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Cost-U-Less (Nasdaq: CULS) - \$3.25

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Cost-U-Less (CULS) is a warehouse retailer, similar to Costco, but on a smaller scale (about 1/3 the size) and located on island locations like Hawaii and the U.S. Virgin Islands. CULS has a total of eleven stores which predominately carry U.S. branded goods.

I believe shares of CULS are dirt cheap and will show some valuations later. CULS was so cheap that it was engaged in discussions with ASSI, an investment group, to acquire the company. Those talks ended this past fall, probably as a result of management requiring a higher purchase price. My guess is that since the company IPOed at \$7 a share back in 1998, that an offer of \$2.50 or so was too cheap. I must not be the only one thinking shares are worth more than what they are currently trading for.

The company recently announced a 13.8% increase in same store sales comps for its Q4 ended 12/28/03. There are two main reasons behind the strong results. First, the company's Guam store re-opened this past October after being closed for nearly a year as a result of the Supertyphoon Pongsona. Second, as a result of the economy improving, CULS has seen its business pick-up as well, with more people vacationing.

A window of opportunity exists for those willing to invest in CULS. The company is set to announce Q4/YE results on February 26<sup>th</sup>, which should be a blow-out quarter given the sales were \$50.5 million, up 11% from a year ago and up 19% from Q3. Expenses are relatively flat quarter-to-quarter so to model what Q4 may look like is not too difficult (see attached spreadsheet with earnings model).

CULS earned \$0.22 per share for the nine-months ended September 28<sup>th</sup>, and should easily earn \$0.18 per share for Q4, although I think they could do \$0.20-\$0.25. At a minimum, CULS should earn \$0.40 per share for fiscal 2003, leaving shares trade for 8x earnings. CULS looks cheap based on other valuations. Here are some:

Price-to-sales: 0.07x

EV/EBITDA: 3.2x (assuming \$0.20 per share in Q4)

EV/Revenues: 0.8x

Using an EV/EBITDA ratio of 5x, which is still highly conservative, I believe CULS is worth \$5.50-\$6 per share.

*-Adam P. Lowensteiner*

CULS					
	Q3 Act.			Q4 Est.	
	9/28/2003			12/31/2003	
Sales	42,258			50,500	
COGS	34,498			41,410	
GP	7,760	18.4%		9,090	18.0%
Operating Expenses					
Store	5,426	12.8%		5,500	10.9%
G&A	1,568	3.7%		1,700	3.4%
Store Openings	160			160	
Total Op. Exp.	7,154			7,360	
Op. Inc.	606	1.4%		1,730	3.4%
Other Inc/Exp.					
Interest	(114)			(114)	
Other	(11)			(11)	
EBT	481			1,605	
Taxes	200			642	40.0%
NI	281			963	
EPS	\$ 0.08			\$ 0.26	
Shares Out	3,703			3,703	

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