. A potential barrier to development of this channel could prove the average transaction size at the various bricks-and-mortar concepts. Most business-to-consumer (B2C) models rely on average order sizes reaching some minimal level to more adequately absorb operational costs. With average transaction sizes ranging well below \$10 for most of the *Extreme Value Retailers*, a similar online transaction size could prove prohibitively small to service efficiently.

## Investment Implications And Recommendations

As a result of our analysis, we believe several *Extreme Value Retailing* companies present excellent opportunities, while several others are less attractive. Clearly, Dollar Tree Stores and 99¢ Only Stores should be placed above the others when it comes to valuation. They have unusually high levels of store profitability, and their corporate ROAs position them as two of the leading four broadlines and hardlines retailers when ranked by this measure.

Dollar Tree Stores has established a position as the clear leader of the *Extreme Value Retailing* segment. It continues an aggressive store rollout strategy that is unmatched within the category on a relative basis. Our Dollar Tree Stores model provides top-line growth of 23% to 25% annually, and we estimate a sustained EPS growth rate of 25% to 30% annually for the forward three to five years. Dollar Tree Stores does trade at modest premiums to other *Extreme Value* participants, but given the superiority of its positioning we find this premium modest. We rate Dollar Tree Stores a Strong Buy and have a 12-month price target of \$59 1/2 - essentially a mid-thirties multiple on our 2000 EPS estimate of \$1.78.

We believe 99¢ Only Stores also deserves a significant valuation premium. This company should sustain 3- to 5-year growth rates similar to those at Dollar Tree Stores, with sales growing 20% to 25% annually and EPS growing at 25% or higher. This growth represents substantial premiums to historical or estimated growth rates for both the broad market and leading retailers. 99¢ Only Stores is presently valued at 28.9 times our 2000 EPS estimate of \$1.21. Our 12-month target price of \$42 assumes a multiple of 35 times our 2000 EPS estimate of \$1.21 or 28 times our 2001 EPS estimate of \$1.50.

We also like the shares of Factory 2-U Stores, Family Dollar Stores, and Tuesday Morning. Factory 2-U Stores is the fastest growing participant in the apparel segment of *Extreme Value Retailing*, positioned to compete with companies like TJX and Ross Stores. Factory 2-U Stores recently announced an acceleration in its store development plans. This combined with an easing of difficult comps as 2000 progresses gives us confidence regarding this stock's outlook for the next 12 months; we rate Factory 2-U Stores a Strong Buy. Our 12-month target price on this stock is \$40, and assumes a multiple of 30 times our 2000 EPS estimate of \$1.34.

Family Dollar Stores represents another attractive opportunity in the *Extreme Value* sector. Its valuation is among the lowest in the broadlines segment of *Extreme Value Retailing* at 15.3 times estimated 2000 EPS (four quarters ending February), a reflection of a slower unit growth rate than most of the other high-performing companies. Family Dollar Stores grows its store base conservatively, at roughly 11% annually. Although this lessens execution risk, it also causes a historical valuation discount because this company grows considerably slower than other leading participants, like Dollar Tree Stores and 99¢ Only Stores. We find this discount attractive and rate the shares of Family Dollar Stores a Strong Buy. Our 12-month target price for Family Dollar Stores is \$33, a mid-twenties multiple of our 2001 estimate of \$1.19.

Tuesday Morning is poised to join Dollar Tree Stores and 99¢ Only Stores as one of the leading broadlines and hardlines *Extreme Value Retailers*. Tuesday Morning has an exceptionally profitable store-level model that delivers strong financial performance. As the Company grows and realizes greater operating efficiencies, we believe its impressive ROA of 9.2% will increase into the 11% to 13% level, making it one of the most profitable retailers. Tuesday Morning's shares have recently been under pressure, as a result of investor disappointment that December same-store sales trends cooled from the torrid pace seen in November. While acknowledging this disappointment, we believe the investor reaction has been overdone and contend Tuesday Morning's valuation is compelling and rate these shares a Strong Buy; our 12-month target price of \$30 assumes a multiple of 35 times our 2000 EPS estimate of \$0.87. We note that sales trends in February have been encouraging relative to our assumptions.

Consolidated Stores is a company we view less favorably for several reasons. First, its value store concepts—Big Lots and Odd Lots stores in the eastern United States and Mac Frugal's in the west—have proven considerably less profitable than other *Extreme Value* participants. In addition, the Company is burdened with a large, relatively unsuccessful toy operation that includes KB Toys and KBkids.com, an entrant in the incredibly unprofitable world of online toy retailing. We believe the risks associated with this stock are high, and that Consolidated Stores is suitable only for those buying a stock simply because it is cheap. We rate these shares a Buy.

## COMPANY OVERVIEWS

Consolidated Stores  
Corporation

Price: \$12 3/8  
FY End: January

EPS *	<u>1998F</u>	<u>1999F</u>	<u>2000FE</u>
Apr	\$0.01	(\$0.03)	
Jul	\$0.06	(\$0.04)	
Oct	(\$0.15)	(\$0.14)	
Jan	<u>\$1.06</u>	<u>\$1.06</u>	
FY	\$0.97	\$0.85	\$0.85
P/E	12.8x	14.6x	14.6x

Revs (\$ Mil.)	<u>1998F</u>	<u>1999F</u>	<u>2000FE</u>
Apr	\$823.3	\$923.7	
Jul	\$823.9	\$929.8	
Oct	\$856.4	\$999.6	
Jan	<u>\$1,690.1</u>	<u>\$1,847.0</u>	
FY	\$4,193.7	\$4,700.2	\$5,171.0

52-Week Range	\$38 1/8 - \$11 1/8
12-Mth Price Tgt (24x 2000FE EPS)	\$20
Shares Out. (Mil.)	113
Market Cap (Bil.)	\$1.4
Avg Daily Volume (Mil.)	357,000
Book Value	\$11.50
Dividend	Nil
3-5 Yr EPS Growth	15%
2000 P/E/Growth	97%

\* EPS estimates include loss impact of e-commerce business

**Investment Conclusion**

Our rating and viewpoint on shares of CNS primarily reflect a belief that this stock is relatively inexpensive compared to the underlying value of its closeout business. While the Company also has a sizable presence in toy retailing, there is considerable debate about its level of success in this segment, and we feel that the market is attaching a limited valuation to this business. Consolidated Stores is not generally viewed as a leader in either one of these businesses; however, there appears to be significant opportunity to improve results and drive earnings substantially higher.

With sales of \$2.9 billion during 1999, the closeout business accounted for nearly two-thirds of the Company's overall revenue for the year. This business generated operating profits of approximately \$180 million for the same period, which translates into an operating margin of 6.2%. While respectable, Consolidated Stores should be capable of far higher levels of profitability, based on our estimates. Some of the inefficiency stems from company-wide issues in areas like inventory management and distribution that are gradually being fixed. Unfortunately, the majority of the problems, in our view, result from severe underperformance of the store-level model. Our calculation of sales per average gross square foot at Consolidated Stores' closeout division is \$90-\$95 over the last 12 months, placing the Company firmly in last place relative to its peer group. How can it operate profitably at this level? Simply by focusing a real estate strategy of cheap rents. Unfortunately, this leaves Consolidated Stores vulnerable to competition from other more productive retailers with better sites. Given the sheer size of Consolidated Stores' closeout business, implementing changes and improvements will take time. Where we have issue with management is that instead of focusing on developing a more viable, strategic approach to fixing closeout, they have chosen to spend most of their time working on repositioning the toy business for the Internet.



*April 2000*

KBKids.com is the Company's 80%-owned joint venture targeting the online retail market for toys and related children's products. A preliminary registration statement has been filed for an initial public offering of KBKids.com so it will have a major influence on the valuation of this company in 2000. CNS has been very guarded about results at KBKids.com, and we have few tangible figures from which to draw any conclusions about its worth. In addition, the online landscape is getting crowded with many other retailers vying for market share, including established e-tailers like eToys and Amazon.com. While we believe KBKids.com can develop a meaningful online business, we are also wary of the many obstacles to completing this goal and feel that the online battle could ultimately prove quite costly to Consolidated Stores.

**Business Description**

Consolidated Stores operates in two retailing segments: closeout merchandise and toys. The closeout segment, Big Lots/Odd Lots and Mac Frugal's/Pic 'N' Save, operates 1,230 stores. The toy segment is composed of K•B Toys, K•B Toy Works, and K•B Toy Outlet, with a total of 1,320 stores, as well as KBkids.com.

## CONSOLIDATED STORES QUARTERLY SALES AND EARNINGS MODEL

Fiscal Year-End is January

(Dollars in Millions, Except Per Share Amounts)

	1999				2000E			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
<b>Retail Sales:</b>								
Closeout	633.1	634.1	661.4	963.7	732.6	726.7	756.7	1,100.4
Toys	279.2	288.2	326.1	873.1	286.1	273.4	331.0	924.1
Total Retail Sales	912.2	922.3	987.5	1,836.8	1,018.7	1,000.1	1,087.7	2,024.5
Wholesale Sales	11.5	7.5	12.1	10.2	10.0	10.0	10.0	10.0
Total Sales	923.7	929.8	999.6	1,847.0	1,028.7	1,010.1	1,097.7	2,034.5
<b>Gross Profit:</b>								
Closeout	275.7	270.8	282.5	424.6	320.7	312.5	325.4	484.2
Toys	106.8	111.4	128.7	324.7	100.1	95.7	122.5	334.5
Total Retail Gross Profit	382.5	382.2	411.2	749.3	420.8	408.2	447.9	818.7
Wholesale Gross Profit	2.7	2.4	3.5	2.7	2.5	2.5	2.9	2.7
Gross Profit	385.2	384.7	414.7	752.1	423.3	410.7	450.7	821.4
SG&A Expenses	386.6	386.3	436.7	556.7	456.0	440.0	476.0	593.0
Merger & Other Related Charges	-	-	-	-	-	-	-	-
Operating Profit	(1.3)	(1.7)	(22.0)	195.4	(32.7)	(29.3)	(25.3)	228.4
Net Interest (Expense)	(4.8)	(5.6)	(8.9)	(5.9)	(2.3)	(5.6)	(7.1)	(3.3)
Other, Net	-	-	-	-	-	-	-	-
Earnings Before Taxes	(6.1)	(7.3)	(30.9)	189.5	(35.0)	(34.9)	(32.3)	225.1
Income Tax Expense (Benefit)	(2.4)	(2.9)	(12.2)	74.9	(13.6)	(13.6)	(12.6)	87.8
Income (Loss) From Continuing Operations								
Before Extraordinary Charges	(3.7)	(4.4)	(18.7)	114.6	(21.3)	(21.3)	(19.7)	137.3
Discontinued Operations	-	-	-	-	-	-	-	-
Extraordinary Charges	-	-	-	-	-	-	-	-
Cum. Effect of Accounting Change	-	-	-	-	-	-	-	-
Net Inc (Loss) Before Actg Chg & Minority Interest	(3.7)	(4.4)	(18.7)	114.6	(21.3)	(21.3)	(19.7)	137.3
Minority Interest	-	-	(3.7)	(4.6)	(5.0)	(5.0)	(5.0)	(6.0)
Net Income (Loss)	(3.7)	(4.4)	(15.0)	119.3	(16.3)	(16.3)	(14.7)	143.3
<b>Reported EPS</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>	<b>\$ (0.14)</b>	<b>\$ 1.06</b>	<b>\$ (0.15)</b>	<b>\$ (0.15)</b>	<b>\$ (0.13)</b>	<b>\$ 1.27</b>
<b>Operating EPS</b>	<b>\$ (0.03)</b>	<b>\$ (0.04)</b>	<b>\$ (0.14)</b>	<b>\$ 1.06</b>	<b>\$ (0.15)</b>	<b>\$ (0.15)</b>	<b>\$ (0.13)</b>	<b>\$ 1.27</b>
Wt. Avg. Shares -- Diluted (Millions)	109.8	110.1	110.2	112.7	110.2	110.2	110.2	113.0
<b>Annual Growth Rates</b>								
Retail Sales	12.33%	13.14%	16.78%	9.29%	11.67%	8.43%	10.15%	10.22%
Total Sales	12.20%	12.86%	16.72%	9.29%	11.36%	8.63%	9.81%	10.15%
Operating Profit	-124.38%	-110.15%	17.70%	-2.60%	2376.27%	1668.60%	14.87%	16.89%
Net Income Before Extrd. and Disc.	-555.45%	-167.84%	11.85%	-3.50%	473.71%	382.82%	5.42%	19.76%
Net Income	-555.45%	-167.84%	11.85%	7.95%	473.71%	382.82%	5.42%	19.76%
EPS - Diluted	-400.00%	-166.67%	-6.67%	0.00%	400.00%	275.00%	-7.14%	19.81%
<b>Margin and Expense Analysis</b>								
<b>Gross Profit:</b>								
Closeout	43.56%	42.71%	42.71%	44.06%	43.77%	43.00%	43.00%	44.00%
Toys	38.25%	38.66%	39.48%	37.19%	35.00%	35.00%	37.00%	36.20%
Wholesale	23.81%	32.06%	28.82%	26.84%	25.00%	25.00%	28.82%	26.84%
Total Gross Profit	41.70%	41.37%	41.49%	40.72%	41.15%	40.66%	41.06%	40.37%
Selling, General & Admin.	41.85%	41.55%	43.69%	30.14%	44.33%	43.56%	43.36%	29.15%
Operating Income	-0.14%	-0.18%	-2.20%	10.58%	-3.18%	-2.90%	-2.30%	11.23%
Interest, Net	-0.52%	-0.61%	-0.89%	-0.32%	-0.22%	-0.55%	-0.64%	-0.16%
Earnings Before Tax	-0.67%	-0.79%	-3.09%	10.26%	-3.40%	-3.46%	-2.95%	11.06%
Net Income	-0.40%	-0.47%	-1.87%	6.21%	-2.08%	-2.11%	-1.80%	6.75%
Income Tax Rate	39.50%	39.52%	39.50%	39.50%	39.00%	39.00%	39.00%	39.00%
<b>Sales Model Data</b>								
<b>Closeout Stores:</b>								
Ending Stores	1,153	1,177	1,207	1,230	1,258	1,284	1,317	1,342
Sales Per Wt. Average Store (\$MM)	0.555	0.544	0.555	0.791	0.589	0.572	0.582	0.828
Sales Per Average Square Foot	\$ 21.55	\$ 21.10	\$ 21.51	\$ 30.73	\$ 22.02	\$ 20.57	\$ 20.93	\$ 29.77
Same-Store Sales	6.4%	6.8%	9.8%	7.2%	6.8%	5.0%	5.0%	5.0%
<b>Toy Stores:</b>								
Ending Stores	1,324	1,327	1,343	1,320	1,322	1,326	1,343	1,318
Sales Per Wt. Average Store (\$MM)	0.211	0.217	0.244	0.656	0.217	0.207	0.248	0.695
Sales Per Average Square Foot	\$ 48.07	\$ 49.41	\$ 55.52	\$ 149.03	\$ 49.22	\$ 46.94	\$ 56.38	\$ 157.86
Same-Store Sales	3.7%	2.4%	8.0%	0.5%	2.6%	-5.0%	1.7%	2.7%
<b>Company Totals:</b>								
Ending Stores	2,477	2,504	2,550	2,550	2,580	2,609	2,660	2,660
Sales Per Average Square Foot	\$ 25.92	\$ 25.70	\$ 26.96	\$ 49.35	\$ 26.06	\$ 24.30	\$ 25.88	\$ 47.28
Same-Store Sales	5.6%	5.4%	8.2%	3.9%	5.6%	2.3%	4.0%	3.9%

## CONSOLIDATED STORES ANNUAL SALES AND EARNINGS MODEL

Fiscal Year-End is January

(Dollars in Millions, Except Per Share Amounts)

	1996	1997	1998	1999	2000E
<b>Retail Sales:</b>					
Closeout	2,204.5	2,452.5	2,510.5	2,892.3	3,316.3
Toys	1,178.2	1,562.5	1,643.0	1,766.5	1,814.7
<b>Total Retail Sales</b>	<b>3,382.7</b>	<b>4,014.9</b>	<b>4,153.5</b>	<b>4,658.9</b>	<b>5,131.0</b>
Wholesale Sales	37.4	40.4	40.2	41.4	40.0
<b>Total Sales</b>	<b>3,420.2</b>	<b>4,055.3</b>	<b>4,193.7</b>	<b>4,700.2</b>	<b>5,171.0</b>
<b>Gross Profit:</b>					
Closeout	939.7	981.1	1,065.9	1,253.7	1,442.7
Toys	490.8	629.2	626.4	671.6	652.8
<b>Total Retail Gross Profit</b>	<b>1,430.6</b>	<b>1,610.3</b>	<b>1,692.3</b>	<b>1,925.3</b>	<b>2,095.5</b>
Wholesale Gross Profit	8.8	9.6	10.0	11.4	10.6
<b>Gross Profit</b>	<b>1,439.4</b>	<b>1,619.9</b>	<b>1,702.4</b>	<b>1,936.7</b>	<b>2,106.1</b>
SG&A Expenses	1,166.2	1,385.7	1,498.7	1,766.3	1,965.0
Merger & Other Related Charges	-	45.0	-	-	-
Operating Profit	273.2	189.2	203.7	170.4	141.1
Net Interest (Expense)	(22.7)	(25.7)	(24.3)	(25.3)	(18.3)
Other, Net	(1.0)	(1.3)	-	-	-
Earnings Before Taxes	249.4	162.2	179.4	145.1	122.8
Income Tax Expense (Benefit)	93.0	76.3	70.0	57.3	47.9
<b>Income (Loss) From Continuing Operations</b>					
Before Extraordinary Charges	156.5	85.9	109.4	87.8	74.9
Discontinued Operations	(27.5)	-	-	-	-
Extraordinary Charges	(1.9)	-	-	-	-
Cum. Effect of Accounting Change	-	-	(12.6)	-	-
<b>Net Inc (Loss) Before Actg Chg &amp; Minority Interest</b>	<b>127.1</b>	<b>85.9</b>	<b>96.8</b>	<b>87.8</b>	<b>74.9</b>
Minority Interest	-	-	-	(8.3)	(21.0)
<b>Net Income (Loss)</b>	<b>127.1</b>	<b>85.9</b>	<b>96.8</b>	<b>96.1</b>	<b>95.9</b>
<b>Income (Loss) Per Share - Diluted:</b>					
Continuing Operations	\$ 1.44	\$ 0.77	\$ 0.97	\$ 0.78	\$ 0.66
Discontinued Operations	(0.25)	-	-	0.07	0.18
Discontinued Operations	(0.02)	-	-	-	-
Cum. Effect of Accounting Change	-	-	(0.11)	-	-
<b>Reported EPS</b>	<b>\$ 1.17</b>	<b>\$ 0.77</b>	<b>\$ 0.86</b>	<b>\$ 0.85</b>	<b>\$ 0.85</b>
<b>Operating EPS</b>	<b>\$ 1.19</b>	<b>\$ 1.51</b>	<b>\$ 0.97</b>	<b>\$ 0.85</b>	<b>\$ 0.85</b>
<b>Wt. Avg. Shares -- Diluted (Millions)</b>	<b>108.4</b>	<b>112.1</b>	<b>112.8</b>	<b>113.0</b>	<b>113.0</b>
<b>Annual Growth Rates</b>					
Retail Sales	63.55%	18.69%	3.45%	12.17%	10.13%
Total Sales	62.02%	18.57%	3.41%	12.08%	10.02%
Operating Profit	75.87%	-30.75%	7.66%	-16.33%	-17.21%
Net Income Before Extrd. and Disc.	84.74%	-45.07%	27.30%	-19.74%	-14.68%
Net Income	60.91%	-32.37%	12.64%	-9.30%	-14.68%
EPS - Diluted	52.56%	26.89%	-2.02%	-12.37%	0.00%
<b>Margin and Expense Analysis</b>					
<b>Gross Profit:</b>					
Closeout	42.63%	40.00%	42.46%	43.35%	43.50%
Toys	41.66%	40.27%	38.12%	38.02%	35.98%
Wholesale	23.54%	23.72%	24.97%	27.52%	26.41%
Total Gross Profit	42.08%	39.94%	40.59%	41.20%	40.73%
Selling, General & Admin.	34.10%	34.17%	35.74%	37.58%	38.00%
Operating Income	7.99%	4.67%	4.86%	3.63%	2.73%
Interest, Net	-0.66%	-0.63%	-0.58%	-0.54%	-0.35%
Earnings Before Tax	7.29%	4.00%	4.28%	3.09%	2.37%
Net Income	3.72%	2.12%	2.31%	1.87%	1.45%
Income Tax Rate	37.28%	47.02%	39.01%	39.50%	39.00%
<b>Sales Model Data</b>					
<b>Closeout Stores:</b>					
Ending Stores	933	1,025	1,128	1,230	1,342
Sales Per Wt. Average Store (\$MM)	2.991	2.505	2.332	2.453	2.579
Sales Per Average Square Foot	\$ 137.17	\$ 107.64	\$ 87.31	\$ 95.46	\$ 96.27
Same-Store Sales	0.0%	4.8%	-2.1%	7.6%	5.5%
<b>Toy Stores:</b>					
Ending Stores	1,184	1,249	1,322	1,320	1,318
Sales Per Wt. Average Store (\$MM)	1.820	1.284	1.278	1.337	1.376
Sales Per Average Square Foot	\$ 404.96	\$ 290.35	\$ 291.16	\$ 304.62	\$ 312.70
Same-Store Sales	0.0%	10.1%	-0.2%	3.7%	0.5%
<b>Company Totals:</b>					
Ending Stores	2,117	2,274	2,450	2,550	2,660
Sales Per Average Square Foot	\$ 178.21	\$ 142.55	\$ 120.75	\$ 129.06	\$ 127.47
Same-Store Sales	7.7%	6.9%	-1.3%	6.1%	3.7%

## Dollar Tree Stores, Inc.



Price:	\$42 1/8			52-Week Range	\$54 1/2 - \$28 3/4
FY End:	December			12-Mth Price Target (33.5x 2000 EPS)	\$59 1/2
<b>EPS</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>	Shares Out (Million)	68
Mar	\$0.16	\$0.19		Market Cap (Billion)	\$2.9
Jun	\$0.22	\$0.28		Average Daily Volume	247,000
Sep	\$0.24	\$0.30		Book Value	\$7.33
Dec	<u>\$0.83</u>	<u>\$1.01</u>		Dividend	Nil
FY	\$1.45	\$1.78	\$2.20	Debt/Total Cap	13%
P/E	29.1x	23.7x	19.1x	3-5 Yr EPS Growth	25%
				2000 P/E/Growth	95%
<b>Revs (\$ Mil.)</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>		
Mar	\$227.0	\$277.6			
Jun	\$253.2	\$316.1			
Sep	\$265.4	\$342.1			
Dec	<u>\$452.3</u>	<u>\$564.3</u>			
FY	\$1,197.9	\$1,500.0	\$1,853.7		

**Upcoming Release Dates:**

First Quarter Sales April 2000

\* 1998 EPS before one-time charge of \$0.06 related to merger

**Investment Conclusion**

We believe Dollar Tree Stores is a core holding for retail and consumer-oriented investors. The Company is a clear leader in the *Extreme Value Retailing* sector based on its size, strong competitive position, and history of solid execution. Dollar Tree has developed a powerful store model that produces steady, predictable results as well as very high returns on invested capital. Consider that the prototypical store generates a first year ROI of 115%, we estimate, among the highest in all of store-based retailing. Through aggressive unit-level expansion and diligent management of existing stores, Dollar Tree has been able to grow significantly, almost entirely funded by internally generated cash flow. Earnings have grown at a compound annual rate of nearly 43% since 1995, including a 29% increase last year.

The outlook for 2000 appears equally strong, and we are encouraged by early sales trends and continue to believe our estimates are postured conservatively. Dollar Tree has strategically acquired other single-price-point concepts over the past 18 months, strengthening its positioning versus operators of larger format stores. We view this niche as a key growth area within the single-price-point arena and feel that Dollar Tree's emphasis on larger format stores should serve to augment the Company's already powerful growth profile. The primary advantages of the larger store format, we believe, are enhanced real estate flexibility, potentially broader merchandise mix, and greater leverage of payroll expenses. Moreover, Dollar Tree has substantial infrastructure capacity—namely, distribution centers—which can accommodate significant expansion.

At recent prices, shares of Dollar Tree are attractively valued relative to estimated earnings and historical averages. Based on our 2000 EPS estimate of \$1.78, DLTR's forward multiple currently stands at 23.7 times, essentially in-line with the Company's stated growth rate. Given management's demonstrated commitment to delivering superior returns, we maintain that a premium multiple is appropriate when assessing this Company's value. Multiple premiums of 50% or more to growth have been fairly common in recent years for leading *Extreme Value Retailing* concepts. Our 12-month

*April 2000*

price target of \$59 1/2 translates into a multiple of 33.5 times our 2000 EPS estimate of \$1.78, a premium of around 34%. Looking ahead one additional year, it becomes apparent that this target is quite reasonable since it assumes the forward multiple rises only modestly, from 25.6 to 27.0 times.

**Company Description**

Dollar Tree Stores is the largest operator of single-price-point stores with more than 1,300 stores in 32 states. The product offering includes a wide assortment of quality everyday general merchandise, and all items are priced at \$1.00.

## DOLLAR TREE STORES QUARTERLY SALES AND EARNINGS MODEL

Fiscal Year-End is December

(Dollars In Millions, Except Per Share Amounts)

	1999				2000E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$ 227.0	\$ 253.2	\$ 265.4	\$ 452.3	\$ 277.6	\$ 316.1	\$ 342.1	\$ 564.3
Cost of sales	146.2	159.5	167.3	273.4	179.2	199.1	215.7	341.6
Gross profit	80.9	93.7	98.0	178.9	98.4	116.9	126.4	222.7
Operating expenses	56.1	61.7	64.0	78.1	69.5	77.8	84.9	101.4
Depreciation and amortization	6.2	6.9	7.1	8.0	7.0	7.0	7.1	7.2
Operating income	18.5	25.1	27.0	92.9	21.9	32.1	34.3	114.0
Net interest	(0.5)	(0.7)	(0.8)	(0.9)	(0.6)	(0.8)	(0.9)	(1.0)
Earnings before taxes	18.0	24.4	26.2	92.0	21.3	31.3	33.4	113.1
Income taxes	6.9	9.6	10.1	35.4	8.2	12.0	12.9	43.5
Net income	11.1	14.9	16.1	56.6	13.1	19.2	20.6	69.5
<b>Reported EPS</b>	<b>\$ 0.16</b>	<b>\$ 0.21</b>	<b>\$ 0.24</b>	<b>\$ 0.83</b>	<b>\$ 0.19</b>	<b>\$ 0.28</b>	<b>\$ 0.30</b>	<b>\$ 1.01</b>
<b>Operating EPS</b>	<b>\$ 0.16</b>	<b>\$ 0.22</b>	<b>\$ 0.24</b>	<b>\$ 0.83</b>	<b>\$ 0.19</b>	<b>\$ 0.28</b>	<b>\$ 0.30</b>	<b>\$ 1.01</b>
Wtd. avg. shares - diluted (Mil.)	67.9	68.0	68.2	68.4	68.5	68.7	68.8	69.0

**Annual Growth Rates:**

Sales	25.72%	23.39%	26.36%	29.87%	22.27%	24.81%	28.92%	24.74%
Gross profit	26.37%	26.46%	25.71%	28.72%	21.65%	24.81%	28.92%	24.46%
SG&A expenses	22.02%	24.76%	24.76%	25.89%	23.77%	26.06%	32.65%	29.86%
Operating income	36.40%	27.20%	25.39%	30.94%	18.10%	27.92%	27.36%	22.80%
Earnings before taxes	40.16%	30.77%	31.06%	31.65%	17.99%	28.01%	27.70%	22.90%
Net income	39.01%	29.17%	30.79%	28.16%	18.00%	29.35%	27.70%	22.89%
Operating EPS	33.33%	29.41%	33.33%	27.69%	18.75%	27.27%	25.00%	21.69%

**Margin and Expense Analysis:**

Gross profit margin	35.62%	37.00%	36.95%	39.55%	35.44%	37.00%	36.95%	39.46%
SG&A expenses	24.72%	24.37%	24.12%	17.26%	25.02%	24.61%	24.82%	17.97%
Depreciation and amortization	2.74%	2.72%	2.66%	1.76%	2.54%	2.23%	2.09%	1.28%
Operating margin	8.16%	9.91%	10.16%	20.53%	7.88%	10.16%	10.04%	20.21%
Earnings before taxes	7.94%	9.64%	9.87%	20.34%	7.67%	9.89%	9.77%	20.04%
Net income	4.89%	5.87%	6.07%	12.51%	4.72%	6.08%	6.01%	12.32%
Income tax rate	38.50%	39.14%	38.50%	38.50%	38.50%	38.50%	38.50%	38.50%

**Store-Level Analysis:**

Beginning stores	1,179	1,227	1,291	1,344	1,383	1,429	1,514	1,604
New stores, net	48	64	53	39	46	85	90	54
Ending stores	1,227	1,291	1,344	1,383	1,429	1,514	1,604	1,658
Weighted average stores	1,203	1,259	1,318	1,364	1,406	1,472	1,559	1,631
Gross square footage (MM)	5.785	6.067	6.300	6.671	6.953	7.474	8.025	8.356
Sales/average stores (\$MM)	0.189	0.201	0.201	0.332	0.197	0.215	0.219	0.346
Sales/average square feet	\$ 40.69	\$ 42.73	\$ 42.92	\$ 69.74	\$ 40.75	\$ 43.81	\$ 44.15	\$ 68.89
Same-store sales	5.2%	1.8%	5.6%	8.3%	1.0%	5.0%	3.0%	3.0%

## Notes:

Quarterly figures for pre-1997 periods do not include Step-Ahead results or ONLY \$ONE. Store counts for pre-1998 do not include ONLY \$ONE.

Q4 &amp; FY results for 1998 exclude merger-related charges of \$5.325 mm pretax.

Q299 results exclude charges related to ONLY \$ONE acquisition. Charges totaled \$1.05 mm pretax.

Q299 estimates exclude charges related to ONLY \$ONE acquisition; deal had 24 stores, which are included in "New stores, net" total.

April 2000

**DOLLAR TREE STORES  
ANNUAL SALES AND EARNINGS MODEL**

Fiscal Year-End is December

(Dollars In Millions, Except Per Share Amounts)

	1996	1997	1998	1999	2000E	2001E
Sales	\$ 564.3	\$ 723.2	\$ 944.1	\$ 1,198.0	\$ 1,500.0	\$ 1,853.7
Cost of sales	361.6	458.6	589.1	746.5	935.7	1,154.8
Gross profit	202.7	264.6	355.0	451.5	564.4	698.8
Operating expenses	128.0	165.4	208.8	259.9	333.6	418.6
Depreciation and amortization	11.4	14.5	20.5	28.1	28.5	28.5
Operating income	63.2	84.7	125.7	163.5	202.4	251.8
Net interest	(5.6)	(3.5)	(4.3)	(2.8)	(3.3)	(3.9)
Earnings before taxes	57.6	81.2	121.4	160.7	199.1	247.9
Income taxes	22.2	31.3	45.5	62.0	76.6	95.5
Net income	35.3	49.9	75.9	98.6	122.4	152.5
<b>Reported EPS</b>	<b>\$ 0.54</b>	<b>\$ 0.75</b>	<b>\$ 1.04</b>	<b>\$ 1.44</b>	<b>\$ 1.78</b>	<b>\$ 2.20</b>
<b>Operating EPS</b>	<b>\$ 0.54</b>	<b>\$ 0.75</b>	<b>\$ 1.12</b>	<b>\$ 1.45</b>	<b>\$ 1.78</b>	<b>\$ 2.20</b>
Wtd. avg. shares - diluted (Mil.)	65.0	66.5	67.6	68.1	68.8	69.4

**Annual Growth Rates:**

Sales	58.84%	28.16%	30.55%	26.89%	25.21%	23.58%
Gross profit	58.48%	30.56%	34.18%	27.16%	25.00%	23.83%
SG&A expenses	53.68%	29.26%	26.19%	24.49%	28.33%	25.50%
Operating income	64.38%	33.93%	48.46%	29.99%	23.80%	24.43%
Earnings before taxes	62.25%	41.02%	49.48%	32.32%	23.90%	24.56%
Net income	59.90%	41.25%	52.12%	29.88%	24.10%	24.56%
Operating EPS	54.29%	38.89%	49.33%	29.46%	22.76%	23.60%

**Margin and Expense Analysis:**

Gross profit margin	35.91%	36.59%	37.61%	37.69%	37.62%	37.70%
SG&A expenses	22.68%	22.88%	22.11%	21.70%	22.24%	22.58%
Depreciation and amortization	2.02%	2.00%	2.17%	2.35%	1.90%	1.53%
Operating margin	11.21%	11.71%	13.32%	13.64%	13.49%	13.58%
Earnings before taxes	10.21%	11.23%	12.86%	13.41%	13.27%	13.38%
Net income	6.26%	6.90%	8.04%	8.23%	8.16%	8.23%
Income tax rate	38.63%	38.53%	37.44%	38.60%	38.50%	38.50%

**Store-Level Analysis:**

Beginning stores	538	785	946	1,179	1,383	1,658
New stores, net	247	161	233	204	275	275
Ending stores	785	946	1,179	1,383	1,658	1,933
Weighted average stores	662	866	1,063	1,281	1,521	1,796
Gross square footage (MM)	3.368	4.057	5.376	6.671	8.356	10.040
Sales/average stores (\$MM)	0.853	0.836	0.889	0.935	0.987	1.032
Sales/average square feet	\$ 199.58	\$ 194.80	\$ 200.17	\$ 198.87	\$ 199.64	\$ 201.53
Same-store sales	5.6%	7.7%	6.8%	5.2%	3.0%	3.0%

Notes:

Quarterly figures for pre-1997 periods do not include Step-Ahead results or ONLY \$ONE. Store counts for pre-1998 do not include ONLY \$ONE.

Q4 & FY results for 1998 exclude merger-related charges of \$5.325 mm pretax.

Q299 results exclude charges related to ONLY \$ONE acquisition. Charges totaled \$1.05 mm pretax.

Q299 estimates exclude charges related to ONLY \$ONE acquisition; deal had 24 stores, which are included in "New stores, net" total.

Factory 2-U Stores, Inc.



Price:	\$27			52-Week Range	\$34 1/8 - \$11
FY End:	January			12-Mth Price Tgt (30x 2000 EPS)	\$40
<b>EPS</b>	<b>1999F</b>	<b>2000FE</b>	<b>2001FE</b>	Shares Out (Mil.)	13.0
Apr	\$0.03	\$0.05		Market Cap (Mil.)	\$351
Jul	\$0.09	\$0.13		Avg Daily Volume	44,000
Oct	\$0.23	\$0.30		Book Value	\$3.51
Jan	<u>\$0.70</u>	<u>\$0.87</u>		Dividend	Nil
FY	\$1.07	\$1.34	\$1.60	3-5 Yr EPS Growth	25%
P/E	25.2x	20.1x	16.9x	2000 P/E/Growth	80%
<b>Revs (\$ Mil.)</b>	<b>1999F</b>	<b>2000FE</b>	<b>2001FE</b>	<b>Upcoming Releases:</b>	
Apr	\$85.1	\$95.6		February Sales	April 6, 2000
Jul	\$91.9	\$110.2		First Quarter Earnings	May 2000
Oct	\$104.6	\$130.8			
Jan	<u>\$139.8</u>	<u>\$179.2</u>			
FY	\$421.4	\$515.8	\$643.1		

### Investment Conclusion

Factory 2-U Stores is uniquely and powerfully positioned in the apparel and homegoods retailing segments of the *Extreme Value Retailing* category, selling quality, in-season clothing for men, women, and children and homegoods. Through an impressive merchandise sourcing effort, Factory 2-U Stores is able to make a powerful value statement, offering pricing that is generally below traditional discount store chains as well as specialized value apparel retailers like TJ Maxx and Ross Stores. Factory 2-U translates this powerful value positioning into a highly profitable and productive store economic model. The Company's inventory turns exceed those earned by leading apparel retailers, while its store-level cash-on-cash ROI ranks among the highest we have seen in the *Extreme Value Retailing*.

Factory 2-U's merchandise assortment reflects the needs of consumers that typically shop discount stores, whereas the offering at other value apparel retailers is more typically positioned to lure department store shoppers. Factory 2-U procures merchandise by purchasing goods in-season, thus eliminating the fashion risk of carrying merchandise to the following year. Merchandise is available from a variety of sources, including manufacturer overruns; closeouts; cancellations from leading retailers, due to manufacturers building goods against orders that are planned but never materialize; and inventory from bankruptcy liquidations (both vendors and the retailers themselves). The Company's focus on discount store customers positions it as the leading liquidator of discount store cancellations, providing a key assortment of extremely low-priced merchandise that firmly differentiates this concept from other value apparel retailers.

Store-level profitability is exceptional and we estimate a first-year ROI of 70% based on sales of \$2.5 million or \$200 per square foot. Based on our projections, Factory 2-U can operate in excess of 400 stores within the confines of its existing seven states of operation (Arizona, California, New Mexico, Nevada, Oregon, Texas, and Washington), generating comfortable sales in excess of \$1 billion. This compares to the 187 stores presently in operation producing annual sales of just over \$400 million. The Company's most developed state is California with 100 existing locations; we estimate a total opportunity of 200-plus stores for this state. Beyond this, we believe the Company's concept has a national opportunity that comfortably exceeds 2,000 stores and sales of \$5 billion.



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Given the impressive growth dynamics present in this story and the high returns being delivered, we feel strongly that a premium multiple is warranted when assessing the value of FTUS shares. At recent prices, FTUS is trading at a modest 20.1 times our 2000 EPS estimate of \$1.34. Management has a record of handily beating estimates over the past several quarters giving us a high degree of confidence in our projections for the current year. Moreover, the business model is clearly at an inflection point where margins are expanding, leveraging incremental sales into higher profits. Our 12-month price target of \$40 may appear aggressive from current levels. Assuming an earnings growth rate of 25% annually, achieving this target would simply require that the forward earnings multiple is in-line with the growth rate one year from now.

**Company Description**

Factory 2-U Stores, Inc. is powerfully positioned in the apparel and homegoods segments of *Extreme Value Retailing*. A prototypical store has annual sales of \$2.5 million and generates a 70% return on investment in the first year of operation. The Company operates 187 stores under the names Factory 2-U and Family Bargain Center in seven western states.

## FACTORY 2-U STORES QUARTERLY SALES AND EARNINGS MODEL

Fiscal Year-End is January

(Dollars In Millions, Except Per Share Amounts)

	1999E				2000E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Total Sales	\$ 85.1	\$ 91.9	\$ 104.6	\$ 139.8	\$ 95.6	\$ 110.2	\$ 130.8	\$ 179.2
Cost of Sales	56.1	58.3	67.2	89.4	62.9	69.8	84.2	114.6
Gross Profit	29.0	33.7	37.4	50.4	32.7	40.3	46.7	64.6
Selling, General & Admin. Expenses	27.3	30.4	31.2	34.4	30.6	36.2	38.8	44.6
Amortization	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Other	-	-	2.1	-	-	-	-	-
Operating Income	1.1	2.7	3.5	15.4	1.6	3.5	7.3	19.5
Net Interest (Expense)	(0.5)	(0.7)	(0.6)	(0.4)	(0.5)	(0.8)	(0.7)	(0.5)
Other	-	-	-	-	-	-	-	-
Pretax Income	0.6	2.1	2.9	15.0	1.0	2.7	6.5	18.9
Income Taxes	0.2	0.8	1.2	5.8	0.4	1.1	2.6	7.6
Net From Continuing Operations	0.3	1.2	1.7	9.2	0.6	1.6	3.9	11.4
Discontinued Operations	-	-	-	-	-	-	-	-
Extraord Loss -- Debt Extinguishment	-	-	-	-	-	-	-	-
Cvt Prf Inducement	-	-	-	-	-	-	-	-
Prf Dividends	-	-	-	-	-	-	-	-
Net Attributable to Common	0.3	1.2	1.7	9.2	0.6	1.6	3.9	11.4
<b>Operating EPS</b>	<b>\$ 0.03</b>	<b>\$ 0.09</b>	<b>\$ 0.23</b>	<b>\$ 0.70</b>	<b>\$ 0.05</b>	<b>\$ 0.13</b>	<b>\$ 0.30</b>	<b>\$ 0.87</b>
<b>Reported EPS</b>	<b>\$ 0.03</b>	<b>\$ 0.09</b>	<b>\$ 0.13</b>	<b>\$ 0.70</b>	<b>\$ 0.05</b>	<b>\$ 0.13</b>	<b>\$ 0.30</b>	<b>\$ 0.87</b>
Wt. Avg. Shares - Diluted (Millions)	12.6	12.8	13.0	13.0	13.0	13.0	13.1	13.1
<b>Annual Growth Rates</b>								
Total Sales	27.98%	25.15%	23.03%	23.51%	12.32%	19.86%	25.14%	28.20%
Operating Income	-176.90%	NM	3.90%	81.88%	40.94%	30.51%	106.54%	26.35%
Pretax Income	-120.85%	-295.06%	25.14%	93.64%	78.02%	33.90%	125.15%	26.54%
Net Income	-111.98%	-212.44%	-24.21%	38.54%	81.01%	36.14%	129.00%	23.67%
EPS	-101.60%	-112.68%	0.00%	20.69%	66.67%	44.44%	30.43%	24.29%
<b>Margin and Expense Analysis</b>								
Gross Profit Margin	34.07%	36.61%	35.73%	36.06%	34.24%	36.61%	35.66%	36.06%
Selling, General & Admin. Expenses	32.08%	33.02%	29.81%	24.61%	31.98%	32.85%	29.66%	24.86%
Operating Margin	1.30%	2.95%	3.36%	11.03%	1.63%	3.22%	5.55%	10.87%
Pretax Margin	0.67%	2.23%	2.77%	10.71%	1.05%	2.49%	4.98%	10.57%
Net Margin	0.39%	1.32%	1.63%	6.57%	0.63%	1.50%	2.99%	6.34%
Income Tax Rate	40.99%	40.98%	41.01%	38.60%	40.00%	40.00%	40.00%	40.00%
<b>Store-Level Analysis</b>								
Store Count - EOP	169	178	187	187	199	212	233	237
Gross Square Footage (Millions)	2.197	2.314	2.431	2.431	2.587	2.756	3.029	3.081
YOY % Change	4.3%	9.9%	11.3%	11.3%	17.8%	19.1%	24.6%	26.7%
Sales/Average Stores (\$Millions)	\$0.505	\$0.530	\$0.573	\$0.748	\$0.495	\$0.536	\$0.588	\$0.763
Sales/Average Square Feet (Gross)	\$ 38.85	\$ 40.76	\$ 45.18	\$ 58.93	\$ 38.09	\$ 41.25	\$ 46.59	\$ 61.41
<b>Same-Store Sales</b>								
Mo. #1	26.7%	19.0%	14.7%	6.8%	2.7%	3.0%	3.0%	3.0%
Mo. #2	31.3%	10.3%	5.5%	2.6%	-15.0%	3.0%	4.0%	5.0%
Mo. #3	5.9%	11.2%	2.4%	2.0%	11.0%	3.0%	5.0%	5.0%
Quarter / Year	21.4%	13.1%	7.7%	3.7%	-0.9%	3.0%	3.9%	4.4%

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**FACTORY 2-U STORES  
ANNUAL SALES AND EARNINGS MODEL**

Fiscal Year-End is January

(Dollars In Millions, Except Per Share Amounts)

	1997	1998	1999	2000E	2001E
Total Sales	\$ 300.6	\$ 338.2	\$ 421.4	\$ 515.8	\$ 643.1
Cost of Sales	203.5	222.3	271.0	331.5	413.3
Gross Profit	97.1	115.9	150.4	184.4	229.8
Selling, General & Admin. Expenses	88.0	99.7	123.2	150.1	189.0
Amortization	2.2	2.4	2.4	2.4	2.4
Other	1.8	3.4	2.1	-	-
Operating Income	5.1	10.5	22.8	31.8	38.5
Net Interest (Expense)	(5.2)	(4.2)	(2.3)	(2.6)	(3.2)
Other	-	-	-	-	-
Pretax Income	(0.1)	6.3	20.5	29.2	35.3
Income Taxes	-	1.3	8.0	11.7	14.1
Net From Continuing Operations	(0.1)	5.0	12.4	17.5	21.2
Discontinued Operations	-	-	-	-	-
Extraord Loss -- Debt Extinguishment	-	(2.8)	-	-	-
Cvt Prf Inducement	-	(2.8)	-	-	-
Prf Dividends	(6.1)	(4.8)	-	-	-
Net Attributable to Common	(6.2)	(5.3)	12.4	17.5	21.2
<b>Operating EPS</b>	<b>\$ (0.09)</b>	<b>\$ 1.48</b>	<b>\$ 1.07</b>	<b>\$ 1.34</b>	<b>\$ 1.60</b>
<b>Reported EPS</b>	<b>\$ (4.23)</b>	<b>\$ (1.58)</b>	<b>\$ 0.97</b>	<b>\$ 1.34</b>	<b>\$ 1.60</b>
Wt. Avg. Shares - Diluted (Millions)	1.5	3.4	12.9	13.1	13.2
<b>Annual Growth Rates</b>					
Total Sales	NM	12.52%	24.59%	22.41%	24.68%
Operating Income	NM	105.30%	117.43%	39.94%	20.79%
Pretax Income	NM	NM	226.37%	42.63%	20.86%
Net Income	NM	NM	147.90%	40.86%	20.86%
EPS	NM	-1744.44%	-27.70%	25.23%	19.40%
<b>Margin and Expense Analysis</b>					
Gross Profit Margin	32.29%	34.26%	35.70%	35.74%	35.74%
Selling, General & Admin. Expenses	29.27%	29.48%	29.24%	29.10%	29.38%
Operating Margin	1.70%	3.09%	5.40%	6.17%	5.98%
Pretax Margin	-0.04%	1.86%	4.86%	5.66%	5.49%
Net Margin	-0.04%	1.48%	2.95%	3.40%	3.29%
Income Tax Rate	0.00%	20.02%	39.25%	40.00%	40.00%
<b>Store-Level Analysis</b>					
Store Count - EOP	166	168	187	237	287
Gross Square Footage (Millions)	2.158	2.184	2.431	3.081	0.000
YOY % Change	11.0%	1.2%	11.3%	26.7%	-100.0%
Sales/Average Stores (\$Millions)	\$1.902	\$2.053	\$2.369	\$2.410	\$2.427
Sales/Average Square Feet (Gross)	\$ 278.58	\$ 155.79	\$ 182.62	\$ 187.17	\$ 417.48
<b>Same-Store Sales</b>					
Quarter/Year	3.4%	10.9%	10.3%	2.6%	3.0%

Family Dollar Stores, Inc.



Price:	\$16 5/16			52-Week Range	\$26 3/4 - \$14
FY End:	August			12-Month Price Target (27x Cal 01 EPS)	\$33
<b>EPS</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>	Shares Out (Mil)	173.9
Nov	\$0.17	\$0.21A		Market Cap (Bil)	\$2.8
Feb	\$0.24	\$0.30E		Average Daily Volume	1,356,000
May	\$0.24	\$0.29E		Book Value	\$4.22
Aug	<u>\$0.16</u>	<u>\$0.20E</u>		Dividend	\$0.20
FY	\$0.81	\$0.99E	\$1.19	Debt/Total Cap	0%
P/E	20.1x	16.5x	13.7x	Est. 3-Year EPS Growth Rate	25%
				2000 P/E/ To Growth Rate	66%
<b>Revs (\$Mil)</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>		
Nov	\$628.0	\$713.5A			
Feb	\$752.2	\$858.5E			
May	\$678.9	\$759.0E			
Aug	<u>\$692.1</u>	<u>\$796.6E</u>			
FY	\$2,751.2	\$3,127.3E	\$3,572.9		

### Investment Conclusion

Family Dollar is well established in the *Extreme Value Retailing* segment as one of the largest operators with more than 3,300 stores and sales approaching \$3 billion. The Company has experienced tremendous growth in recent years, despite its large size and 40-year history; earnings have more than doubled since 1996 while sales are up more than 60%. Today, Family Dollar remains a solid and growing company with a favorable outlook. The Company has an experienced management team that is well in-tune with the needs of customers and shareholders. We believe investors in Family Dollar can enjoy both stability and growth, based on our expectation of 20% or better increases for sales and earnings over the next several years.

Family Dollar has positioned itself as a beneficiary of the common tradeoff between store size (and selection) and location (or convenience). Stores offer a focused selection of basic and seasonal items, including consumables, hardlines, and softlines merchandise at very competitive prices. The merchandising philosophy is value oriented and branded product offerings help to reinforce this message. The typical Family Dollar customer shops the store once per week, we estimate, spending an average of \$8.00 per transaction. Based on its extensive experience, Family Dollar has developed a proven formula for turning sales gains into higher profits due to its well-controlled operating structure. Strong same-store sales increases have contributed favorably to operating efficiencies by providing leverage of occupancy and distribution expenses. Improvements at the merchandising level have benefited margins and increased profitability. During fiscal 1999, Family Dollar's pretax profit margin improved by more than 100 basis points while same-store sales were up 7.8%, providing solid evidence of leverage inherent in the Company's operating structure. We expect positive margin trends should continue in 2000 and beyond, driving further growth in EPS.

Unit-level expansion remains an important element of future growth, and we are projecting 400 to 425 new locations in the current fiscal year. This is an increase from our expectations several months ago, and we continue to note that Family Dollar has significant internal capacity to grow faster, still. A new distribution center was added in Duncan, Oklahoma, last year that will support significant expansion in the rapidly growing Southeastern markets, a fairly untapped region for Family Dollar. We believe the

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current pace of expansion is sustainable for many years. Moreover, the Company's financial condition is rock-solid and existing operations can more than fund this growth. A forward multiple at least in-line with growth would put this stock in the mid- to upper-\$20 range in 12 months while a growth premium would be necessary to push the stock into the low-\$30 range.

**Company Description**

Family Dollar Stores, Inc. is a leading operator of discount stores with more than 3,300 locations in 39 states. Founded in 1959, the Company pioneered the neighborhood value retail store concept.

## FAMILY DOLLAR STORES QUARTERLY SALES AND EARNINGS MODEL

Fiscal Year-End is August

(Dollars In Millions, Except Per Share Amounts)

	1999				2000E			
	Q1	Q2	Q3	Q4	Q1A	Q2	Q3	Q4
Total Sales	\$628.0	\$752.2	\$678.9	\$692.1	\$713.5	\$858.5	\$759.0	\$796.6
Cost of Sales	412.3	509.7	440.7	470.8	466.2	580.4	490.5	535.5
Gross Profit	215.7	242.5	238.2	221.3	247.3	278.1	268.5	261.1
SG&A Expenses	168.2	175.6	172.5	178.7	189.8	195.1	190.3	207.6
Income Before Taxes	47.5	66.9	65.8	42.6	57.6	83.0	78.2	53.5
Income Taxes	17.9	25.2	24.0	15.5	21.0	30.3	28.5	19.5
Net Income	29.6	41.7	41.8	27.0	36.6	52.7	49.6	34.0
<b>EPS - Diluted</b>	<b>\$ 0.17</b>	<b>\$ 0.24</b>	<b>\$ 0.24</b>	<b>\$ 0.16</b>	<b>\$ 0.21</b>	<b>\$ 0.30</b>	<b>\$ 0.29</b>	<b>\$ 0.20</b>
Shares - Diluted (Mil.)	173.5	173.8	174.0	174.1	174.0	174.0	174.1	174.1

**Annual Growth Rates:**

Total Sales	15.71%	18.30%	15.89%	15.83%	13.62%	14.13%	11.80%	15.10%
Square Footage	8.77%	9.05%	9.82%	10.13%	9.69%	10.85%	10.97%	10.51%
Gross Profit	15.77%	21.75%	19.04%	17.93%	14.66%	14.70%	12.70%	17.97%
Operating Income	20.63%	50.78%	31.16%	32.45%	21.31%	24.11%	18.84%	25.74%
Income Before Taxes	20.63%	50.78%	31.16%	32.45%	21.31%	24.11%	18.84%	25.74%
Net Income	21.71%	51.01%	33.26%	35.01%	23.56%	26.47%	18.83%	25.75%
EPS	21.43%	50.00%	33.33%	33.33%	23.53%	25.00%	20.83%	25.00%

**Margin and Expense Analysis:**

Gross Profit Margin	34.35%	32.24%	35.09%	31.98%	34.66%	32.40%	35.37%	32.77%
SG&A Expenses	26.79%	23.35%	25.40%	25.82%	26.59%	22.73%	25.07%	26.06%
Pretax Margin	7.56%	8.89%	9.69%	6.15%	8.07%	9.67%	10.30%	6.72%
Net Margin	4.71%	5.54%	6.15%	3.91%	5.13%	6.14%	6.54%	4.27%
Income Tax Rate	37.62%	37.68%	36.49%	36.50%	36.47%	36.50%	36.50%	36.50%

**Store-Level Analysis:**

Ending Stores	3097	3159	3250	3328	3397	3502	3607	3678
Weighted Average Stores	3,059	3,128	3,204	3,289	3,363	3,418	3,528	3,642
Gross Square Footage (Millions)	24.8	25.3	26.0	26.7	27.2	28.0	28.9	29.5
Sales/Average Stores (\$Millions)	\$0.205	\$0.241	\$0.212	\$0.210	\$0.212	\$0.251	\$0.215	\$0.219
Sales/Average Square Feet (Gross)	\$ 25.63	\$ 30.03	\$ 26.45	\$ 26.28	\$ 26.50	\$ 31.08	\$ 26.67	\$ 27.31
Same-Store Sales (% Change)	8.2%	8.8%	8.2%	5.9%	4.8%	5.6%	3.2%	5.0%

**FAMILY DOLLAR STORES  
ANNUAL SALES AND EARNINGS MODEL**

Fiscal Year-End is August

(Dollars In Millions, Except Per Share Amounts)

	1996	1997	1998	1999	2000E	2001E
Total Sales	\$1,714.6	\$1,995.0	\$2,361.9	\$2,751.2	\$3,127.3	\$3,572.9
Cost of Sales	1,156.2	1,350.2	1,588.7	1,833.4	2,072.2	2,367.7
Gross Profit	558.4	644.8	773.3	917.7	1,055.0	1,205.2
SG&A Expenses	459.7	523.3	607.3	695.1	782.8	877.7
Income Before Taxes	98.8	121.5	166.0	222.7	272.3	327.4
Income Taxes	38.2	46.8	62.7	82.6	99.4	119.5
Net Income	60.6	74.7	103.3	140.1	172.9	207.9
<b>EPS - Diluted</b>	<b>\$ 0.35</b>	<b>\$ 0.44</b>	<b>\$ 0.60</b>	<b>\$ 0.81</b>	<b>\$ 0.99</b>	<b>\$ 1.19</b>
Shares - Diluted (Mil.)	170.6	171.7	173.2	173.8	174.1	174.3

**Annual Growth Rates:**

Total Sales	10.84%	16.35%	18.39%	16.48%	13.67%	14.25%
Square Footage	7.69%	10.20%	12.04%	10.13%	10.51%	10.32%
Gross Profit	8.68%	15.47%	19.92%	18.68%	14.96%	14.23%
Operating Income	4.65%	22.99%	36.64%	34.15%	22.27%	20.26%
Income Before Taxes	4.65%	22.99%	36.64%	34.15%	22.27%	20.26%
Net Income	4.26%	23.25%	38.31%	35.62%	23.44%	20.25%
EPS	2.94%	25.71%	36.36%	35.00%	22.22%	20.20%

**Margin and Expense Analysis:**

Gross Profit Margin	32.57%	32.32%	32.74%	33.36%	33.74%	33.73%
SG&A Expenses	26.81%	26.23%	25.71%	25.26%	25.03%	24.57%
Pretax Margin	5.76%	6.09%	7.03%	8.09%	8.71%	9.16%
Net Margin	3.53%	3.74%	4.37%	5.09%	5.53%	5.82%
Income Tax Rate	38.66%	38.53%	37.77%	37.09%	36.49%	36.50%

**Store-Level Analysis:**

Ending Stores	2581	2767	3017	3328	3678	4058
Weighted Average Stores	2,499	2,674	2,892	3,173	3,503	3,868
Gross Square Footage (Millions)	19.6	21.6	24.2	26.7	29.5	32.5
Sales/Average Stores (\$Millions)	\$0.686	\$0.746	\$0.817	\$0.867	\$0.893	\$0.924
Sales/Average Square Feet (Gross)	\$ 90.72	\$ 96.84	\$ 103.14	\$ 108.20	\$ 111.48	\$ 115.36
Same-Store Sales (% Change)	3.7%	9.3%	9.4%	7.8%	4.6%	4.0%

99¢ Only Stores, Inc.



Price:	\$33 15/16			52-Week Range	\$39 3/8 - \$18 3/4
FY End:	December			12-Mth Price Tgt (35x 2000 EPS)	\$42
<b>EPS</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>	Shares Out (Mil.)	34
Mar	\$0.20	\$0.22		Market Cap (Bil.)	\$1.2
Jun	\$0.21	\$0.26		Avg. Daily Volume	95,580
Sep	\$0.23	\$0.29		Book Value	\$5.75
Dec	<u>\$0.37</u>	<u>\$0.44</u>		Dividend	Nil
FY	\$1.00	\$1.21	\$1.50	Debt/Total Cap	0%
P/E	33.9x	27.8x	23.0x	3-5 Yr EPS Growth	23%
				2000 P/E To Growth Rate	1.22x
<b>Revs. (\$ Mil.)</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>	<b>Upcoming Reporting Dates</b>	
Mar	\$76.0	\$92.8		First Quarter EPS	April/May 2000
Jun	\$80.9	\$101.3			
Sep	\$88.4	\$108.9			
Dec	<u>\$114.7</u>	<u>\$147.1</u>			
FY	\$360.0	\$450.1	\$564.8		

### Investment Conclusion

As a pioneer of single-price-point retailing, 99¢ Only Stores has developed a powerful store format that has delivered an extensive history of impressive sales and earnings growth. The outlook for 99¢ Only Stores remains strong and the story continues to be one of our favorites within the *Extreme Value Retailing* sector. Quite simply, 99¢ Only Stores operates the most productive store in the category with sales per gross square foot averaging approximately \$250 annually, roughly 25% ahead of the next closest peer. While a heavy mix of consumables definitely helps to drive sales activity, the Company's strong operating structure ensures that profitability is also very high. The payback period for a new store is less than 12 months, and we estimate the return on investment (ROI) in year one averages 110% to 115%. The reported operating margin has averaged between 12% and 14% for the past several years, which is high by retail standards and *Extreme Value Retailing*.

We believe 2000 will be another solid year for 99¢ Only Stores, with sales and earnings again growing rapidly. Unit-level expansion of around 25% will provide much of the impetus for this growth. In addition, margins are poised for meaningful improvement over a multiyear period. Geographic expansion is another factor that should influence results favorably in coming years. The Company has started opening stores—the 99¢ Only format—in markets outside its well-established core in metropolitan Los Angeles, but with similar population demographics. Last year, new markets included San Diego and Las Vegas. Finally, the recently announced decision to sell the Universal International division is a positive catalyst as it refocuses management solely on the powerfully profitable core concept.

Shares of NDN are attractively priced at current levels and, we believe, present a compelling opportunity for price appreciation. The stock's multiple on forward earnings is a modest 27.8 times our \$1.21 estimate for 2000, relatively low by historical standards. Moreover, given the Company's highly profitable business model, a sub-growth rate multiple seems hardly appropriate, in our view. Similarly positioned concepts in the *Extreme Value Retailing* sector typically command multiples that are 15% to 20% higher.



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Accordingly, we believe multiple expansion is highly likely in 2000. We rate 99¢ Only Stores a Strong Buy with a 12-month price target of \$42, essentially a mid-30s multiple on our current-year estimate.

**Company Description**

99¢ Only Stores is a leading, deep-discount retailer of reorderable and closeout merchandise, and it pioneered single-price-point retailing. The Company has 84 single-price-point stores operating under the name 99¢ Only in metropolitan Los Angeles, San Diego, and Las Vegas.

## 99¢ ONLY STORES QUARTERLY SALES AND EARNINGS MODEL

Fiscal Year-End is December

(Dollars in Millions, Except Per Share Amounts)

	1999				2000E			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
99¢ Only Stores	\$ 64.6	\$ 69.8	\$ 76.5	\$ 101.3	\$ 81.8	\$ 90.2	\$ 96.9	\$ 133.6
Wholesale	11.4	11.0	11.9	13.3	11.0	11.1	12.0	13.5
Total Revenue	76.0	80.9	88.4	114.7	92.8	101.3	108.9	147.1
Cost of Goods Sold	45.6	49.7	53.9	69.4	55.8	62.2	66.4	89.0
Gross Profit	30.4	31.2	34.6	45.3	37.0	39.1	42.6	58.1
SG&A Expenses	19.8	19.3	21.8	25.2	24.5	24.7	26.2	33.4
Operating Profit	10.7	11.9	12.8	20.1	12.5	14.4	16.4	24.7
Net Interest (Expense)	0.3	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Income from continuing operations before taxes	11.0	12.0	13.1	20.4	12.6	14.5	16.5	24.8
Income Taxes	4.4	4.8	5.2	8.1	5.0	5.7	6.5	9.8
Income from continuing operations	6.6	7.3	7.9	12.3	7.6	8.8	10.0	15.0
Income (loss) from discontinued ops	-	-	(0.5)	(2.7)	-	-	-	-
Loss on disposal of discontinued ops	-	-	-	(9.0)	-	-	-	-
Net income	6.6	7.3	7.4	0.7	7.6	8.8	10.0	15.0
<b>Reported EPS</b>	<b>\$ 0.20</b>	<b>\$ 0.21</b>	<b>\$ 0.22</b>	<b>\$ 0.02</b>	<b>\$ 0.22</b>	<b>\$ 0.26</b>	<b>\$ 0.29</b>	<b>\$ 0.44</b>
<b>Operating EPS</b>	<b>\$ 0.20</b>	<b>\$ 0.21</b>	<b>\$ 0.23</b>	<b>\$ 0.37</b>	<b>\$ 0.22</b>	<b>\$ 0.26</b>	<b>\$ 0.29</b>	<b>\$ 0.44</b>
Shares - Diluted (Mil.)	33.8	34.0	34.0	33.8	34.0	34.1	34.2	34.3

### Annual Growth Rates

99¢ Only Sales	25.54%	23.16%	29.37%	41.63%	26.57%	29.13%	26.66%	31.86%
Wholesale Sales	-0.20%	-26.78%	-27.16%	28.39%	-3.31%	1.00%	1.00%	1.00%
Total Revenue	20.88%	12.68%	17.12%	39.95%	22.10%	25.29%	23.20%	28.27%
Operating Profit	23.89%	26.19%	25.35%	45.01%	16.84%	21.08%	27.89%	22.80%
Net Income	25.73%	23.72%	15.59%	44.98%	15.00%	20.75%	26.85%	21.73%
EPS	17.65%	16.67%	15.00%	48.00%	10.00%	23.81%	26.09%	18.92%

### Margin and Expense Analysis

Retail % of Total Sales	85.03%	86.36%	86.53%	88.37%	88.15%	89.00%	88.96%	90.85%
Wholesale % of Total Sales	14.97%	13.64%	13.47%	11.63%	11.85%	11.00%	11.04%	9.15%
Gross Profit Margin	40.05%	38.57%	39.08%	39.48%	39.84%	38.57%	39.08%	39.48%
SG&A Expenses	26.00%	23.89%	24.61%	21.95%	26.39%	24.38%	24.06%	22.70%
Operating Margin	14.05%	14.68%	14.48%	17.53%	13.44%	14.18%	15.03%	16.78%
Earnings Before Tax	14.47%	14.90%	14.77%	17.80%	13.60%	14.33%	15.16%	16.88%
Net Margin	8.74%	9.00%	8.91%	10.76%	8.23%	8.67%	9.17%	10.21%
Tax Rate	39.60%	39.60%	39.67%	39.51%	39.50%	39.50%	39.50%	39.50%

### Store-Level Analysis:

Beginning Stores	64	67	71	77	78	86	90	96
New Stores	3	4	6	1	8	4	6	2
Ending Stores	67	71	77	78	86	90	96	98
Weighted Average Stores	66	69	74	78	82	88	93	97
Gross Square Footage (MM)	1.158	1.254	1.398	1.422	1.614	1.710	1.854	1.902
Sales / Average Stores (\$MM)	0.986	1.012	1.034	1.307	0.998	1.025	1.042	1.377
Retail Sales / Ave Gross S.F.	\$ 57.56	\$ 57.89	\$ 57.69	\$ 71.85	\$ 53.88	\$ 54.24	\$ 54.38	\$ 71.14
Same-Store Sales	8.5%	2.4%	2.9%	9.9%	2.0%	3.0%	3.0%	3.0%

**99¢ ONLY STORES  
ANNUAL SALES AND EARNINGS MODEL**

Fiscal Year-End is December

(Dollars in Millions, Except Per Share Amounts)

	1996	1997	1998	1999	2000E	2001E
99¢ Only Stores	\$ 143.2	\$ 186.0	\$ 238.9	\$ 312.3	\$ 402.5	\$ 516.7
Wholesale	40.5	44.8	53.2	47.7	47.6	48.1
Total Revenue	183.6	230.9	292.1	360.0	450.1	564.8
Cost of Goods Sold	120.9	146.8	183.0	218.5	273.4	343.1
Gross Profit	62.7	84.1	109.0	141.5	176.7	221.7
SG&A Expenses	39.7	52.8	66.9	86.0	108.8	136.8
Operating Profit	23.0	31.2	42.1	55.4	67.9	84.9
Net Interest (Expense)	(0.1)	0.9	1.4	1.1	0.6	0.6
Income from continuing operations before taxes	23.2	32.1	43.5	56.5	68.5	85.5
Income Taxes	9.5	13.1	17.0	22.4	27.1	33.8
Income from continuing operations	13.7	19.0	26.5	34.1	41.4	51.7
Income (loss) from discontinued ops	-	-	0.2	(3.2)	-	-
Loss on disposal of discontinued ops	-	-	-	(9.0)	-	-
Net income	13.7	19.0	26.7	22.0	41.4	51.7
<b>Reported EPS</b>	<b>\$ 0.47</b>	<b>\$ 0.61</b>	<b>\$ 0.82</b>	<b>\$ 0.65</b>	<b>\$ 1.21</b>	<b>\$ 1.50</b>
<b>Operating EPS</b>	<b>\$ 0.47</b>	<b>\$ 0.61</b>	<b>\$ 0.81</b>	<b>\$ 1.00</b>	<b>\$ 1.21</b>	<b>\$ 1.50</b>
Shares - Diluted (Mil.)	29.3	31.3	32.8	34.0	34.2	34.4

**Annual Growth Rates**

99¢ Only Sales	17.35%	29.94%	28.41%	30.74%	28.88%	28.36%
Wholesale Sales	31.31%	10.74%	18.67%	-10.43%	-0.03%	1.00%
Total Revenue	20.16%	25.71%	26.52%	23.24%	25.05%	25.47%
Operating Profit	36.61%	35.56%	34.84%	31.71%	22.46%	25.09%
Net Income	42.82%	38.31%	39.79%	28.86%	21.39%	24.87%
EPS	30.56%	29.79%	32.79%	23.46%	21.00%	23.97%

**Margin and Expense Analysis**

Retail % of Total Sales	77.96%	80.58%	81.78%	86.76%	89.42%	91.48%
Wholesale % of Total Sales	22.04%	19.42%	18.22%	13.24%	10.58%	8.52%
Gross Profit Margin	34.15%	36.41%	37.33%	39.30%	39.25%	39.26%
SG&A Expenses	21.61%	22.89%	22.92%	23.90%	24.17%	24.22%
Operating Margin	12.54%	13.52%	14.41%	15.40%	15.08%	15.04%
Earnings Before Tax	12.61%	13.89%	14.90%	15.70%	15.22%	15.14%
Net Margin	7.46%	8.21%	9.07%	9.48%	9.21%	9.16%
Tax Rate	40.83%	40.92%	39.13%	39.58%	39.50%	39.50%

**Store-Level Analysis:**

Beginning Stores	36	43	53	64	78	98
New Stores	7	10	11	14	20	25
Ending Stores	43	53	64	78	98	123
Weighted Average Stores	40	48	59	71	88	111
Gross Square Footage (MM)	0.582	0.822	1.086	1.422	1.902	2.502
Sales / Average Stores (\$MM)	3.624	3.876	4.083	4.399	4.574	4.676
Retail Sales / Ave Gross S.F.	\$ 281.68	\$ 264.88	\$ 250.31	\$ 248.99	\$ 242.14	\$ 234.60
Same-Store Sales	2.8%	1.0%	4.3%	6.1%	2.8%	3.0%

Tuesday Morning  
Corporation

Price:	\$11			52-Week Range	\$26 3/4 - \$10 7/8
FY End:	December			12-Month Price Target (35x 2000 EPS)	\$30
<b>EPS</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>	Shares Out (Million)	40
Mar	\$0.03	\$0.04		Market Cap (Million)	\$440
Jun	\$0.06	\$0.09		Average Daily Volume	38,000
Sep	\$0.11	\$0.15		Book Value	Nil
Dec	<u>\$0.53</u>	<u>\$0.59</u>		Dividend	Nil
FY	\$0.73	\$0.87	\$1.04	3-5 Yr EPS Growth	20% - 25%
P/E	15.1x	12.6x	10.6x	2000 P/E/Growth	56%
<b>Revs (\$ Mil.)</b>	<b>1999</b>	<b>2000E</b>	<b>2001E</b>	<b>Upcoming Release Dates:</b>	
Mar	\$71.8	\$79.7		First Quarter Earnings	April 2000
Jun	\$107.7	\$119.8			
Sep	\$113.5	\$125.2			
Dec	<u>\$195.9</u>	<u>\$218.6</u>			
FY	\$488.9	\$543.4	\$618.4		

**Investment Conclusion**

We believe Tuesday Morning has entered a several year period where above-average same-store sales growth and improving margin levels will combine to push TUES shares markedly higher on the basis of rising earnings and multiple expansion. Same-store sales have shown remarkable stamina, with double-digit gains in each of the last four years, including a 13.3% increase in 1999. We believe these results provide solid evidence of the power of the Tuesday Morning concept and suggest that the Company has extensive expansion opportunities available as a result. In addition, favorable retail industry dynamics and continued emphasis on home-related spending by consumers should make this a compelling investment for many years. Earnings are expected to grow faster than sales as scale is driving efficiency, strong comps are leveraging store expenses, and the established infrastructure will support a substantially larger entity.

Tuesday Morning is uniquely positioned within *Extreme Value Retailing* as the far-and-away leader in high-end closeout merchandise and is particularly dominant in home furnishings and gift-related segments. The Company has a unique merchandising strategy and immensely loyal customer base that is largely concentrated among the strongest consumer demographics. Tuesday Morning's event-based merchandising strategy is essentially eight "grand openings" at each location throughout the course of a year, with stores closed at various times to allow for re-stocking. We believe this strategy of closing and re-opening stores improves the overall shopping experience and sense of value for consumers and drives significant loyalty, keeping repeat purchase rates high. In addition, merchandise is offered in limited quantities, which also creates a sense of urgency on the part of consumers and drives strong early demand.

The Company's prototypical store is highly profitable, with a first year ROI of approximately 57%. A flexible real estate strategy contributes favorably to the return since location is of less importance due to the influence of merchandising and the stores' destination orientation. Sales in the first year of operation approach \$1.0 million or \$170-\$175 per square foot, rising in subsequent years as the unique merchandising strategy encourages high levels of repeat buying as well as attracts new customers. Given the strong positioning of the store format and lack of competing concepts, we believe there is significant expansion opportunity for both new and existing Tuesday Morning stores. The United States should be able to support more than 1,000 locations, in our estimation, which compares to less than 400 currently in operation.

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Shares of TUES have pulled back sharply, around 50%, from their late 1999 highs, due to overblown concerns that same-store sales growth was slowing. The stores were closed in January and based on strong early results in February, investors are gradually regaining their enthusiasm for this stock. While Tuesday Morning may continue to remain sensitive to same-store sales trends, we note that the underlying store concept is very strong and that fundamentals continue to improve. Trading at 12.6 times our 2000 EPS estimate, we would be aggressive buyers of TUES shares. We fully expect that as the year unfolds, this stock's multiple will move sharply higher, noting that well-positioned Extreme Value Retailing concepts often trade at multiples that are double of Tuesday Morning's.

**Company Description**

Tuesday Morning is uniquely positioned within *Extreme Value Retailing* as the far-and-away leader in high-end closeout merchandise. The Company sells first-quality home furnishings and gift-related items at 50% to 80% discounts from typical retail prices. The store model is highly profitable with a first-year cash ROI of approximately 57%. Based in Dallas, Texas, Tuesday Morning operates 382 stores in 36 states.

## TUESDAY MORNING QUARTERLY SALES AND EARNINGS MODEL

Fiscal Year-End is December

(Dollars in Millions, Except Per Share Amounts)

	1999				2000E			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Sales	\$ 71.8	\$ 107.7	\$ 113.5	\$ 195.9	\$ 79.7	\$ 119.8	\$ 125.2	\$ 218.6
Cost of sales	43.4	72.1	72.1	124.5	48.6	79.7	78.0	140.4
Gross profit	28.4	35.6	41.4	71.5	31.1	40.1	47.2	78.2
Operating expenses	22.5	27.0	28.6	33.0	24.0	29.8	32.0	34.8
Depreciation and amortization	-	-	-	-	-	-	-	-
Operating income	5.9	8.6	12.7	38.4	7.1	10.3	15.2	43.4
Net interest	0.2	0.2	0.1	0.3	0.2	0.2	0.2	0.2
Earnings before taxes	1.6	4.0	7.4	33.8	2.7	5.8	9.6	38.5
Income taxes	0.5	1.5	2.8	12.8	1.0	2.2	3.6	14.6
Net income	1.0	2.5	4.6	21.0	1.7	3.6	6.0	23.9
<b>Reported EPS</b>	<b>\$ 0.03</b>	<b>\$ 0.06</b>	<b>\$ 0.11</b>	<b>\$ 0.53</b>	<b>\$ 0.04</b>	<b>\$ 0.09</b>	<b>\$ 0.15</b>	<b>\$ 0.59</b>
<b>Operating EPS</b>	<b>\$ 0.03</b>	<b>\$ 0.06</b>	<b>\$ 0.11</b>	<b>\$ 0.53</b>	<b>\$ 0.04</b>	<b>\$ 0.09</b>	<b>\$ 0.15</b>	<b>\$ 0.59</b>
Wtd. avg. shares - diluted (Mil.)	39.8	40.0	40.0	40.0	40.1	40.3	40.4	40.6

**Annual Growth Rates:**

Sales	22.02%	26.94%	44.60%	12.62%	11.11%	11.30%	10.35%	11.55%
Gross profit	26.96%	30.14%	34.36%	21.95%	9.60%	12.70%	14.18%	9.43%
SG&A expenses	19.36%	16.80%	24.49%	10.12%	6.67%	10.19%	11.75%	5.36%
Operating income	68.10%	103.54%	63.48%	34.36%	20.84%	20.65%	19.63%	12.93%
Earnings before taxes	-208.37%	-487.05%	119.61%	50.78%	72.11%	45.32%	30.21%	13.96%
Net income	-212.69%	-478.39%	111.91%	45.12%	64.78%	45.71%	30.64%	13.92%
Operating EPS	-250.00%	-400.00%	83.33%	43.24%	33.33%	50.00%	36.36%	11.32%

**Margin and Expense Analysis:**

Gross profit margin	39.54%	33.04%	36.44%	36.47%	39.00%	33.46%	37.70%	35.78%
SG&A expenses	31.37%	25.09%	25.21%	16.86%	30.12%	24.84%	25.53%	15.92%
Operating margin	8.17%	7.95%	11.23%	19.61%	8.88%	8.61%	12.17%	19.86%
Earnings before taxes	2.17%	3.72%	6.53%	17.24%	3.36%	4.86%	7.70%	17.61%
Net income	1.41%	2.31%	4.05%	10.73%	2.09%	3.02%	4.79%	10.96%
Income tax rate	35.03%	37.97%	38.00%	37.78%	37.80%	37.80%	37.80%	37.80%

**Store-Level Analysis:**

Beginning stores	347	354	365	382	382	390	405	411
New stores, net	7	11	17	-	8	15	6	16
Ending stores	354	365	382	382	390	405	411	427
Weighted average stores	351	360	374	382	386	398	408	419
Gross square footage (MM)	2.443	2.519	2.636	2.636	2.691	2.795	2.836	2.946
Sales/average stores (\$MM)	0.205	0.300	0.304	0.513	0.207	0.301	0.307	0.522
Sales/average square feet	\$ 29.83	\$ 43.41	\$ 44.04	\$ 74.33	\$ 29.94	\$ 43.70	\$ 44.49	\$ 75.60
Same-store sales	13.1%	16.6%	16.7%	10.3%	4.0%	4.0%	4.0%	4.0%

April 2000

## TUESDAY MORNING ANNUAL SALES AND EARNINGS MODEL

Fiscal Year-End is December

(Dollars in Millions, Except Per Share Amounts)

	1996	1997	1998	1999	2000E	2001E
Sales	\$ 256.8	\$ 327.3	\$ 396.1	\$ 488.9	\$ 543.4	\$ 618.4
Cost of sales	165.2	208.4	257.0	312.1	346.8	395.7
Gross profit	91.6	118.9	139.1	176.8	196.6	222.7
Operating expenses	71.2	82.9	95.0	111.2	120.6	134.8
Depreciation and amortization	-	34.0	-	-	-	-
Operating income	20.4	2.0	44.1	65.6	76.0	87.9
Net interest	0.6	0.6	2.5	0.8	0.8	0.8
Earnings before taxes	18.5	(0.3)	23.3	46.8	56.6	68.5
Income taxes	7.0	3.2	8.2	17.6	21.4	25.9
Net income	11.5	(3.6)	15.1	29.1	35.2	42.6
<b>Reported EPS</b>			<b>\$ 0.39</b>	<b>\$ 0.73</b>	<b>\$ 0.87</b>	<b>\$ 1.04</b>
<b>Operating EPS</b>			<b>\$ 0.39</b>	<b>\$ 0.73</b>	<b>\$ 0.87</b>	<b>\$ 1.04</b>
Wtd. avg. shares - diluted (Mil.)			38.5	39.9	40.3	40.9

### Annual Growth Rates:

Sales	22.11%	27.48%	21.02%	23.42%	11.15%	13.80%
Gross profit	25.71%	29.82%	16.98%	27.11%	11.23%	13.26%
SG&A expenses	12.89%	16.54%	14.51%	17.06%	8.44%	11.78%
Operating income	108.21%	-90.31%	2131.07%	48.77%	15.95%	15.61%
Earnings before taxes	0.00%	0.00%	0.00%	100.62%	21.16%	20.95%
Net income	0.00%	0.00%	0.00%	92.82%	21.04%	20.95%
Operating EPS	0.00%	0.00%	0.00%	87.18%	19.18%	19.54%

### Margin and Expense Analysis:

Gross profit margin	35.66%	36.32%	35.11%	36.16%	36.18%	36.01%
SG&A expenses	27.72%	25.34%	23.98%	22.74%	22.19%	21.79%
Operating margin	7.95%	0.60%	11.13%	13.42%	14.00%	14.22%
Earnings before taxes	7.21%	-0.10%	5.88%	9.56%	10.42%	11.08%
Net income	4.49%	-1.09%	3.81%	5.95%	6.48%	6.89%
Income tax rate	37.78%	-1020.75%	35.22%	37.74%	37.80%	37.80%

### Store-Level Analysis:

Beginning stores	260	286	315	347	382	427
New stores, net	26	29	32	35	45	45
Ending stores	286	315	347	382	427	472
Weighted average stores	273	301	331	365	405	450
Gross square footage (MM)	1.838	2.076	2.369	2.636	2.946	3.280
Sales/average stores (\$MM)	0.940	1.089	1.197	1.341	1.343	1.376
Sales/average square feet	\$ 146.60	\$ 167.24	\$ 178.23	\$ 195.37	\$ 194.69	\$ 198.63
Same-store sales	13.7%	18.3%	12.1%	13.3%	4.0%	5.0%

NOTES

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