

### Cabela's (NYSE:CAB) – Short

1/08/10 | Price: \$16.05 | Market Cap: \$1.1B | 12-month price target: \$11.50 (28% upside)

#### **Summary Investment Thesis:**

1. Cabela's is an outdoor products retailer which has generated negative free cash flow for multiple years and has had declining returns on capital, assets and equity.
  2. The company's share price does not reflect these poor operating metrics because it owns a bank, which generates a disproportionate amount of the company's operating profits. The bank's profits benefit the company's valuation because a retail multiple is applied to the bank's earnings yielding a larger valuation than if a true bank multiple was applied to those earnings.
  3. Currently, the street is overestimating the revenue and operating profits that will be generated by the business over the next few quarters. Consensus estimates indicate that revenue will grow by 2-3% and operating profits will increase by 50-100bps. However, given current headwinds faced by the business, revenue will likely decline 1-2% and margins will decrease by 70bps.
    - a. The company's retail sales are facing tough comps in 2010 because 2009 saw a large spike in gun and ammunition purchases. Excluding the 2009 gun and ammunition sales from the merchandise sales indicates that comparable store sales were negative throughout 2009.
    - b. Management has stopped opening new stores in an effort to preserve cash, this will reduce sales growth in the future as new store sales are generally higher than existing store sales.
    - c. In 2009 the bank benefited from liquidity measures implemented by the Fed to help regional banks. As this aid is taken out of the financial system in early 2010, the bank will experience tighter credit spreads and larger bad debt write-offs which will negatively impact revenues from the business.
  4. Most of the management team has been in place for a while and has not traditionally focused on key operating and return metrics (e.g., ROA, ROIC, inventory turns). A new CEO was hired in April 2009 but he doesn't have a retail background and has taken some time to learn the business. It is not clear that he has a plan to change the business and improve returns to shareholders.
  5. Recommendation: I recommend taking a short position in Cabela's at any price above \$15.00 with a price target of \$10.50 and a hold timeline of 6-12 months.
  6. Catalyst: The shares should decline as Q1 and Q2 performance comes in below current estimates given the merchandising headwinds and reduced banking profits.
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#### **Company Overview:**

Cabela's is a leading retailer of hunting, fishing, and outdoor products. They operate 28 retail stores and a direct to consumer business which sells items online and through catalogs. Cabela's also owns their own bank, World's Foremost Bank (WFB), which offers a Cabela's VISA card and customer rewards programs. The bank has 1.1M active users and services ~\$2.5B of loans but only has assets of \$835M because most of the credit card loans are securitized and sold to investors. The retail business accounts for 52% of Cabela's sales while the direct business accounts for 43% of total sales and the bank accounts for the remaining 5% of sales. On an operating profit basis the retail business accounts for 23% of total operating profits while the direct business accounts for 43% and the bank accounts for 34%.

#### **Investment Merits:**

- 1) Street estimates of merchandise sales growing 1-3% in 2010 are extremely lofty given tough retail comps and the declining direct business, merchandise sales will likely drop 1-2% in 2010.
  - a) The retail business faces tough comps in 2010 because gun and ammunition sales spiked significantly after the 2008 election and are now starting to decline significantly. If management is not able to replace the impending loss of revenue from gun sales, retail sales will decrease significantly in 2010.
    - i) Hunting and equipment sales (the category that contains guns and ammunition) rose from 31% of revenue in Q2 2008 to 50% of revenue in Q4 2008 and Q2 2009.
    - ii) Comp store sales grew 5% in 2009 but excluding gun and ammunition sales these would have been flat to negative throughout 2009 (see Appendix 1).

- iii) Gun sales have already started to come down quite significantly in November there was a 20% year-over-year decline in FBI background checks for gun purchases.
  - iv) For non-hunting related sales to replace the impending loss in revenue from gun/ammunition sales, the revenue growth in these segments must be 25-30% which is a rate that Cabela's has never achieved (historically the maximum growth for comp store sales on a year-over-year basis was 3%).
  - b) Cabela's direct business (45% of sales) experienced significant revenue declines starting in Q1 2008. Entering 2010 sales are still below their 2006/2007 levels and are anticipated to continue declining.
    - i) In Q3 management cut direct marketing costs and reduced the size of the catalog, both of which contributed to a 6.2% decline in direct sales. This decline in direct sales was especially bad when contrasted with the 0.4% decrease in comp store sales ex guns/ammunition the retail business experienced in Q3.
    - ii) Management has stated that direct sales will not be a significant focus going forward and views the direct segment as a mature business unit with sales declining "in the low single digits" for the foreseeable future.
    - iii) Direct operating margins are around 6% while retail operating margins are 2%, if the direct business continues to decline and retail becomes a larger portion of revenue it will negatively impact the overall margins of the business.
  - c) Cabela's was supposed to open 2 stores in 2010 but it looks like these plans will be pushed back and only 1 store will be opened in Spring 2010. This store will not be as large as previous stores and as such will not provide the revenue spike traditionally seen by new store openings.
- 2) World's Foremost Bank is facing increasing losses from bad debt and increased interest rate pressure which will contribute to reduced revenue for the finance business in the near term.
- a) WFB has benefitted from some of the liquidity measures put in place by the Fed last year – they issued ABS backed by the TALF program and increased the interest rates on their variable loans. Most of these programs will end in Q1 2010 which will reduce their interest rate spread by approximately 200bps (see Appendix 2). This 200bps reduction would reduce financial services revenues by \$50M and EPS by 13 cents annually.
  - b) The bank has typically enjoyed a lower charge-off rate for bad debts than the industry average (~4% vs. 10% for industry). However, this charge off rate has been steadily increasing as of late and is anticipated to increase going forward. Furthermore, a TALF funding requirement forced WFB to retain the riskiest tranches of the securitized loans – as such the charge off rate will be lower than historical averages because the bank traditionally did not retain these loans. The charge-off rate will continue to increase and will reach 6.5% by the end of 2011 (see Appendix 2 for charge-off rate forecasts). A 6.5% charge off rate would reduce financial services revenues by 12.6M and EPS by 4 cents annually.
  - c) Credit card issuance is closely tied to new store openings which are anticipated to slow in 2010 and 2011. Fewer store openings will reduce the number of loans issued/managed by WFB and in turn will reduce the finance business' revenue growth.
  - d) Given new regulatory requirements, Cabela's needs to transfer \$200M more to keep WFB adequately capitalized. This amount is half of Cabela's current cash balance and will have a negative impact on working capital for the business going forward.
- 3) Cabela's has traditionally had poor free cash flow and has recently reduced capital expenditures to preserve cash flow – this will negatively impact the businesses' ability to increase revenues going forward.
- a) In an effort to improve free cash flow in 2009, the business focused on reducing net working capital and significantly reduced capital expenditures and reduced inventory. While these efforts helped to generate positive cash flow, they will not help increase revenues and are not repeatable on an ongoing basis.
  - b) If changes in NWC and capital expenditures for 2009 had been at their historical averages, free cash flow in 2009 would have been -\$38M (\$350M lower than reported).
  - c) The current free cash flow yield appears to be 30.5% but would be -1.5% if NWC and capital expenditures were at their historical averages.
  - d) Key metrics such as ROA and ROIC have steadily trended downward over time and are at all-time lows (See Appendix 6). From 2005 to 2009 ROA declined from 5.5% to 3.2% while ROIC declined from 9.7% to 6.8%.

- e) The business financed itself through debt issuance and other financing activities (e.g., inventory financing and changes in bank time deposits related to WFB).
- 4) The inclusion of the bank's operating results in Cabela's financials obfuscates the true performance of the business and as such Cabela's current valuation is higher than an appropriate valuation using a sum of the parts analysis.
- a) The finance business accounts for 5% of revenue but 34% of operating profits and the street inappropriately applies a retail multiple to this component of the company which significantly boosts the company's valuation.
  - b) Cabela's consolidated valuation is relatively low when looked at on an absolute basis but evaluating the business using a sum of the parts analysis yields a share price of \$10.85 (see Appendix 3 for a sum of the parts analysis and see Appendix 4 and 5 for comparable valuations).
    - i) Cabela's valuation is currently 14x Forward P/E, 4.5x Forward EV/EBITDA and 1.2x Price/Book
    - ii) Cabela's historical average valuation was valued at 16.4x Forward P/E, 8.8x Forward EV/EBITDA and 1.8x Price/Book - the finance business' profits have historically never been such a large portion of the companies operating profits, so historical valuations are not as appropriate
    - iii) Retail comps are currently valued at 20x Forward P/E and 8.1x Forward EV/EBITDA but have historically been in the 16-18x Forward P/E range.
    - iv) Regional bank comps are valued at 9x P/E and 0.7x Price/Book
  - c) The street incorrectly assumes the company has above average margins. Stripping WFB operating profits out of the company's performance and looking at operating profits on a fully-loaded basis yields a retail company with average to below average margins.
    - i) The retail and direct business have a combined, fully-loaded EBITDA margin of 6.5% while the overall business has fully-loaded EBITDA margin of 8.1%. Major comps in the space have margins of ~7% (See Appendix 5).
    - ii) Corporate overhead is reported separately and is a significant drain on operating expenses at 9% of revenue. Most analysts are focusing on reported operating margins and are not looking at the fully-loaded operating margins for each division. As such, many analysts do not see the relative underperformance of the merchandising units.
    - iii) The retail business alone has an operating margin of around 2% and will likely compress going forward as revenue mix shifts and overall revenue declines.
    - iv) The direct business has better margins than the retail business at 5.7%, however, this business is being reduced over time and as such it will negatively impact the combined merchandizing margins.
- 5) The organization has not traditionally adhered to industry best practices and has seen declining returns on capital and assets over time. Although a new CEO was hired in April 2009, his impact has yet to be felt by the organization.
- a) The new CEO, Tommy Millner, comes from Remington Arms Company, a firearm manufacturer and a long-time Cabela's supplier. Thus far he has not been very clear on the direction he wants to take the company and has instead been focused on learning the retail business because he does not have a retail background.
  - b) The founding brothers continue to stay very involved in running the company despite Millner's hire.
  - c) Traditionally store management was focused on being a "destination" and as such kept inventory around for a long time and had large floor displays that were not designed according to industry best practices and reduced sales per square feet. Furthermore, the company did not measure itself according to metrics like ROA and ROIC.

#### **Investment Risks:**

- 1) WFB is able to overcome impending revenue decline from TALF withdrawal and credit card issuance slowdown
- a) The interest rate demanded from securitized loans might take longer to increase after the TALF program is withdrawn.
  - b) WFB might be able to increase the number of loans outstanding by providing card holders with additional incentives to purchase using their card (e.g., additional rewards/coupons) – thus far management has not indicated they will do this.
  - c) WFB could increase revenues from interchange fees if it is able to convince people to increase usage of the card for non Cabela's related purchases.

- d) The bank is also selling off receivables much faster than its peers and as such might be able to get rid of the bad loans faster than peer banks. This risk is unlikely to materialize though because new guidelines around securitization of loans require the issuer to retain a higher portion of the riskiest loan tranches.
- 2) Margins could increase on the back of additional cost improvements by management
  - a) All of the EPS improvement in 2009 was from a cost reduction implemented by management. Most of the cost reduction efforts were from store labor reductions, marketing cut backs and better inventory/SKU management.
  - b) While these efforts were successful, most of the low-hanging fruit has likely been removed. Going forward management will need to get creative in improving margins while not sacrificing revenue growth or market share.
- 3) Q4 retail sales are higher than expected
  - a) The onset of cold weather was sooner this year than in previous years, and some analysts feel this may have increased Q4 apparel sales more than current forecasts.
  - b) Online web traffic to cabelas.com has increased in the past few months but when compared to historical averages the jump is not enough to significantly increase revenues (See Appendix 8).

### **Financials and Valuation:**

- 1) Revenues and margins were forecasted for each segment individually
  - a) The retail segment revenue forecasts are based on a sales per square foot assumption that mimics the cyclicity observed over the previous few years. It declines over the next few quarters given the strong comps and retail headwinds but then starts increasing in mid 2011.
  - b) The direct segment revenues were forecasted using management's guidance of low single digit revenue declines year-over-year (1% declines were chosen to be conservative).
  - c) The financial services revenue components (interest rate spread, bad debt expense and interchange/other fees) were each individually forecasted as detailed in Appendix 2 generally continuing the trend that has been observed over the past few quarters.
  - d) For each of the divisions margins, I calculated the average margin from incremental revenue for the last 4 years and used this incremental margin as my forecast.
- 2) The target price was determined using a sum-of-the-parts approach detailed in Appendix 3
  - a) Given the forecasts above the business is not expected to have positive free cash flow on an annual basis going forward.
  - b) All of the FCF generated in 2009 was from reductions in working capital and reduced capital expenditures (CapEx went from \$90M in 2008 to \$20M in 2009).
  - c) Although maintenance capital expenditures in 2009 was only \$20M, it is likely this number will be higher going forward as some of the stores are older and will need additional investment.
- 3) Downside case involves a strong revenue growth and margin improvement through 2010 yielding a share price of \$18 in the next 12 months (18% downside)
  - a) This assumes merchandising revenues grow at 3% in 2010 and 2011 and the company is able to maintain EBITDA margins of 9%.
  - b) With this performance the company would achieve \$1.30 EPS in 2010 and would warrant a 14x P/E multiple.

### **Additional Diligence / Next Steps:**

With additional resources the following areas warrant additional diligence

- 1) Deep dive into merchandise sales and margins for key product groups – While the company provides detail on product mix over time it does not detail margins, advertising or inventory by product area. Each of these will impact the overall profitability and cash flow generation for the company and should be looked at individually.
- 2) Market share – There is limited free market share information available about outdoor retailers. Getting information about market share and market share trends over time would help inform the revenue projections.

- 3) Analysis of loans securitized by WFB – Analyze the WFB loan portfolio focusing on market prices for the securities, impairment value assumed by current owners and write-off rates for comparable securities.
- 4) Clarity on management’s focus going forward – Specifically how will the next few quarters be different from the last four years from a margin, return on capital and free cash flow perspective. There is limited information available in transcripts/public filings so a meeting with management would inform this analysis.

<b>CAB Financial Breakdown by Division</b>												
	2006A	2007A	2008A	2009 Q3 A	2009 Q4 E	2009E	2010 Q1 E	2010 Q2 E	2010 Q3 E	2010 Q4 E	2010E	2011E
<b>Revenues</b>												
Retail	\$ 820	\$ 1,043	\$ 1,345	\$ 348	\$ 420	\$ 1,345	\$ 275	\$ 299	\$ 343	\$ 419	\$ 1,336	\$ 1,399
Direct	\$ 1,088	\$ 1,131	\$ 1,053	\$ 226	\$ 402	\$ 1,053	\$ 219	\$ 198	\$ 224	\$ 406	\$ 1,046	\$ 1,038
Finance	\$ 138	\$ 160	\$ 158	\$ 48	\$ 41	\$ 158	\$ 37	\$ 32	\$ 29	\$ 29	\$ 127	\$ 106
<b>Mix</b>												
Retail	40%	45%	53%	56%	49%	53%	52%	57%	58%	49%	53%	55%
Direct	53%	48%	41%	36%	47%	41%	41%	37%	38%	48%	42%	41%
Finance	7%	7%	6%	8%	5%	6%	7%	6%	5%	3%	5%	4%
<b>Gross Profit</b>												
Retail	\$ 302	\$ 382	\$ 469	\$ 114	\$ 153	\$ 469	\$ 88	\$ 98	\$ 117	\$ 154	\$ 457	\$ 480
Direct	\$ 402	\$ 414	\$ 369	\$ 74	\$ 147	\$ 369	\$ 70	\$ 64	\$ 76	\$ 150	\$ 361	\$ 358
Finance	\$ 138	\$ 160	\$ 158	\$ 48	\$ 41	\$ 158	\$ 37	\$ 32	\$ 29	\$ 29	\$ 127	\$ 106
<b>Margin</b>												
Retail	37%	37%	35%	33%	36%	35%	32%	33%	34%	37%	34%	34%
Direct	37%	37%	35%	33%	36%	35%	32%	33%	34%	37%	34%	35%
Finance	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Mix</b>												
Retail	36%	40%	47%	48%	45%	47%	45%	50%	53%	46%	48%	51%
Direct	48%	43%	37%	31%	43%	37%	36%	33%	34%	45%	38%	38%
Finance	16%	17%	16%	20%	12%	16%	19%	17%	13%	9%	13%	11%
<b>Operating Profit</b>												
Retail	\$ 42	\$ 30	\$ 34	\$ 7	\$ 21	\$ 34	\$ (4)	\$ (1)	\$ 7	\$ 22	\$ 25	\$ 18
Direct	\$ 71	\$ 84	\$ 62	\$ 13	\$ 42	\$ 62	\$ 7	\$ 4	\$ 9	\$ 39	\$ 60	\$ 52
Finance	\$ 30	\$ 38	\$ 49	\$ 13	\$ 12	\$ 49	\$ 11	\$ 10	\$ 9	\$ 9	\$ 38	\$ 32
<b>Margin</b>												
Retail	5%	3%	3%	2%	5%	3%	-1%	0%	2%	5%	2%	1%
Direct	7%	7%	6%	6%	11%	6%	3%	2%	4%	10%	6%	5%
Finance	22%	24%	31%	26%	30%	31%	30%	30%	30%	30%	30%	30%
<b>Mix</b>												
Retail	29%	20%	23%	21%	28%	23%	-24%	-5%	29%	32%	21%	18%
Direct	49%	56%	43%	40%	56%	43%	50%	32%	36%	56%	48%	51%
Finance	21%	25%	34%	39%	16%	34%	75%	73%	35%	12%	31%	31%
<b>EBITDA</b>												
Retail	\$ 78	\$ 77	\$ 94	\$ 21	\$ 39	\$ 94	\$ 9	\$ 12	\$ 21	\$ 42	\$ 84	\$ 69
Direct	\$ 76	\$ 90	\$ 70	\$ 15	\$ 45	\$ 70	\$ 9	\$ 6	\$ 11	\$ 42	\$ 67	\$ 59
Finance	\$ 35	\$ 44	\$ 56	\$ 14	\$ 14	\$ 56	\$ 13	\$ 11	\$ 10	\$ 11	\$ 45	\$ 38
<b>Margin</b>												
Retail	10%	7%	7%	6%	9%	7%	3%	4%	6%	10%	6%	5%
Direct	7%	8%	7%	7%	11%	7%	4%	3%	5%	10%	6%	6%
Finance	25%	27%	35%	30%	35%	35%	34%	35%	36%	39%	36%	36%
<b>Mix</b>												
Retail	41%	37%	43%	42%	40%	43%	29%	41%	50%	44%	43%	42%
Direct	40%	43%	32%	29%	46%	32%	29%	20%	25%	44%	34%	35%
Finance	18%	21%	26%	28%	15%	26%	42%	39%	25%	12%	23%	23%

**CAB Financial Analysis**

Millions, except for per share values; GAAP Financials

Purchase Price Analysis	
Current Share Price	\$ 16.05
FD Shares outstanding	69
FD Market Cap	\$ 1,099
Less: Cash and Equiv.	\$ 499
Plus: Debt	\$ 374
<b>Enterprise Value</b>	<b>\$ 974</b>
Book Value	\$ 785
Book Value / share	\$ 11.46
Price / Book Value	1.4x
Dividend Yield	N/A

Trading Statistics	
Float	51
% FD shares out.	75%
Short Interest	18
% of Float	35%
% of Shares Outstanding	26%

Discounted Cash Flow Analysis	
Risk free rate (30-yr treas.)	4.6%
Equity Beta	1.10
Market Risk Premium	5.0%
Discount Rate	10.9%
Terminal Growth Rate	1.0%
PV - FCF ('09 Q4 - '11 Q4)	\$ 244
PV - Terminal ('11 Q4)	\$ 406
<b>Enterprise Value</b>	<b>\$ 649</b>
Equity Value	\$ 774
Share Price	\$ 11.31

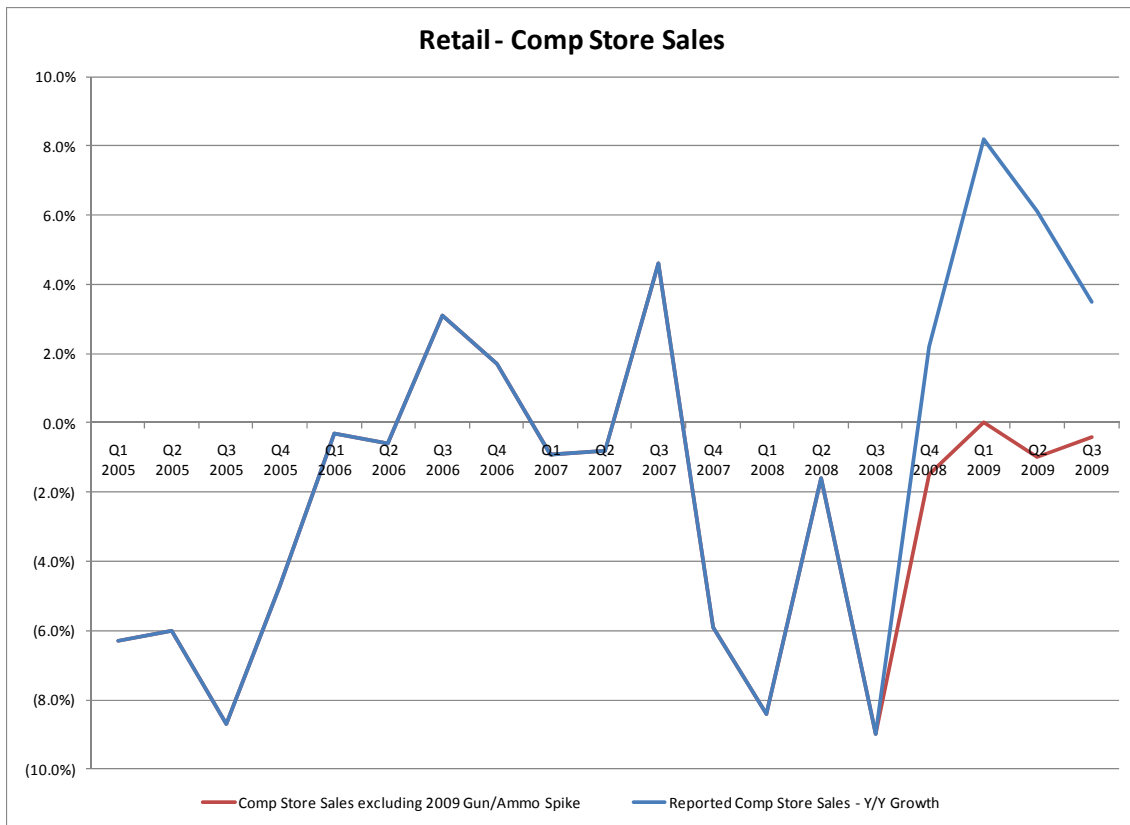
Sum of the Parts Analysis	
Retail and Direct Market Value	\$ 713
Finance Market Value	\$ 77
SOTP Market Value	\$ 790
Share Price	\$ 11.53

Price Target	
Price Target	\$11.50
% Upside	28%
Bear Case Price	\$19.00
% Downside	-18%

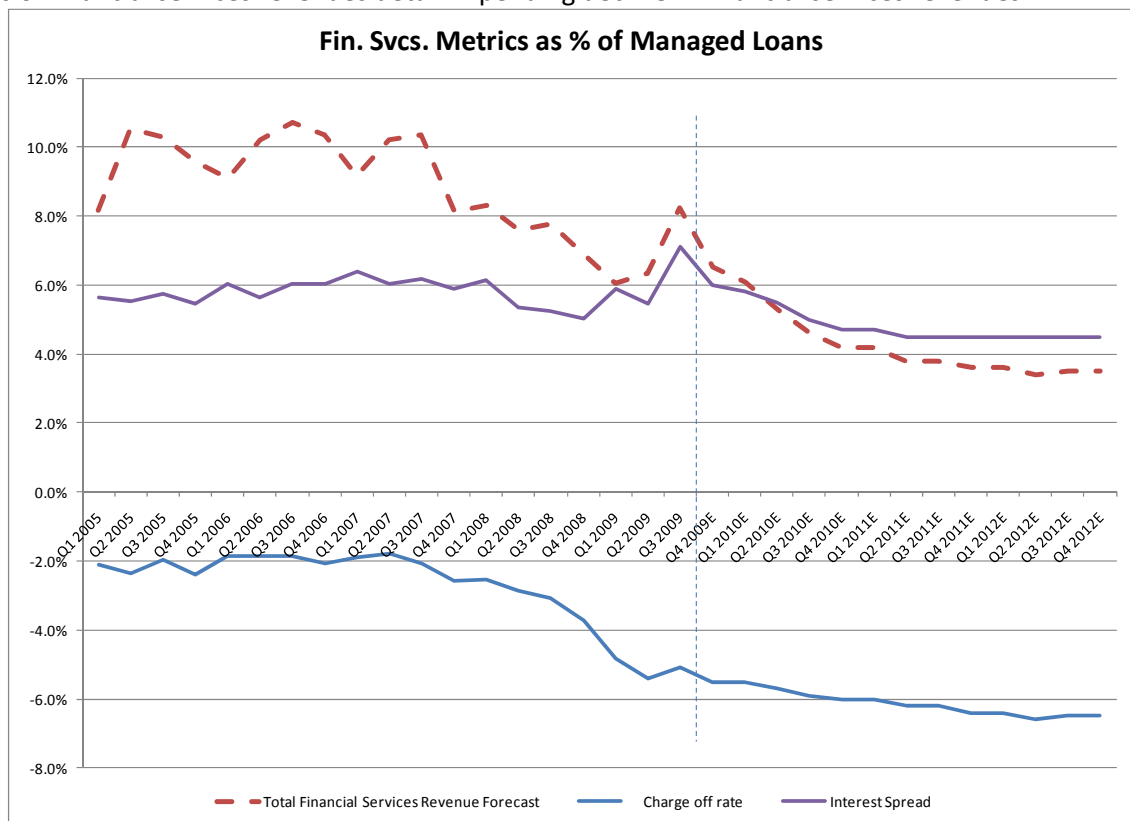
Earnings / Valuation Information												
	2006A	2007A	2008A	2009 Q3 A	2009 Q4 E	2009E	2010 Q1 E	2010 Q2 E	2010 Q3 E	2010 Q4 E	2010E	2011E
<b>Financials</b>												
Revenue	\$ 2,064	\$ 2,349	\$ 2,544	\$ 624	\$ 863	\$ 2,567	\$ 531	\$ 529	\$ 596	\$ 854	\$ 2,510	\$ 2,543
Gross Profit	\$ 859	\$ 971	\$ 1,004	\$ 238	\$ 340	\$ 1,006	\$ 196	\$ 194	\$ 222	\$ 333	\$ 945	\$ 944
Operating Income	\$ 144	\$ 151	\$ 138	\$ 33	\$ 76	\$ 145	\$ 15	\$ 13	\$ 25	\$ 70	\$ 123	\$ 102
EBITDA	\$ 189	\$ 211	\$ 203	\$ 51	\$ 98	\$ 219	\$ 30	\$ 29	\$ 42	\$ 95	\$ 196	\$ 166
Net Income	\$ 86	\$ 88	\$ 75	\$ 19	\$ 45	\$ 82	\$ 7	\$ 6	\$ 13	\$ 42	\$ 69	\$ 56
EPS	\$ 1.29	\$ 1.32	\$ 1.12	\$ 0.28	\$ 0.66	\$ 1.20	\$ 0.11	\$ 0.09	\$ 0.20	\$ 0.61	\$ 1.01	\$ 0.82
Free Cash Flow	\$ (152)	\$ (157)	\$ 17	\$ 71	\$ 307	\$ 284	\$ (367)	\$ (12)	\$ 82	\$ 328	\$ 31	\$ (20)
<b>Year-over-Year Growth</b>												
Revenue		13.8%	8.3%	2%	-1%	0.9%	-2%	-2%	-4%	-1%	-2.2%	1.3%
Gross Profit		13.0%	3.4%	1%	1%	0.3%	-8%	-10%	-7%	-2%	-6.1%	-0.1%
Operating Income		5.1%	-8.7%	56%	-7%	4.6%	7%	-40%	-24%	-7%	-14.8%	-17.0%
EBITDA		11.8%	-3.9%	44%	0%	8.0%	-3%	-28%	-17%	-3%	-10.6%	-15.4%
Net Income		2.4%	-15.3%	92%	-5%	9.2%	16%	-43%	-28%	-8%	-15.5%	-18.8%
EPS		1.7%	-15.1%	90%	-7%	7.2%	13%	-44%	-29%	-8%	-16.0%	-18.8%
Free Cash Flow		3.3%	-110.8%	53%	128%	1573.7%	297%	538%	15%	7%	-89.0%	-163.4%
<b>Profitability</b>												
Gross Margin	41.6%	41.3%	39.5%	38.2%	39.5%	39.2%	36.9%	36.7%	37.3%	39.0%	37.7%	37.1%
Operating Margin	7.0%	6.4%	5.4%	5.2%	8.8%	5.6%	2.8%	2.5%	4.2%	8.2%	4.9%	4.0%
EBITDA Margin	9.2%	9.0%	8.0%	8.1%	11.3%	8.5%	5.7%	5.4%	7.1%	11.1%	7.8%	6.5%
Net Margin	4.2%	3.8%	2.9%	3.0%	5.2%	3.2%	1.4%	1.2%	2.3%	4.9%	2.7%	2.2%
Free Cash Flow Margin	-7.4%	-6.7%	0.7%	11.4%	35.6%	11.1%	-69.1%	-2.2%	13.7%	38.5%	1.3%	-0.8%
<b>Ratios</b>												
ROA	5.6%	4.6%	3.3%	2.9%	3.3%	3.2%	3.4%	3.4%	3.1%	2.8%	2.9%	2.3%
ROE	12.9%	11.6%	8.7%	8.1%	8.8%	8.9%	10.2%	9.3%	8.6%	8.1%	8.3%	6.2%
ROIC	9.2%	8.3%	6.4%	6.1%	7.1%	6.8%	7.6%	7.1%	6.6%	6.2%	6.3%	5.0%
FCF Yield	-13.8%	-14.3%	1.5%	19.8%	25.8%	25.8%	0.9%	0.0%	0.9%	2.9%	2.9%	-1.8%
<b>Multiples</b>												
			<u>LFY</u>		<u>LTM</u>		<u>CFY</u>				<u>NFY</u>	
EV / Sales			0.4x		0.4x		0.4x				0.4x	
EV / Operating Income			7.0x		6.5x		6.7x				7.9x	
EV / EBITDA			4.8x		4.4x		4.4x				5.0x	
Price / Sales			0.4x		0.4x		0.4x				0.4x	
Price / Earnings			14.7x		13.1x		13.5x				15.9x	
Price / FCF			64.8x		5.1x		3.9x				35.0x	
<b>Consensus Estimates (source: Capital IQ)</b>												
Revenue				\$ 886	\$ 2,590	\$ 537	\$ 548	\$ 626	\$ 898	\$ 2,609		
EPS				\$ 0.73	\$ 1.27	\$ 0.10	\$ 0.22	\$ 0.27	\$ 0.78	\$ 1.38		
EBITDA				\$ 99	\$ 221	\$ 33	\$ 45	\$ 52	\$ 109	\$ 239		

**Appendix:**

- 1) Comp store sales would have been significantly lower in 2009 if the spike in gun and ammunition sales was excluded from the calculation



- 2) Key metrics of financial services revenues detail impending decline in financial services revenues



### 3) Sum of the Parts Analysis Detail Cabela's Overvaluation

#### Cabela's Sum-of-the-Parts Analysis

##### Part 1: Retail and Direct Valuation

	2009	2010	2011
Retail and Direct Earnings	54.2	47.6	38.6
11.0x	595.8	523.6	424.6
Price / Earnings	704.1	618.9	501.8
13.0x	812.5	714.1	579.0
15.0x	920.8	809.3	656.1
Multiple	1029.1	904.5	733.3
17.0x	1137.4	999.7	810.5
19.0x			
21.0x			

##### Part 2: WFB Valuation

	2009	2010	2011
WFB Book Value	154.0	123.8	103.1
0.4x	61.6	49.5	41.2
Price / Book	77.0	61.9	51.5
0.5x	92.4	74.3	61.8
0.6x	107.8	86.7	72.2
Multiple	123.2	99.0	82.5
0.7x	138.6	111.4	92.8
0.8x			
0.9x			

Avg. of outlined valuations **714.2**

Outlined valuations are historical comps for CAB when retail was a larger portion of revenues

Avg. of outlined valuations **77.4**

Outlined valuations are comps for Regional Banks

##### Difference Between Current and SOTP Valuation

SOTP Market Value **791.6**

Implied Share Price \$11.56

Current Share Price \$16.05

Current Overvaluation -28%

### 4) Retailer Valuation Comps

	Valuation									
	P / Sales		EV / EBITDA		P / Earnings		P / Book		P / E / G	
	LFY	NFY	LFY	NFY	LFY	NFY	LFY	NFY	Current	
<b>Retailers</b>										
Dicks Sporting Goods Inc	0.6x	0.5x	19.1x	7.3x	-84.0x	23.2x	2.6x	2.9x	1.4x	
Big 5 Sporting Goods Corp.	0.4x	0.4x	9.2x	7.2x	26.7x	16.1x	3.3x	2.7x	1.4x	
Foot Locker Inc	0.4x	0.4x	33.7x	6.3x	-22.7x	22.6x	1.0x	1.0x	1.5x	
The Finish Line Inc	0.5x	0.5x	9.8x	6.0x	nm	17.2x	1.5x	1.5x	1.1x	
Gander Mountain Company	0.1x	0.1x	14.1x	11.6x	nm	nm	0.7x			
Hibbett Sports Inc	1.2x	1.2x	10.4x	10.6x	23.0x	23.1x	4.9x	4.5x	1.4x	
Average	0.5x	0.5x	16.0x	8.2x	-14.3x	20.5x	2.3x	2.5x	1.4x	
Median	0.5x	0.5x	12.2x	7.3x	0.1x	22.6x	2.0x	2.7x	1.4x	
Maximum	1.2x	1.2x	33.7x	11.6x	26.7x	23.2x	4.9x	4.5x	1.5x	
Minimum	0.1x	0.1x	9.2x	6.0x	-84.0x	16.1x	0.7x	1.0x	1.1x	
Cabela's - Analyst Estimates	0.4x	0.4x	4.4x	4.1x	12.6x	11.7x				
Cabela's - My Forecasts	0.4x	0.4x	4.4x	5.0x	13.5x	15.9x	1.4x	1.3x		
Cabela's - Historical Average			8.8x		16.4x		1.8x			
Cabela's - Historical Median			9.3x		17.1x		1.9x			

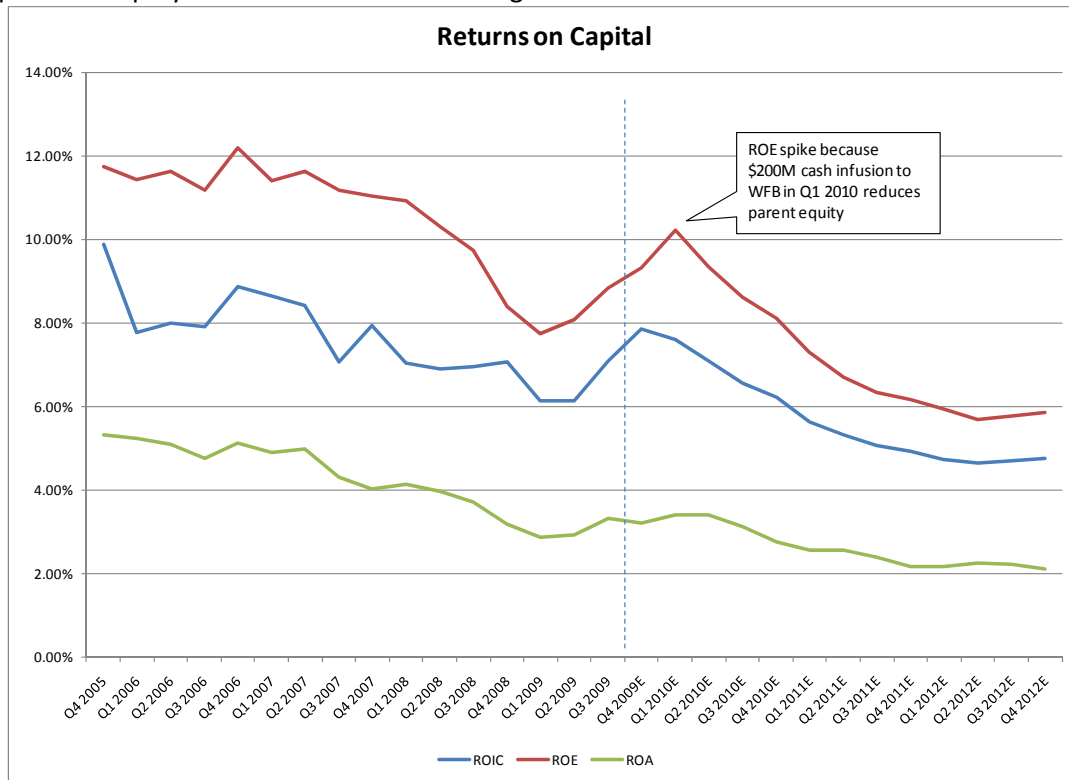
### 5) Bank Valuation Comps

	Valuation						
	P / Sales		EV / EBITDA		P / E		P / Book
	LFY	LFY	LFY	LFY	LFY	LFY	
<b>Banks</b>							
Wainwright Bank & Trust Company	1.0x		21.6x		20.2x	13.3x	1.0x
Connecticut Bank & Trust Company	1.1x		-47.9x		-5.7x		0.8x
Carolina Trust Bank	0.9x		-136.7x		-16.2x		0.6x
United Security Bancshares Inc	1.6x		15.0x		17.5x	14.9x	1.2x
Hanmi Financial Corp.	0.2x		-3.0x		-0.5x		0.2x
Bantrust Financial Group Inc	0.4x		16.4x		45.8x	-1.8x	0.2x
Premier Financial Bancorp Inc	1.3x		4.3x		5.5x		0.6x
Average	0.9x		-18.6x		9.5x	8.8x	0.6x
Median	1.0x		4.3x		5.5x	13.3x	0.6x
Maximum	1.6x		21.6x		45.8x	14.9x	1.2x
Minimum	0.2x		-136.7x		-16.2x	-1.8x	0.2x

6) Operating comps show Cabela's merchandising margins are at/below industry averages

	Margins					
	Gross Margin		EBITDA Margin		Net Margin	
	LFY	NFY	LFY	NFY	LFY	NFY
Dicks Sporting Goods Inc	28.7%	27.6%	7.9%	7.5%	3.4%	3.1%
Big 5 Sporting Goods Corp.	33.0%	33.1%	5.4%	6.6%	1.6%	2.6%
Foot Locker Inc	25.4%	27.7%	5.5%	5.1%	2.0%	1.7%
The Finish Line Inc	29.8%	31.3%	6.2%	7.0%	2.0%	3.4%
Gander Mountain Company	25.4%	25.7%	3.2%	3.8%	-0.3%	
Hibbett Sports Inc	30.3%	32.7%	11.0%	10.5%	5.2%	5.0%
Average	28.8%	29.7%	6.5%	6.8%	2.3%	3.1%
Median	29.2%	29.5%	5.8%	6.8%	2.0%	3.1%
Maximum	33.0%	33.1%	11.0%	10.5%	5.2%	5.0%
Minimum	25.4%	25.7%	3.2%	3.8%	-0.3%	1.7%
<b>Cabela's</b>	<b>39.7%</b>	<b>39.3%</b>	<b>8.1%</b>	<b>8.3%</b>	<b>3.0%</b>	<b>3.2%</b>

7) Return on capital and equity metrics have been declining over time



8) Traffic to cabelas.com vs. key competitor dickssportinggoods.com

