

Hhgregg investing report

Business



Hhgregg, Inc. is an electronics store company that is worthy of investing in for a multitude of reasons. The history of hhgregg indicates that they place a strong emphasis on customer service, which is why they are so successful. Hhgregg also has many important initiatives for the future, such as redesigning all of their stores, continuously retraining employees on customer responsiveness, and implementing a stringent corporate governance program. These valued-added initiatives will help hhgregg grow in the years to come. Their biggest competition is with Best Buy, who owns the biggest share of the electronic store market. To differentiate themselves, hhgregg offers a low price guarantee and enhanced customer responsiveness. The two main goals of hhgregg are to continue expanding the number of stores they operate, as well as increase their corporate social responsibility. These new goals and initiatives will help hhgregg become more profitable, which makes them a profitable company to invest capital in. There has been a steady increase in net sales and net profit from hhgregg, as depicted on their income statement. By looking at their balance sheet, it is clear that hhgregg is expanding their company since their total assets have improved year after year.

The comparative stock price of hhgregg has also increased dramatically since 2007 compared to the S&P 500 average even through the recession. After looking at two important financial ratios, the price-to-earnings and return on equity ratios, I determined that hhgregg is in a sound financial position because their ratios are above the industry average. For those reasons among others, it would be a wise idea to invest in hhgregg. They are implementing many strong initiatives that will help the company succeed, and

there are many financial factors that encourage investment as well. Based on projected future earnings, hhgregg is a company that will yield a sustainable return on investment for any shareholder.

Hhgregg, Inc. , also known as Gregg Appliances (NYSE: HGG), is a service company that is in the electronic store industry. They offer a variety of appliance and electronic products to consumers. As an investor, it would be a wise idea to invest your capital in hhgregg, Inc. After carefully researching the company and looking at various financial ratios, I have determined that investing in hhgregg is a stable and profitable opportunity. I have come to the conclusion that it would be wise to invest in hhgregg, Inc, due to many different reasons that will be outlined in this report.

In the overview section of this report, I will examine the industry in which hhgregg operates and review their direct competitors. In addition, I will also review some important initiatives hhgregg is involved in, as well as provide a brief history of Gregg Appliances and their goals for the future. In the analysis section of this report, I will review both hhgregg's income statement and balance sheet, as well as analyze their stock price. In addition, I will evaluate a couple of different key financial ratios for hhgregg, including Price-to-Earnings and Return on Equity. In the recommendations section of this report, I will evaluate why hhgregg is a strong company to invest in. I will describe what steps hhgregg is taking to build its company, as well as explain the reasoning behind the recommendation.

I developed my recommendation based on a variety of components. Hhgregg is offering some revolutionary initiatives that will help the company grow, as

well as expanding their brand to help them build and gain a larger portion of the market. Also, after looking at two key financial ratios and comparing them to the industry average, I have determined hhgregg is in a solid financial position and has a high return on investment to its shareholders. Overall, hhgregg is an excellent company to invest in based on projected future earnings OVERVIEW History of hhgregg Hhgregg, Inc. , was founded in 1955 as a small appliance store originally called H. H.

and Fanny Gregg. When founded, hhgregg stores offered washing machines, clothes dryers, refrigerators, and outdoor grills (hhgregg). What differentiated their stores back in 1955 was that they offered personal, caring customer service and a low price. Hhgregg Today Over the years, hhgregg, Inc. has maintained that core business philosophy of providing personal customer service and offering low prices.

Gregg Appliances still offers appliances at their stores, but has added different products as well, including televisions, computers, and audio devices. Selling such a variety of electronics is beneficial to hhgregg because they are an electronics store in the service industry. By offering many products to choose from, hhgregg attracts a mixture of customers. Gregg Appliances, managed by CEO Dennis May, is headquartered in Indianapolis, Indiana, and focuses on the southern United States. Today, hhgregg is one of the nation's largest retailers of home appliances and consumer electronics (hhgregg).

The company, although managed by CEO Dennis May, is still owned by the Gregg family - the original owner and founder. Important Initiatives Gregg

Appliances is always trying to expand their market share and grow their company. As a result, hhgregg has implemented some new initiatives and policies in order to attract more customers and increase profits. One new initiative hhgregg is implementing is the redesign all of its stores. In Georgia and Kentucky, hhgregg is revamping their stores so customers can choose from the widest selection of appliances and electronics in one place (hhgregg). By doing this, hhgregg will offer more name brands and more choices for customers to choose from; every day, they have over 400 major appliances and 100 digital televisions in stock that can be instantly purchased without having to wait.

In addition, over 170 of the models offered are working models – that is, customers can actually try them out before they buy it. By offering convenient shopping methods to customers, hhgregg is allowing their customers to have complete autonomy in the purchasing process. Another initiative hhgregg is beginning to implement is their expert customer assistance. Every year, hhgregg retrains and reeducates their sales and support staff so they are better able to help customers. Gregg Appliances has extremely high standards for hiring and training their employees because they want the best staff in the business.

“ From the day they start to work, our people go through extensive, ongoing training. The program consists of hhgregg’s corporate values, thorough training on how to help customer make the right decisions and complete product knowledge training” (hhgregg). By having an extremely attentive staff, hhgregg is able to be highly responsive to customer needs, which is vital when your company is in the service sector. The last important initiative <https://assignbuster.com/hhgregg-investing-report/>

hhgregg has implemented is one of stringent corporate governance. They have a strict code of business conduct and ethics which all employees must abide by. The code was put into practice in order to deter wrongdoing and corporate deviance, as well as to promote “ honest and ethical conduct, and ethical handling of conflicts” (hhgregg).

For instance, Gregg Appliances has implemented a whistleblower policy because they feel as if each employee has the responsibility to assist the company in meeting legal and regulatory requirements. Employees can mail, telephone, or email the company on an anonymous basis to inform them of any misconduct the company may be engaging in. This policy will help hhgregg quickly realize if any unlawful activity is happening within the company. As a result, they will be able to react swiftly and take steps to fix the problem. Competition The electronic store industry is in the mature phase of the industry life cycle, so while it is a consolidated industry, there are still many big name competitors. According to Yahoo! Finance, the direct and biggest competitor to hhgregg is Best Buy Company.

In addition to Best Buy, other competitors include RadioShack Corporation and Gamestop Corporation (Yahoo! Finance). All three of those companies have a higher market capitalization than hhgregg, at \$17.4 billion, \$4.1 billion, and \$2.4 billion, respectively, compared to hhgregg’s market cap of \$700.4 million (Yahoo! Finance).

Because those three companies have a higher market cap, they also own a higher percentage of the electronic store market. It is important for hhgregg to compete with these companies and take away some of their market share.

Gregg Appliances competes with these larger players on two fronts: customer service and low price. Their differentiation strategy of offering superior customer responsiveness is put into action by “ employing an extensively trained, commissioned sales force that serves its customers with a consultative and educational sales approach” (hhgregg). The goal of hhgregg is to “ provide its customers with a superior purchase experience from the time they first enter our stores to the delivery and installation of products in their homes” (hhgregg).

In addition to competing based on customer service, hhgregg also offers extremely low prices on a comprehensive selection of appliances. Gregg appliances offers a 110% low price guarantee – that is, “ if a customer knows of a lower price on anything [they] sell, hhgregg gives the customer the lower price, plus another 10% of the difference back – on the spot” (hhgregg). By offering enhanced customer responsiveness plus a low cost guarantee, hhgregg is able to compete against the bigger competitors in the market, such as Best Buy. In order to try to limit their competition, hhgregg almost completed a merger with Campo Electronics (Encyclopedia). However, the deal was eventually called off due to logistical reasons.

Had the merger gone through, “ Campo would have purchased H. H. Gregg for the equivalent of about \$52 million in Campo common stock and cash (2 million shares of Campo common stock and \$26 million in cash)” (Encyclopedia). Even though they would have been technically bought out, hhgregg still would have operated its stores independently and still would have been able to make revenue. However, in retrospect, it was a wise idea for hhgregg not to sell out, as their market cap is currently at \$700.

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4 million. Goals of hhgregg for the FutureHhgregg has goals for the future that they would like to see accomplished. Their goals differ from initiatives because goals strive for an endpoint, while initiatives are an ongoing process. The biggest and most important goal of hhgregg is to continue expanding its stores, since they currently only offer electronic stores in the south. In essence, that is what hhgregg is attempting to do. They are going “to open more than 50 stores over the next 18 months” (BusinessWeek).

Even though we are currently in a recession, hhgregg’s plans do not seem too ambitious because there is a clear opportunity for growth ever since the retail giant Circuit City went out of business. Hhgregg has seized the opportunity like no other; “the 118-shop chain is invading Circuit City’s former home turf in and around Washington and even taking over some of its old locations. ‘When a window opens, we take advantage’, says CEO Dennis May. ‘Circuit City’s demise no doubt is a big part of that opportunity’” (BusinessWeek). Opening 50 new stores is an accomplishable goal for hhgregg because of the void left by Circuit City.

Another goal hhgregg is trying to reach is that of Corporate Social Responsibility (CSR). They have recently started a program called hhcommunity, and they are looking to expand it. Hhgregg is “considering requests for monetary contributions from any tax-exempt company. [Hhgregg] mostly focuses on programs that are related to cancer research and to education” (hhgregg). This practice of CSR, giving back to the community, enhances their public image among their core audience. By having a strong CSR practice, hhgregg will gain a positive reputation and favorable name across the nation.

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ANALYSISIncome Statement Reviewing both hhgregg's income statement and balance sheet, the company seems to be in solid financial shape. Over the past three years, the company's net sales have increased from year to year. In 2007, sales were \$1.05 billion. In 2008, that number rose to \$1.25 billion.

In 2009, the net sales increased to \$1.39 billion. Clearly, customers continue to shop at hhgregg, which leads to an increase in sales from year to year. Their gross profit from sales is also steadily increasing. In 2007, hhgregg's gross sales were \$328 million, compared to 2009's gross profit of \$435 million.

This number shows, in comparison to net sales, that the cost of goods sold is being kept to a minimum - that is, hhgregg is able to sell products for a reduced price but still maintain a high profit margin. Hhgregg's net income, the most important statistic on the income statement because it shows how much the company makes, has also steadily been growing over the past three years. In 2007, their net income was \$21.3 million, while in 2008 it was \$21.4 million. However, in 2009, hhgregg's net income jumped to \$36.

5 million, an outstanding increase. See Appendix 1 for details. **Balance Sheet** Looking at hhgregg's balance sheet, it is clear that their company continues to expand. Please note that hhgregg's balance sheet data is available only two years back, and not three. Even so, you can still generate a good idea of where the company is headed.

In 2008, the total assets of hhgregg were at \$329.9 million. In 2009, that number grew to \$350.4 million total assets. One of the reasons their assets
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increased so much was because of their expansion of merchandise – in 2008, their merchandise inventories were valued at \$163 million, while in 2009 it became \$186 million. Having more assets essentially means more cash, as assets are liquid and can be converted to cash.

Assets are the economic resources owned by a company, so the more assets a company has, the more valuable it becomes. Since hhgregg's assets are growing, the company is becoming more and more financially stable. See Appendix 2 for more details. Stocks When hhgregg first made its initial public offering (IPO) in July 2007, their shares were traded at \$14.55 per share.

Currently, their stock price is hovering around \$18.50 per share. Since the time they went public, hhgregg's stock has seen about a \$4.0 increase. At its highest point, hhgregg's stocks were valued at \$20.

42, and at its lowest point, hhgregg's stocks were selling at \$4.92. (Figure 1, "Financials," Yahoo! Finance) However, over the past few months, the stock has become less volatile and more stable, trading around \$18.50. The table to the right shows the stocks lifetime value. As the graph illustrates, the stock price took a huge dip in October 2008 when the economy started to recess, but it has since then gained steam and actually increased by \$4.

00/share since the company went public. Hhgregg's comparative stock price has also increased dramatically compared to the industry. The comparative performance evaluation (graph below) compares the total shareholder return on hhgregg common stock from the IPO date of July 2007 to April 2009 with the cumulative total return of the S; P 500 Index. (Figure 2, "Financials," Yahoo! Finance) The graph assumes you invested \$100 in hhgregg and \$100
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in the S; P 500. From the graph, if you had invested \$100 in hhgregg, your return would be \$108.

If you had invested \$100 in the S; P 500, your return would be \$51. 38.

Clearly, compared to the S; P 500, hhgregg is a wise investment, as your return is much higher. Ratios Price-to-Earnings Using Yahoo! Finance, I have determined two ratios, Price-to-Earnings (P/E), and Return on Equity (ROE). The first ratio, Price-to-Earnings, is a profitability ratio, which measures the income or the operating success of the company. In essence, profitability ratios measure how efficiently a company is being managed.

The P/E ratio is determined by calculating the (market price per share of stock / earnings per share). By calculating the P/E ratio, this measures the investors assessment of a company's future earnings. In hhgreggs case, the forward P/E ratio, or the P/E ratio based on projected figures, is 14. 69: 1. In other words, investors are paying \$14. 69 for every dollar of earnings.

After looking at data from the past two years, the P/E ratio in 2008 was 19. 15: 1 and in 2007 the ratio was 21. 07: 1. As a general rule for P/E ratios, the lower the better. Since the P/E ratio continues decreasing, it is evident that hhgregg is performing well financially. All P/E ratios should be lower than 35: 1, and hhgregg's ratio is and has been sufficiently below that number.

Return on Equity Using Yahoo! Finance, I calculated the Return on Equity (ROE) ratio for hhgregg. The return on stockholder equity ratio measures how much money stockholders are willing to put in to invest in the company. Like the P/E ratio, the ROE is also a profitability ratio, which measures how efficiently a company is operating. The underlying guideline for return on
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equity ratio is the higher the number, the better. Anything above 15% ROE is good; anything below that number is sub-standard.

The ROE is determined by calculating (net income / shareholders' equity). In hhgregg's case, their ROE for 2009 is 24.37% meaning that investors can expect to receive 24.37% back on their investment. In 2008, their ROE was a staggering 48.

99%, while in 2007 it was at 35.29%. The reason for the drop off in ROE is most likely due to the global recession. Like every other company, hhgregg was not able to escape the negative effects of the recession and took a financial hit. However, their current ROE ratio of 24.37% is still above the average, which is an encouraging sign for investors as the economy starts to rebound.

Industry Ratios Compared to the electronic store industry average, hhgregg seems to be right on par with their industry. The electronic store industry's P/E ratio is 13.4:1 (Yahoo! Finance), only slightly better than hhgregg's P/E ratio of 14.69:1. Investors of hhgregg are merely paying \$1.

39 more for every dollar of earnings than what the industry is paying, which is not a significant amount. The ROE for the electronic store industry is 18.4% (Yahoo! Finance), which is enormously smaller than hhgregg's ROE ratio of 24.37%. Investors of hhgregg can expect to receive 5.

7% more return on their equity than the industry average, which is a significant amount. **RECOMMENDATIONS** After reviewing all of the compiled information, I have determined it would be a wise idea for you, as a

shareholder, to invest in hhgregg, Inc. For a multitude of reasons that I am going to explain, investing in hhgregg will yield a high return on investment, and will, in the long run, turn your investment into a profit. Hhgregg has many strong initiatives that will help the company grow in the future, starting with the redesigning of all of their stores. Upgrading and renovating their stores will make hhgregg seem more user friendly and give more autonomy to customers.

By offering over 150 different products that customers can test before buying them, hhgregg will certainly attract more people to their stores. As a result of attracting more people to their stores, hhgregg will see an increase in sales, which will ultimately increase their financial bottom line, making them a highly profitable company. Another strong initiative hhgregg has implemented is that of increased customer responsiveness. Being in the service sector, customer service is vital for hhgregg to stay afloat. The United States in general is seeing a decline in customer service, as many employees are being replaced with automated machines. On the contrary, hhgregg is focusing on customer service and responsiveness.

When employees are trained properly, as they are with hhgregg, they are able to respond and better react to customer needs. This superior customer service leads to a higher level of customer satisfaction, which will, in turn, build brand loyalty. As a result, hhgregg can expect to see an increase in profits from both repeat and new customers. One of the most important reasons to invest in hhgregg is because they have a strong opportunity for growth in the future. While most retailers are focused on survival in this economy, hhgregg is in full-on attack mode.

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It's not pinching pennies to stay afloat. It's not reducing the workforce. It's not closing underperforming stores, or mothballing expansion plans. Instead, hhgregg is actually ratcheting up its expansion plans and hiring by the hundreds. In fact, in the next two years, the company plans to expand its footprint by 60%, opening 50 new stores in 18 months.

Hhgregg is still a regional player in the southern United States market, but has countless metropolitan markets left to enter. This strong opportunity for growth and expansion is a great reason to invest in hhgregg. Corporate Social Responsibility (CSR) is becoming an important factor in American businesses. It is almost becoming a requirement for companies to practice CSR, as judge by the court of public opinion. Hhgregg is heavily involved in cancer research and education, two areas in which everyone can agree we need more funding. Practicing CSR by hhgregg will attract positive national attention, which will only enhance its reputation across the country.

Having a favorable reputation will lead to an increase in the amount of customers who visit their store, which will hopefully increase sales. In addition to all of the non-quantitative factors leading to my recommendation of investing in hhgregg, there are also many financial factors that encourage investment as well. Looking at their income statement, hhgregg is in a sound financial position. Their net sales have also seen a steady increase from \$1.05 billion in 2007 to \$1.

39 billion in 2009. By having an increase in sales, this means that hhgregg is attracting more customers, and that more customers are buying from their

stores. This leads to an increase in net income, which has also risen from \$21.4 million in 2007 to \$36.5 million in 2009.

The fact that hhgregg continues to make a profit and raise their net income year after year shows they are financially strong and worthy to invest in. If you look at their balance sheet, it is apparent that hhgregg is building their company. The amount of assets they hold has increased by a solid amount from the prior year, going from \$329 million to \$350 million. By increasing the amount of assets they own, hhgregg is preparing for the future by growing their company at a reasonable expansion rate. The amount of assets a company has, shows, in essence, how much that company is worth.

Hhgregg can sell off their assets for \$350 million, which means they are worth \$21 million more than the prior year. By continuing to expand and grow, hhgregg is a wise investment for the future. Comparative to the S; P 500 Index, hhgregg's stock price over the past two years has performed phenomenally. If you had invested \$100 in hhgregg when they went public, you would have earned about \$8 on your investment. While that does not seem like much, if you had invested \$100 in the S; P 500 Index average, you would have lost about \$49. Even though this comparative performance evaluation does not predict the future, it is a good indicator of where the company is headed.

Unmistakably, if hhgregg continues to do as well as they have been in the past, when the economy picks up, the company could be primed for a large increase in stock price. The two financial ratios I analyzed undoubtedly indicate that hhgregg is performing very well. For their forward P/E ratio,

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hhgregg is at 14.69: 1, when all companies should be under 35: 1. For their ROE ratio, hhgregg has a 24.

37% return, which is well above the 15% desired. These calculations clearly show that investing in hhgregg is an intelligent idea. As an investor, you will only pay \$14.9 per dollar earned, and will receive 24.37% back on the original investment. Because there is so much opportunity for profit, hhgregg is an excellent company to invest in.

The key point to remember, though, is that you never buy a stock based on the current conditions. You buy based on the future. And I am convinced that hhgregg will be locked-and-loaded for rapid earnings growth as the economy recovers. WORKS CITED " About hhgregg. " Hhgregg.

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