Yale School *of* Management
Equity Research

COMPANY COVERAGE

bebe Stores, Inc.

Bebe Stores Inc.

April 24, 2002

Nasdaq: BEBE

$ 23.22

52 Wk - Range
12.87 – 35.50

RECOMMENDATION
HOLD

6 Month horizon

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Hold for now…
But a few strategic management decisions could move this stock to a BUY.

We recommend a HOLD on Bebe Company, Inc. We think the company is currently priced at its intrinsic value, but we will include a discussion at the end of this report about how bebe could use its excess cash to move itself to a BUY rating.

INVESTMENT RATING

We are initiating coverage of Bebe Stores Inc. (Nasdaq – BEBE) with a HOLD recommendation. We are confident that the company is poised for growth and the whole specialty retail industry is expected to do well. But we believe this has been built into the pricing already. The next quarter could decide how the stock will perform. The company would have exceeded market expectations if it had planned its recent inventory more carefully. Despite improvement in sales, its stockout last quarter, the lean improvement in inventories and low margins on the clearance items have kept the company's results on par with expectations. We also have concerns about the company's inefficient use of cash, its undefined international growth strategy and its decreasing gross margins.

Last Trade	**Change**		**Prev Cls**	**Open**	**Volume**
23.22	-0.98 (-4.05%)		24.2	23.69	400,100
Day's Range	Bid	Ask	P/E	Mkt Cap	Avg Vol
23.02 - 24	23	24.62	22.2	589.9M	262,727
52-wk Range	Bid Size	Ask Size	P/S	EPS (ttm)	
12.87 - 35.50	1,400	100	1.97	1.09	

Year	Net Income $M	EPS	Share Price
1997	95.1	0.24	
1998	146.8	0.77	13.13
1999	201.3	1.16	34.00
2000	241.8	1.2	8.38
2001	290.8	1.12	29.16

BEBE STORES INC.

Summary*:

bebe designs, develops and produces a distinctive line of contemporary women's apparel and accessories, which it markets under the bebe, bebe moda and bbsp brand names through its over 148 specialty retail stores in 29 states. The bebe look embodies a lifestyle of spirited sexuality mixed with sophisticated elegance, and this comes through in both its products and its retail stores. The company was ranked No. 2 in the Forbes top small business ranking in 1999.

Background:

Founded by Manny Mashouf, current Chairman and Chief Executive Officer, bebe opened its first store in San Francisco in 1976. In the last four years, they significantly strengthened the employee base and implemented several strategic initiatives that contributed to recent strong performance. These strategic initiatives address all aspects of operations and in particular the merchandising, planning, manufacturing and distribution functions. bebe's merchandising initiatives focus primarily on expanding the product line to include a broader selection of tops, pants, dresses, accessories and logo items. While the traditional bebe product offering spoke to the "nine to five" needs of a young professional woman, the expanded product line provides head-to-toe lifestyle dressing at a competitive price that easily adapts from day into evening. Also, the logo portion of the product line, which highlights the bebe logo on a variety of active and casual styles, enhances brand awareness while providing younger, "aspirational" customers an entry to the bebe product line at lower price points. The strategic initiatives that relate to the planning, manufacturing and distribution functions focus primarily on implementing more sophisticated procedures. Also, these initiatives involve a more disciplined approach to our business operations.

The Business

bebe benefits from its unique position as a lifestyle brand with distinctive, fashion-forward apparel that is competitively priced. bebe combines a strong brand franchise with controlled distribution. The company's merchandising and planning strategy focuses on minimizing fashion risk while providing a constant flow of new product to its stores. The company had a strong financial performance in the late 1990s.

The bebe Customer

bebe's core customers are affluent women between 18 and 35 years old who seek current fashion trends. They can be segmented into three basic subgroups: (1) the woman at the high end of the age range who has shopped bebe for several years and is a strong fan of the core career items; (2) the fashion-forward customer looking for contemporary apparel (novelty separates, knits and novelty jackets); and (3) the "aspirational" customer at the low end of the age range who primarily purchases lower ticket items (such as logo/bbsp) and occasion dresses. bebe believes that as the younger customers age and move into the workforce, they slowly trade up to higher-priced categories and become core customers themselves.

The bebe Brand

Much of bebe's success comes from the relationship it has created with its core customer, affluent urban trendsetters and suburban executives. bebe's brand positioning is unique in the market because few other branded retailers fill this void, and even fewer target their customers' total lifestyle needs. A key point of differentiation is that bebe's products are of exceptional quality and provide contemporary fashion at competitive pricing.

The Image Campaign

bebe's current plan is to invest between 3.5 and 5 percent of its annual sales in brand and image marketing. bebe's high-impact image campaign is targeted in print advertising in key national fashion and lifestyle magazines, and in strategically positioned outdoor locations such as bus shelters in major metropolitan areas. bebe's public relations efforts focus on tie-ins with the entertainment industry, including wardrobing arrangements with key television programs, films and celebrities.

Stores

bebe owns its distribution channel and delivers product directly to the customer through its own stores, which allows for complete control of brand presentation. The company uses market research data to identify the most strategically appropriate locations based on an analysis of demographic and psychographic information - where the bebe customer works, lives and shops - before selecting a site. If that site is unavailable then the company will wait to open a store there. bebe currently operates over 148 stores in roughly 45 of its targeted metropolitan areas in 29 states and also sells its products through its online store at www.bebe.com. Based on its most recent analysis, bebe believes that 60 of the top 150 metro areas of the United States are appropriate for the brand, with a minimum potential store base of 200.

Product Merchandising

> Our merchandising strategy is to provide current, timely fashions in a broad selection of categories to suit the lifestyle needs of our customers. We market all of our merchandise under the bebe, bebe moda and bbsp brand names. We design and develop most of our merchandise in-house and contract to have the merchandise manufactured to our specifications. In some cases, we select merchandise directly from third-party apparel manufacturers' lines. We do not have long-term contracts with any third-party apparel manufacturers and purchase all of the merchandise from such manufacturers by purchase order. Such merchandise always carries our "bebe," "bebe moda" or "bbsp" labels and in most instances is supplied to us on an exclusive basis.(extracts from Bebe's Annual and quarterly reports)

Growth Strategy

bebe is well positioned for continued growth. Growth opportunities include opening new domestic stores annually and the expansion of the brand through international and product licensing opportunities. bebe opened its first company-owned international stores in Canada and the United Kingdom in 1999. In the product-licensing arena, bebe has entered into licensing agreements to manufacture and distribute footwear, eyewear, watches and swimwear branded with the bebe logo to be sold at bebe stores and other retailers.

***-** bebe investor relations

APPAREL RETAIL INDUSTRY OVERVIEW

The specialty apparel retail industry is expected to cater to the boom in teen population. The teenage population is growing about a third faster than the overall population in the United States. Their spending power was $155B in 2000 and about 60% of this was spent on clothing and accessories.

- ***Teen spending on apparel, shoes, and accessories is up 23%*** vs. last year and 5% vs. fall 2001. We were surprised by this increase in (discretionary) spending in light of a lower part-time employment rate (43.9% vs. about 50% in fall 2001). This decline may be due to less (retail) seasonal employment following the holiday season*.

- ***Apparel spending was 28% of total spending for males and females***. However, once combined with accessories, personal care, and shoes, it increased to 46%. Young women spent a higher percentage of their disposable income on these items. The apparel category represents 36% of total spending and, when combined with accessories, personal care, and shoes, the total jumps to 59%. For the males, total apparel spending represents approximately 21% of disposable income. When combined with accessories, personal care, and shoes, this rises to 34%*.

- ***Most students in a survey prefer to shop with friends (56%),*** while shopping with parents (25%) was the second choice, and shopping alone (18%) ranked last. Shopping for teenagers is as much a social event as a necessity. Female students are more inclined to shop with friends (63%), and less likely to shop with parents (21%)*.

According to NPD Group Inc., a market research firm located in Port Washington, New York, consumers buy more of their apparel from specialty retailers (about 23%) than from other types of retail establishments.

Large retailers like GAP have been suffering while specialty players have been doing well. Retail sales has been growing steadily as is evident from the Dept of Commerce's study and we expect 2002 to return $310B in retail sales.

- ***The average number of stores visited during a typical visit to the mall was relatively low (3.7),*** which reinforces the importance of establishing "mind share" and maintaining it via strategic marketing. One method is to publish a catalog for the retail brand. Companies pursuing this strategy (we believe successfully) are Abercrombie & Fitch, American Eagle Outfitters, and dELiA*s (DLIA-$6.69). About 15% of the guys indicated that they typically do not shop at any stores while in the mall, making this group a prime target for strategic marketing*.

- ***Specialty stores remain the top channel preference for purchasing apparel***, although it appears that the concentration declined slightly to the benefit of the Internet and discount stores. We expect the migration toward discount stores to continue as concepts such as Target stores add trend-right brands like Mossimo to attract younger customers. The movement toward more Internet purchasing is encouraging for the retailers pursuing a multi-channel strategy, in our view*.

- ***Parents cut clothing expenditures for themselves, while they increased the amount of money spent on their children.*** Parents spent 3.8% less, with annual expenditures dropping to $1,184 from $1,230 in fall 2001. However, parents increased spending on their children's clothes by almost 11%, to $1,115 vs. $1,015 in fall 2001. We believe parents react to economic uncertainty by first cutting their consumption, but will continue to purchase for their children*.

- ***Teens contributed more toward their clothing purchases compared to the fall.*** As a percentage of total clothing spending, parents' contribution fell 13% to 67%. We believe that teens will continue to be resilient consumers and will pick up the slack in what their parents do not contribute*.

*** -** *From Piper Jaffray Inc.*

COMPANIES WITHIN THIS SECTOR ARE DRIVEN BY:

1. ***Availability of desirable locations and the ability to identify these before competition**:* Any economic development in a commercial or residential area is accompanied with a spurt in mall traffic. A company's ability to identify this area of opportunity before competition would prove to be a key determinant in its success.

2. ***Ability to manage and sustain the expansion of the store base**:* Specialty retailers would need to expand as per the markets requirements and should be able to sustain this high expansion rate. Adequate resources, financial and operational, would be needed to reduce the breakeven period for new stores once opened. They should also have the ability to source adequate inventory to meet the needs of new stores.

3. ***Design and development of adequate management information systems to support expanded activity**:* A key strength for certain companies has been their MIS. A good MIS strategy could result in savings while at the same time enabling the management to take strategic decisions and plan for growth.

4. ***Ability to recruit and retain new employees**:* Companies within this sector usually witness a high turnover and this has resulted in none of the companies having a strength

5. ***Access to capital**:* Growth in this sector has been though growth in new markets or through acquisition. Companies to stay abreast of competition should have access to capital or adequate cash reserves.

6. ***Brand name recognition**:* Teens and young adults like to be associated with brands. This makes it all the more important for specialty retailers to establish brand equity. All marketing efforts should be directed towards this populous.

7. ***Sourcing strategies***: Certain retailers have been able to save costs on the purchasing front. Most of these companies are sourcing their raw material from Asia, and the distinct cost advantage one retailer had over another is a thing of the past.

8. ***Product styling, presentation, pricing***: Staying abreast of competition and launching the 'cool' product line could make a big impact on the retailers business. A couple of these retailers have their in-house design and test market their line before a full-blown launch.

9. ***Timeliness of product development and delivery to market***

10. ***Store ambience***: More and more, retailers are focusing on improving store ambience. This is evident by the store size increasing and the stores becoming plush.

11. ***Customer focus and convenience***

KEY DRIVERS FOR bebe

New store openings: The Apparel retail industry has been driven by market penetration. Location and quantity of stores are huge determinants for a particular retailer's business. bebe is in its early growth cycle and we estimate a high growth of 15% to 20% in the next couple of years. Bebe plans to expand square footage by 25% annually for the next 3 to 5 years. They intend to open 27 new stores in FY 2002 and this is in line with their 22% increase in the number of stores in FY 2001.
Expansion into foreign markets – bebe has 2 stores in Canada and recently closed its store in the UK. Its has licensed stores for UAE, Israel and Greece and is planning on stores in Asia. A typical store costs $540,000 ($390,000 construction, $120,000 invenstory and $30,000 pre operating expenses) in the US. bebe with its strong financial position could open stores when the opportunities arise.

Favorable store conditions (economic): bebe has been able to identify locations, which have been favorable both in terms of economic and commercial viability. One of their key strengths has been in the area of identifying ideal locations at reasonable costs. This is evident from their number of store closures being very low. Their average sales / store has been rising following a lull in 2000. Their average store size has increased too. This, we feel, has made the retail environment a lot more comfortable for bebe's customers.

Favorable economic conditions: The prospects of the economy picking up would drive this industry to a favorable position. We feel specialty retailers will have a good run.

Management and other personnel: In the past bebe had witnessed a significant turnover in its personnel. Now they seem to have taken measures to attract and retain talent. The company's founder Manny Mashouf is a key determinant of the company's strategy and is an industry veteran. The top management comprises of John Parros, President and CEO (since 2001) and John Kyees the CFO (since Feb 2002) who are renowned in the industry and who have been with other retailers in various capacities. We think that this stability to the top management would add value to bebe. Key management had been a problem in the past which has been resolved now.

Identify and capture trends ahead of competition: One of bebe's selling points have been their ability to stay abreast of competition both in terms of introducing new designs in the market as well as timely product launch. They have been considered to be trend-setters in their segment.

Inventory: One of bebe's key problems during the last quarter had been their inventory stockout. Bebe had suffered during the peak season and this was not well received by customers and the analysts. bebe has now taken measures to avoid both stock outs and over stocking. Investment in information systems and better logistical planning is expected to prevent such incidents in the future.

Bargaining power with suppliers: A key driver to the bottom line for bebe is cost of goods sold. They have revamped their purchase system and this is expected to contribute significantly to the bottom line.

Operating costs: bebe has one of the highest gross margins in the industry. But this has been falling to down due to an increase in their average store size. Nevertheless they have been able to sustain this high gross margin and one of the points on their agenda has been reducing costs further.

Capital: A strong balance sheet, a good cash position and a strong cash flow would help bebe in their capital requirements. Bebe would be in a favorable position should it decide to seek additional capital in the form of debt to aid its growth strategy.

RISKS

1. bebe does not own any production facilities. All raw materials are outsourced and any quality problem with the raw material or finished good could result in a delay of new goods hitting the stores. Though the design is totally within control of bebe, any problems associated with production could result in serious risk to the business.

2. Economy: The slow growth in the economy could deter growth in this sector. Alan Greenspan's announcement regarding the interest rates is not very encouraging and this condition could last longer than expected.

3. Majority of shares owned by the promoter – Manny Mashouf, Chairman and CEO. Other share holders will not be in a position to influence management to take decisions pertaining to growth or to the future prospects of the company.

4. Manufacturer and country of manufacture violating labor laws or human rights: This could affect the image of the company. Several Asian workers filed a law suit against bebe and its contractor in February 2002. They alleged that the company subjected them to substandard wages, intimidation and harassment. Such law suits on bebe or on its contractors could affect the companies image and thereby sales.

5. Since most raw materials are purchased abroad bebe is subject to risks associated with imports
    a. Fluctuations in foreign currency
    b. Changes in duty and quota structure
    c. Foreign and trading policies of the US and the country of export
    d. Political and economic conditions in US and country of export

6. Significant competition from other retail and apparel manufacturers – low barriers to entry. There is also a threat of entry from European brands. Despite this we feel that the market can handle more players and this would not affect the dynamics of Bebe's operations.

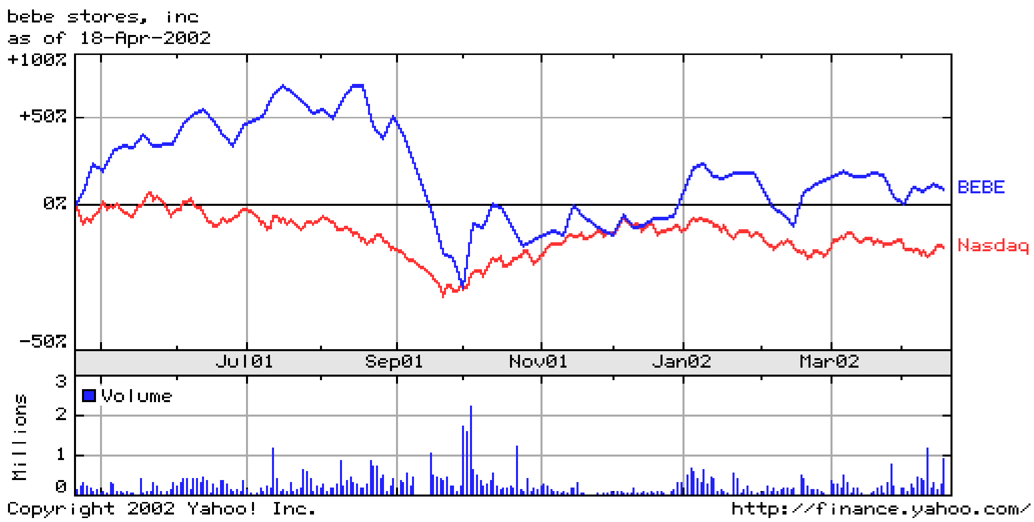
7. All restricted securities are eligible to be sold, which may cause dilution of common stock. December 31, 2001, 25,397,320 shares of common stock outstanding. Of these shares, 20,778,588 "restricted securities" held by exiting share holders - which means they acquired these securities from bebe in a transaction that did not involve a public offering. These shares may be sold in the public market only if they are registered or if they qualify for an exemption from registration under Rule 144 of the Securities Act. At this time, all restricted securities will be eligible to be sold, subject to certain volume and other limitations.

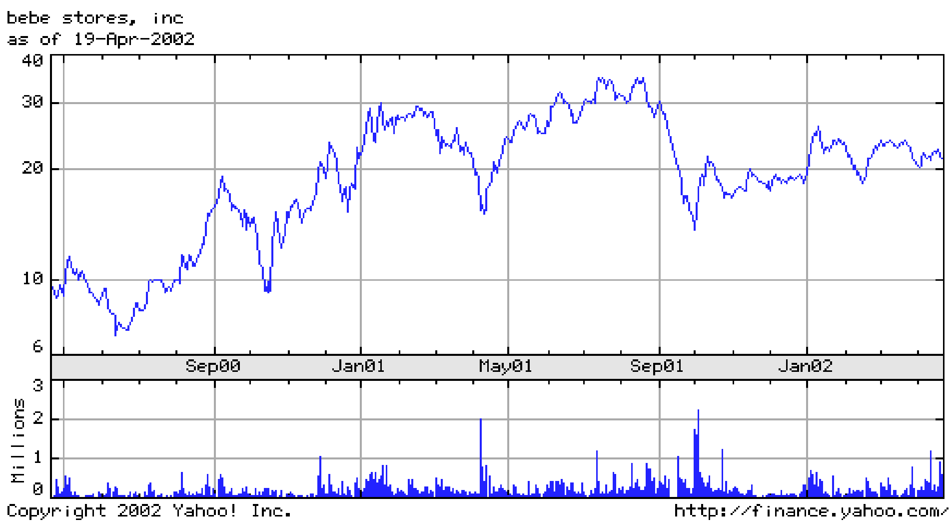
8. bebe does not pay dividends – Bebe plans to retain earnings for future growth and expansions (81.8% shares owned by Manny Mashouf)

PERFORMANCE: bebe Stores Inc.

Last Trade	52-wk Range	Prev Cls	Open	Volume	Mkt Cap	Avg Vol
23.22	12.87 - 35.50	24.2	23.69	399,500	589.9M	262,727

Yahoo finance





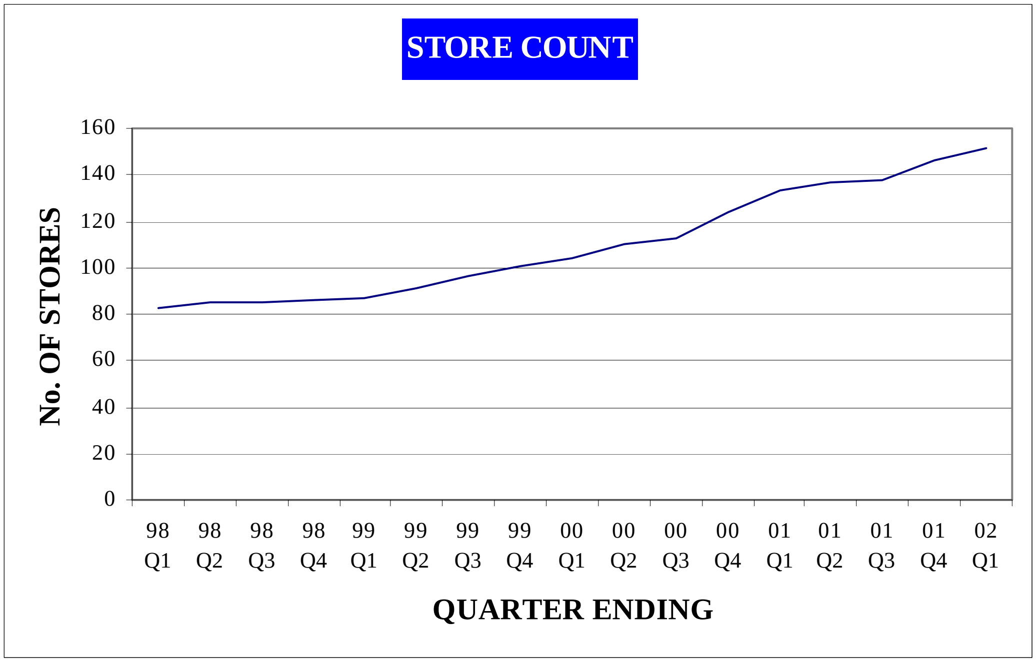
STORE SIZE: bebe's average store size has increase from 2740 sqft in 1998 to 3500 in 2002. Specialty retailers have been moving towards this trend of having larger stores. Larger stores, combined with good ambience have shown to improve customer satisfaction.

SALES / STORE: The average sales per store has been steady over the past 3 years. This can be attributed to new stores, which were yet to attain maturity. Stores opened in 2001 (26 Nos.) are expected to contribute to higher sales/store this year. The first quarter has been good for bebe, with revenues slightly better than the same quarter of 2001. A constrained inventory level dampened last quarter's earnings. Comparable store sales have also fallen to more realistic levels after a good run in the late 90's and a drop in 2000.

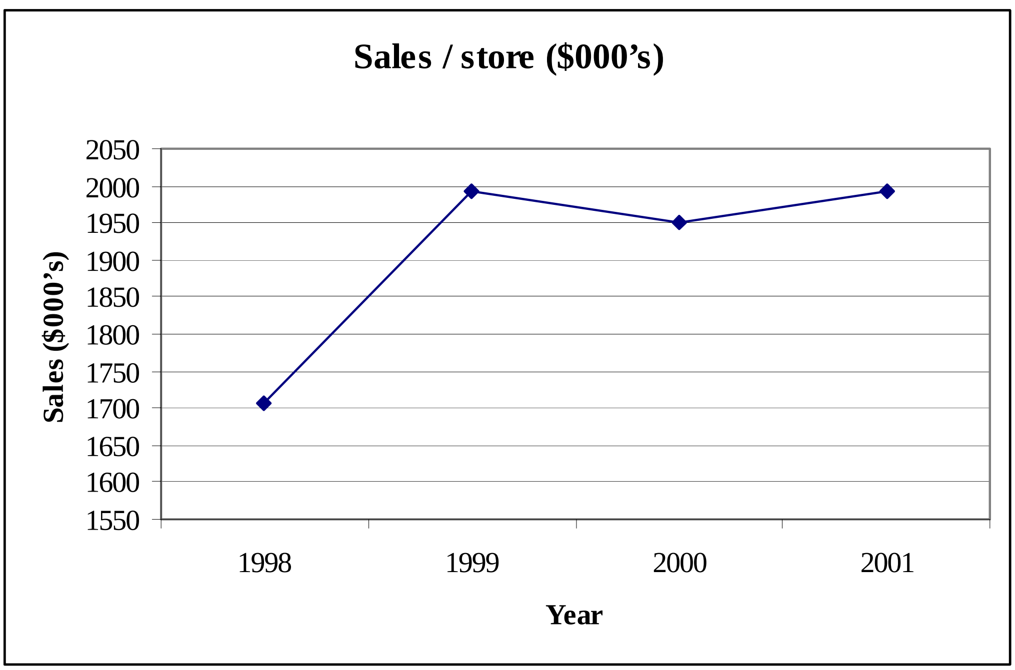
Year	No. of stores	Revenues 000's	Rev / store 000's
1998	86	146,757	1,706
1999	101	201,341	1,993
2000	124	241,802	1,950
2001	146	290,836	1,992

Quarter	Sq footage	No. of stores	Avg Store size (sqft)	Net sales ($000's)	Sales/store	Sales/sq ft ($000's)	Comparable store % sales
98 Q1	227,352	83	2739.18	31,219	376.13	1.654	54.80
98 Q2	233,907	85	2751.85	43,558	512.45	2.191	46.60
98 Q3	233,907	85	2751.85	33,296	391.72	1.675	32.30
98 Q4	238,623	86	2774.69	38,684	449.81	1.885	35.60
99 Q1	247,656	87	2846.62	41,553	477.62	1.929	27.00
99 Q2	261,131	91	2869.57	59,491	653.75	2.504	27.70
99 Q3	279,693	96	2913.47	46,047	479.66	1.715	26.20
99 Q4	303,644	101	3006.38	54,250	537.13	1.769	18.90
00 Q1	320,892	104	3085.50	56,637	544.59	1.697	12.20
00 Q2	347,998	110	3163.62	78,138	710.35	2.041	10.10
00 Q3	359,678	113	3182.99	52,895	468.10	1.301	-4.40
00 Q4	404,441	124	3261.62	54,132	436.55	1.079	-15.20
01 Q1	442,315	133	3325.68	61,958	465.85	1.053	-12.20
01 Q2	461,820	137	3370.95	92,994	678.79	1.470	-1.20
01 Q3	475,719	138	3447.24	66,187	479.62	1.008	-2.00
01 Q4	513,042	146	3513.99	69,697	477.38	0.930	6.70
02 Q1	525,926	151	3482.95	73,645	487.72	0.927	2.60

Yahoo Finance, Bloomberg, Edgar

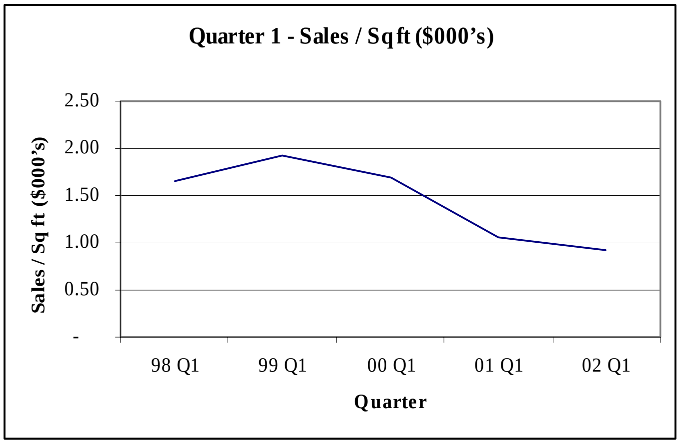


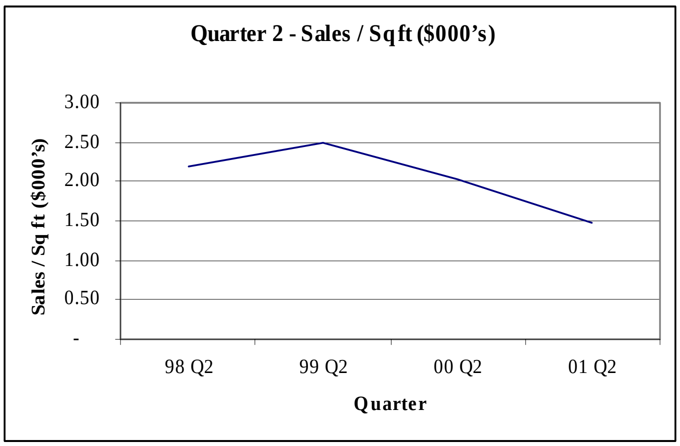
Store count *has been increasing steadily and this is expected to continue through this financial year. The management expects to open stores with the same aggression in the next 2 years too.*

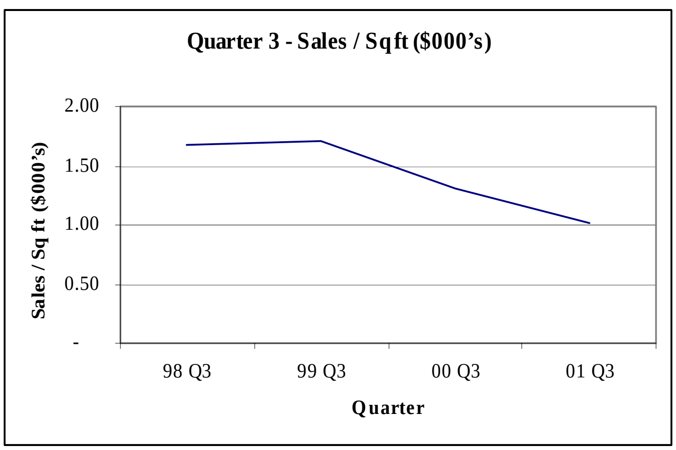


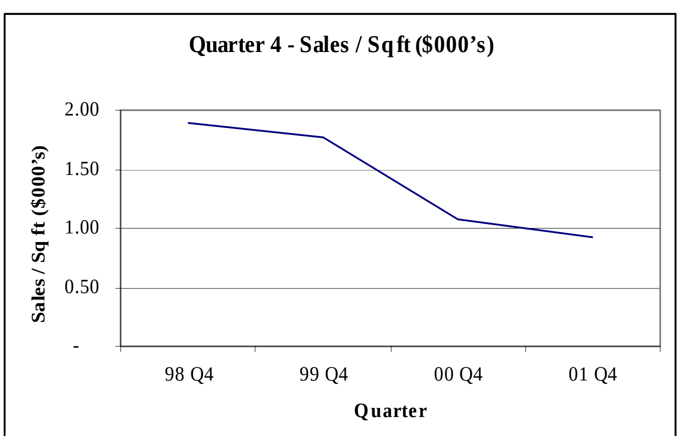
Sales per store *has not seen much change over the last 3 years. This is due to their aggressive store additions, which are expected to mature in total this year.*

SALES / SQUARE FOOT

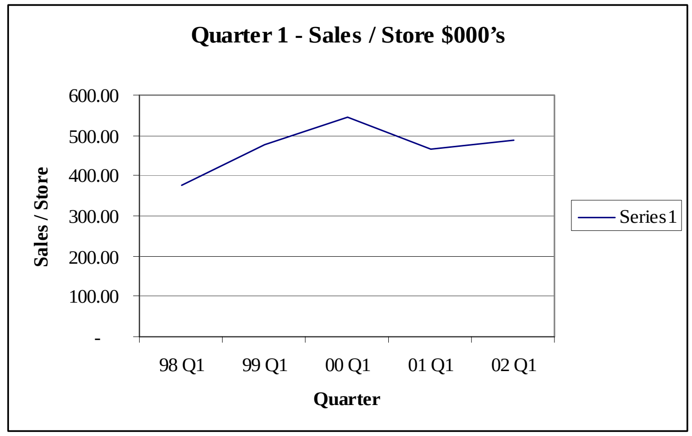


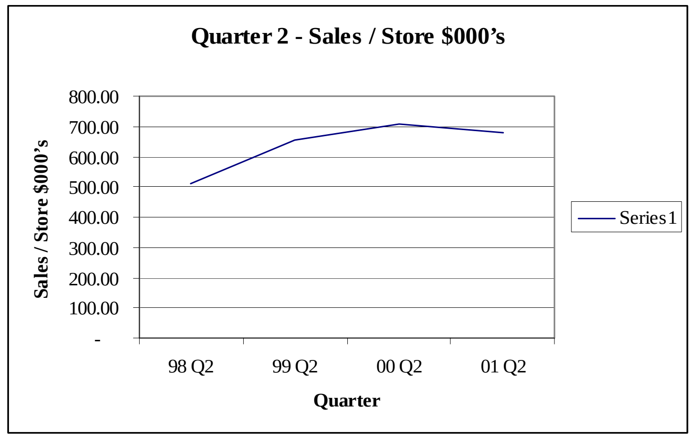


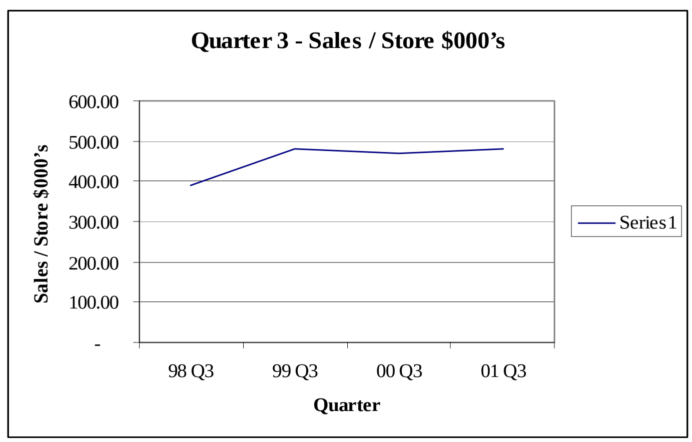


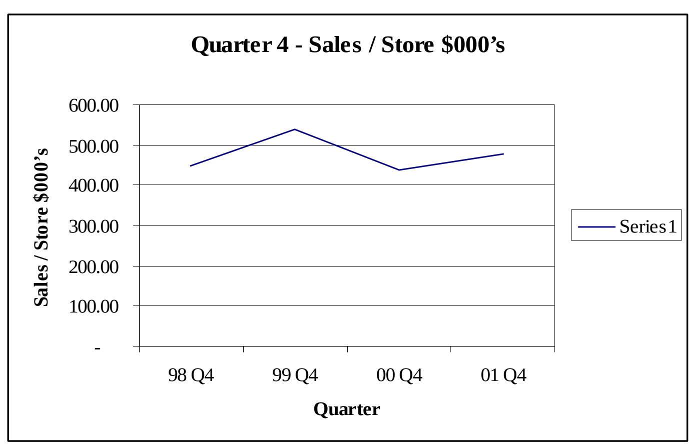


SALES / STORE









COMPETITIVE ANALYSIS

bebe is a small player in the specialty retail segment in terms of number of stores. But in terms of revenues it is in the middle of the table. They have a high sales / store ratio. This could be attributed to their presence in the larger cities and catering to a slightly up-market segment in apparel retail. They are on an expansion spree and are expected to capitalize on this slow down phenomenon, when other retailers are reluctant to expand. Their strategy to move into other markets within the US is shows their aggressiveness.

bebe's solid cash position should help them in their expansion process. It may be noted that they experienced serious inventory stockout problems last season, which had resulted in lost revenues. Since then management has taken measures to ensure optimal inventory levels.

Company	Current No. of stores	No. of new stores opened in 2001	% increase in number of stores in 2001	No of new stores expected to open in 2002	Avg. sq feet per store	Sales per sq feet	Sales per store ($ M)	States	Countries
Gadzooks	425	52	14%	47	2140	345	0.74	40	US
Deb Shops	316	31	11%	30	6000	162	0.97	38	US
Urban Outfitters	49	NA	NA	NA	10000	NA	NA	NA	UK, US
The Buckle Inc.	297	23	8%	31	4800	257	1.31	37	US
Charlotte Russe	188	54	40%	55	7300	250	1.83	29	US
Bebe Stores	146	26	22%	27	3500	603	2.11	29	US, Canada, UK
Hot Top Inc.	274	65	31%	62	1559	787	1.23	45	US
Wet Seal	583	51	10%	79	3874	267	1.03	44	US
Pacific Sunware	718	129	22%	75	3300	289	0.95	48	US
Too Inc.	422	57	16%	55	4087	350	1.43	44	US

Company	Sales ($ M)	Gross profit Margin (%)	Operating Profit Margin (%)		ROA	ROE	Days' inventory	Cash ($ M)	Cash / Sales
			EBITDA	EBIT					
Gadzooks	314	28.8	9.5	7.1	11.9%	17.6%	99.1	20.3	6.5%
Deb Shops	308	33.8	15.6	13.9	15.5%	19.2%	57.6	111.6	36.3%
Urban Outfitters	349	32.3	10.1	6.0	6.5%	10.9%	63.5	16.6	4.8%
The Buckle Inc.	388	33.3	17.0	14.0	16.2%	16.5%	75.8	108.4	28.0%
Charlotte Russe	344	30.4	14.0	10.7	16.8%	20.8%	37.9	10.0	2.9%
Bebe Stores	308	48.0	18.4	15.6	18.2%	21.9%	67.1	91.0	29.5%
Hot Top Inc.	336	40.0	17.7	14.4	22.4%	27.9%	50.4	51.3	15.3%
Wet Seal	602	27.7	9.3	5.5	9.1%	13.8%	26.2	68.2	11.3%
Pacific Sunware	685	13.5	14.4	11.0	16.3%	21.2%	77.0	29.0	4.2%
Too Inc.	603	35.3	13.2	10.2	16.6%	51.5%	47.3	54.8	9.1%

VALUATION:

We have carried out a DCF valuation of bebe and have arrived at a price of **$23.74**. Although the specialty retail industry is expected to outperform the market, we believe that this stock is already priced out at its current full value and so we expect a market perform for this stock. We have assumed a growth rate of 25% for the first 3 years. We expect this because of bebe's aggressive marketing combined with a growth in the speciality retail market. We expect this growth to taper to 20% and then 10% before hitting a terminal growth rate of 4%. We have assumed a gross profit of 48% in 2002 and 45% in the following years. Bebe's management expects this decreasing margin and explains that this is the result of a higher percentage of outlet retail outlets, lower net merchandise margins and slightly higher occupancy expense. Bebe did manage to decrease its SG&A expenses by lowering employee compensation as well as professional fees.

Bebe seems to have too much cash on its books that it is not investing efficiently into new projects that could build shareholder value. In its latest 10Q, management did not mention any concern about this excess of cash. According to the company's own account, capital expenditures will probably not exceed $23MM in 2002 and yet it will keep about $100MM in cash on its balance sheet. We believe that a strategic plan for investing this cash would improve the company's rating to a BUY. We discuss this in the following section.

What would move bebe from a HOLD to a BUY?

- bebe could increase its store base even beyond its current plan. bebe has plenty of cash on its books and it could also capitalize on its low level of debt and its steady stream of cash flows. The industry is in a growth phase, so this is an important time to capture demand and establish a brandname before the industry matures and competitive pressures become more serious.

- bebe could expand more aggressively into international markets. Although bebe has been running into licencing, trademarking and brand recognition problems in its international plans, we believe it is not coordinating a convincing international retail strategy yet. bebe's cash resources could be useful to open opportunities abroad if the company is willing to risk the investment.

If bebe is able to make these strategic changes, we believe the company could raise its sales growth to 35%, 45%, 45%, 35%, 25%, 15% and 10% respectively for the years 2002-2008. Our current DCF assumes 35%, 35%, 35%, 25%, 25%, 15% and 10% for those same years. Using the new growth rates in our model, we arrive at a per share price of **$28.41**. This would move the company to a BUY recommendation.

Company	Ticker	Market cap	Share price	52 Week		Revenue	EBITDA	EPS			P/E			Price/Sales
		$ M	$	Hi	Lo	$ M	$ M	2001	2002 - E	2003 - E	2001	2002	2003	
Gadzooks	GADZ	157.10	14.30	22.44	10.60	313.80	9.45	0.65	1.13	1.38	22.00	12.65	10.36	0.501
Deb Shops	DEBS	368.00	29.12	29.90	17.31	307.60	37.40	1.73	2.26	2.48	16.83	12.88	11.74	1.196
Urban Outfitters	URBN	446.70	31.10	31.15	10.00	349.00	41.00	0.86	1.09	1.3	36.16	28.53	23.92	1.280
The Buckle Inc.	BKE	513.80	24.50	24.75	14.60	387.60	60.20	1.52	1.65	1.75	16.12	14.85	14.00	1.326
Charlotte Russe	CHIC	570.70	27.95	39.64	10.50	343.70	34.10	0.89	0.93	1.18	31.40	30.05	23.69	1.660
Bebe Stores	**BEBE**	**559.00**	**23.22**	**35.50**	**12.87**	**308.00**	**52.6**	**1.11**	**1.13**	**1.32**	**20.92**	**20.55**	**17.59**	**1.815**
Hot Top Inc.	HOTT	692.90	24.13	25.46	14.34	336.10	44.2	0.86	1.04	1.27	28.06	23.20	19.00	2.062
Wet Seal	WTSLA	730.00	36.36	39.28	12.25	602.00	44.9	1.52	1.78	2.08	23.92	20.43	17.48	1.213
Pacific Sunware	PSUN	820.00	26.09	29.09	11.45	685.00	71.4	0.91	1.12	1.35	28.67	23.29	19.33	1.197
Too Inc.	TOO	900.00	29.78	32.00	17.85	603.00	77.5	1.23	1.48	1.72	24.21	20.12	17.31	1.493
Our Specialty Retail Index									**1.36**			**20.66**		**1.37**
All revenues are trailing 12 months, source: Yahoo finance, Bloomberg, Yale SOM, Edgar- Company filings														

bebe DCF Valuation

(in millions)

Income Statement

YEAR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Sales	201.3	241.8	290.8	392.6	530.0	715.5	894.3	1,117.9	1,285.6	1,414.2
Cost of sales, incl buying and occupa	95.4	119.9	151.2	204.1	291.5	393.5	491.9	614.9	707.1	777.8
Gross profit	105.9	121.9	139.6	188.4	238.5	322.0	402.5	503.1	578.5	636.4
Selling, general, admin	61.1	76.3	97.8	117.8	159.0	214.6	268.3	335.4	385.7	424.3
Income from operations	44.8	45.6	41.8	70.7	79.5	107.3	134.2	167.7	192.8	212.1
Other expenses (income)										
Interest income, net	(2.3)	(3.2)	(3.4)	(3.9)	(5.3)	(7.2)	(8.9)	(11.2)	(12.9)	(14.1)
Earnings before income taxes	47.1	48.8	45.2	74.6	84.8	114.5	143.1	178.9	205.7	226.3
Provision for income taxes	19.1	19.5	17.4	28.3	32.2	43.5	54.4	68.0	78.2	86.0
Net Earnings	**28.0**	**29.3**	**27.8**	**46.2**	**52.6**	**71.0**	**88.7**	**110.9**	**127.5**	**140.3**
Sales Growth Rate	na	20%	20%	35%	35%	35%	25%	25%	15%	10%
Tax rate	41%	40%	38%	38%	38%	38%	38%	38%	38%	38%

as % of Net Sales	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net Sales	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Cost of sales, incl buying and occupa	47%	50%	52%	52%	55%	55%	55%	55%	55%	55%
Gross profit	53%	50%	48%	48%	45%	45%	45%	45%	45%	45%
Selling, general, admin	30%	32%	34%	30%	30%	30%	30%	30%	30%	30%
Income from operations	22%	19%	14%	18%	15%	15%	15%	15%	15%	15%
Other expenses (income)										
Interest income, net	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Earnings before income taxes	23%	20%	16%	19%	16%	16%	16%	16%	16%	16%
Net Earnings	14%	12%	10%	12%	10%	10%	10%	10%	10%	10%

Selected Balance Sheet Items

YEAR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cash and equivalents	59.3	72.5	91.0	117.8	159.0	214.6	268.3	335.4	385.7	424.3
Inventories	22.5	24.3	27.8	39.3	53.0	71.5	89.4	111.8	128.6	141.4
Accounts receivable	0.8	2.2	2.3	3.5	4.8	6.4	8.0	10.1	11.6	12.7
Defered income tax	1.7	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Prepaid and other	1.6	1.1	9.7	7.9	10.6	14.3	17.9	22.4	25.7	28.3
Total Current Assets	85.9	103.1	130.8	168.4	227.4	306.9	383.7	479.6	551.5	606.7
Equipment and leasehold improvemen	18.0	30.6	39.2	62.8	82.0	108.5	140.5	179.5	220.7	261.4
Other Assets	3.5	3.9	4.7	7.9	10.6	14.3	17.9	22.4	25.7	28.3
Accounts payable	13.3	13.0	10.9	19.6	26.5	35.8	44.7	55.9	64.3	70.7
Accrued liabilities	9.9	9.2	12.4	15.7	21.2	28.6	35.8	44.7	51.4	56.6
Income Tax payable	0.3	0.2	0.2	0.3	0.4	0.5	0.6	0.8	0.9	1.0
Total current liabilities	23.6	22.3	23.5	35.6	48.1	64.9	81.1	101.4	116.6	128.3
Deferred rent	3.4	3.4	4.0	5.5	7.4	10.0	12.5	15.7	18.0	19.8
Long-term debt	0.1200	0.0580	0.0065	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Working capital	2.9	8.3	16.3	15.0	20.3	27.4	34.3	42.8	49.2	54.2
Change in working capital	na	5.3	8.0	(1.3)	5.3	7.1	6.9	8.6	6.4	4.9

as % of Total Revenue	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cash and equivalents	29%	30%	31%	30%	30%	30%	30%	30%	30%	30%
Inventories	11%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Accounts receivable	0.4%	0.9%	0.8%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Defered income tax	0.8%	1.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Prepaid and other	1%	0%	3%	2%	2%	2%	2%	2%	2%	2%
Total Current Assets	43%	43%	45%	43%	43%	43%	43%	43%	43%	43%
Other Assets	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Accounts payable	7%	5%	4%	5%	5%	5%	5%	5%	5%	5%
Accrued liabilities	5%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Income Tax payable	0.16%	0.07%	0.06%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%
Total current liabilities	12%	9%	8%	9%	9%	9%	9%	9%	9%	9%
Deferred rent	1.7%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%

Cash Flow

YEAR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NI	28.0	29.3	27.8	46.2	52.6	71.0	88.7	110.9	127.5	140.3
Depreciation and Amortization	3.20	5.06	8.70	12.6	16.4	21.7	28.1	35.9	44.1	52.3
Deprec and Amort as % Premises and Equ	18%	17%	22%	20%	20%	20%	20%	20%	20%	20%
Change in Working Capital	na	5.3	8.0	(1.3)	5.3	7.1	6.9	8.6	6.4	4.9
Cash Flow from Operations	na	29.02	28.46	60	64	86	110	138	165	188
Capital Expenditures	11.98	18.02	18.10	23.55	31.80	42.93	53.66	67.08	77.14	84.85
Capex as % of sales	6%	7%	6%	6%	6%	6%	6%	6%	6%	6%
Cash Flow from Investing Activities	11.98	18.02	18.10	23.55	31.80	42.93	53.66	67.08	77.14	84.85
Free Cash Flow	na	11.0	10.4	36.5	31.9	42.6	56.3	71.2	88.1	102.8
Discounted Free Cash Flows				32.1	24.6	28.8	33.4	37.1	40.3	41.3
Cost of Capital				13.92%	13.92%	13.92%	13.92%	13.92%	13.92%	13.92%
Year				1	2	3	4	5	6	7

Cost of Capital

Cost of Equity	13.92%
Risk Free Rate, R_f	4.80%
Market Return R_m	10.50%
Market Risk Premium, $(R_m - R_f)$	5.70%
Equity Beta	1.60

Valuation

Present Value of Terminal Value	$365.3
Present Value of Future Cash Flows	$237.6
Enterprise Value	$602.9
Net Debt	$0.0065
Equity Value	$602.9
Shares Outstanding	25.4
Price per share	**$23.74**

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