hhgregg, inc.

VALUEx Vail June 24, 2015

Herb Singh

- Urologist
- Spend 10h per week looking, but find 1-2 ideas/yr worth spending more than 20 hours on
- Long portfolio of less than 5 holdings

Disclaimer

- I might have made a mistake so do your own homework

Business Background

- 228 stores: major appliances, consumer electronics, home products
- Rapid store expansion: 2010: 131, 2011: 173, 2012: 208, 2013-2015: 228
- Grower turned into a turnaround sluggard with cyclical undertones

Financial Snapshot

Company	Price/Sales	Market Capitalization
hhgregg, Inc.	0.04	91.15M
Best Buy Co Inc	0.31	12.33B
CONN'S, Inc.	1.01	1.50B

- Lowest trading price and market capitalization since company started trading in Summer 2007
- Market Capitalization has fallen from 972M in March 2010 to 91M June 2015

What not to like

- OI -99M TTM
- Historic ROA most commonly about 8%
- CCC at all time high
- Inventory turnover at all time low
- Big competitors: BBY, Sears, Walmart, Target, Home Depot, Lowes, Sams Club
- Brick and Mortar business

Thesis

- Company has overexpansion indigestion
- Cost cutting will get company profitable: low hanging fruit
- Low chance of bankruptcy
- Tailwinds and catalysts exist
- Oversold by market with very favorable risk-reward

Management

- Dennis May has led company since 1999 (age 31) as COO then CEO, owns 4% outstanding stock ownership
- Insider and employee alignment: ~3.3 M options vested, average strike price $12.5, ~ 4 years remaining
- CFO bought $486k worth of shares, reported 11/4/2014 @ 4.86, base salary is $400K

Low Bankruptcy Risk

- Management plan
  - Cut Advertising by $20M
  - Cut SGA by $50M
  - Reduce inventory by $50M -- onetime kicker to CF
  - Doable based on the how business was historically run
- Net Current Asset Value per Share = 1.24
- No LT debt, $400M credit facility expires 7/2018
- Comps likely to improve because housing starts

Housing Construction returning to historical norm

Assumptions

1. CEO capable enough to run business like he has
2. Good store site selection despite increase of 100 units over last 5 years
3. Business model NOT broken

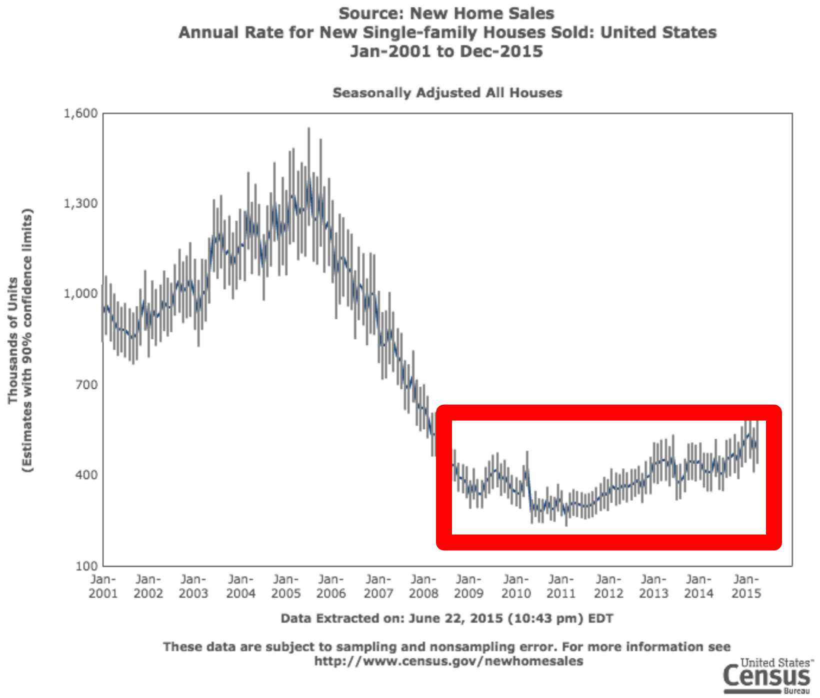
Assumptions

1. CEO capable enough to run business like he has
2. ~~Quality of store site selection with increase of 100 units over last 5 years~~
3. ~~Business model NOT broken~~

and reasonable estimate of normalized earnings

New Single Family Homes

- 2014 housing starts are about 20%+ over 2010: 2012** Nationally and in Midwest
- What pundits say about the norm - BUT I AM GOING TO IGNORE THEM



Killing Three Birds with One Stone

Year	**2012**	**2011**	**2010**	**2009**
Ave Store per year	**190.5**	**152**	**120.5**	**101**
Revenue/Store* ($M)	13.1	13.7	12.7	13.8

~~Quality of store site selection with increase of 100 units over last 5 years~~ R/S stable between 110 and 208 store, last 20 probably okay

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~~Business model NOT broken~~ This business landscape has not changed materially from 2009:2012

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Normalized Revenue = Rev/store x 228

Normalized Revenue = 3,002M

Conservative estimate of normalized earnings

898	GP using GPM of 29.9%
-626	SGA (less than< 1 yr lease commitment/SF same 2010:2015) using 20.85% as proportion of rev
-126	Net Adv using 4.2%
-43	Maintenance Capex (doubled PPE purchase seen in 2014:2015)
103	Operating income
$58M	Net income (assuming 40% tax rate and ignoring 66M tax deferred asset)

Catalysts

- 2014 housing starts are about 20%+ over 2010:2012** Nationally and in Midwest
    - Pundits say we are 50% below our norm
- 4K TVs
- Cost cutting is low hanging fruit
- Human capital replenishment