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New Life in a Dying Industry

Oh come on F.P.I., don't be so pessimistic here! You can teach an old dog new tricks! Trans World Entertainment [NASDAQ:TWMC] is up on the analysis block in this edition and we will begin with an overview of the business, a review of the financial statements and valuations from our proprietary system, gender at the product lines and understand what drives earnings, and finish with a recommendation on how to make this "cash cow" a once again "rising star."

Here are the 5 major reasons why Trans World Entertainment is a superior investment compared to the general market and will be a company you'll want to keep your eyes on over the next 3 years:

- 1) NCAV: Net Cash Asset Value - TWMC practically has its Market Cap sitting in its bank account.
- 2) Recent positive reversal of the business through its re-organization instituted in the past 2 years.
- 3) Special dividends scheduled and its prerogative to purchase back shares on the public market.
- 4) Passing of the Torch when it comes to management may be deemed "risky", but it's necessary.
- 5) Trans World Entertainment is currently trading at 72% Book Value.



Trans World Entertainment is a corporate umbrella, consisting of multiple brands of mall based entertainment stores. In 1972, Robert Higgins established the company under the name: Record Town.

TWMC grew by acquiring struggling music and video store brands and re-branding them under the F.Y.E. moniker. In 2006, the company reached its height in sales and in size (900+ stores). As of 2014, the company's yearly sales are about 1/4 the amount that it was in 2006, leading the company to consolidate down to 339 stores across the United States.

A majority of revenues for Trans World Entertainment derives from movie and music sales. Since the competitive landscape has shifted the purchase habit of both products to mainly online and download streams, your initial reaction to this news is most likely panic.

However, TWMC has been able to remain on course and quell the competitive wounding by developing its "trend" business line, cutting unprofitable stores, and re-organizing the business distribution lines in order to increase efficiencies.



TWMC in 150 WORDS

Trans World Entertainment is a true value play equity. Currently, it trades for 72% of its book value and can boast holding its own market capitalization in cash (\$131M). TWMC has been undergoing a business turnaround (progressing successfully) and has been running profitably for the past 2 years. As of the March 6th 2014 earnings call, for the first time since 2007, it announced an increase in net income compared to the prior year, which is impressive considering it took a 14.5% haircut in total sales. Going forward, there will be management changes and restructuring of the business's product lines. F.P.I. sees both as a positive that will keep TWMC on course for the 2 year investment horizon. Even though the competitive landscape is incredibly tough, we believe management can hold course and deliver stockholder value.

Report Card

[Current] [Anticipated]
 1/ 2014 1/2015

Management Team	C+	B-
Company Strength Vs Industry	B-	B-
Insider Holdings	B	B
Debt	A+	A+
Industry Outlook	C	C
Current Trading Valuation	B	B+
Institutional Ownership	C	C
Earnings Trend	B-	B+
Operating Margins	B	B-
Competitive Landscape	D+	D-
Revenue Growth	C	C
Dividends	B	B

Overall Grade

2014 2015

B- B



Stock Metrics

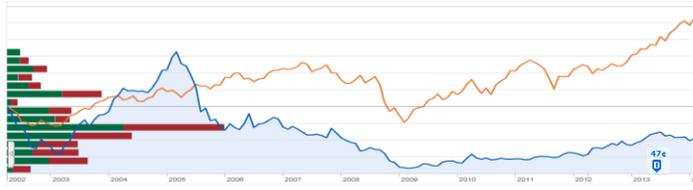
NASDAQ: TWMC

52 Week Range: \$3.50 - \$5.59
 Shares Outstanding: 32,270,000
 Market Capitalization: \$135,850,000
 Cash On Balance Sheet: \$131,000,000
 *2014 Dividend: \$0.50
 2014 Dividend Yield: 12.00%
 *Must own stock by 3/20/14

*2013 Earnings/ Share: \$ 0.25
 *2013 Free Cash Flow/ Share: 1.09
 *2013 Price/Book: 0.72
 *2013 Return on Equity: 19.69%
 *2013 Return on Invested Capital: 17.86%
 *2013 Return on Assets: 10.74%
 *Does not include \$22m "One-time" Property Sale

*2014 Earnings/ Share: \$ 0.26
 *2014 Free Cash Flow/ Share: 0.86
 *2014 Price/Book: 0.91
 *2014 Return on Equity: 5.33%
 *2014 Return on Invested Capital: 9.72%
 *2014 Return on Assets: 4.25%
 *F.P.I. Estimates

Stock Price Behavior Chart :TWMC Stock Price :S&P Index :Volume at Price



Stock Volume History



Revenues (in Millions USD)



Earnings Per Share



Trading Lab

Prior to the dividend announcement, our gut instinct told us that TWMC would be acquiring its own stock every morning only to let the price die down throughout the afternoon, repeating the same process the following day.

This is a great tactic to stymie a positive price run on its own stock. Be aware that the stock price may buck downwards before the April 3rd dividend clearance. It's likely that this special dividend arrangement may occur twice more in the next 3 years.

For the past 5 years Trans World Entertainment has been on an impressive bull run. Three months ago it was placed on the F.P.I. watch list. On 1/21/2014 we acquired our first position in the stock and added a second position on 3/6/2014 after the publishing of 2013 Q4 results.

Our motives were incentivized by the recent price contraction in the past 6 months compared to the July 2013 high of \$5.59. This pullback has now placed the stock trading at 72% of book value (@ \$4.31 per share). All the while, Trans World Media Entertainment continues to become more efficient by making smart cost control decisions.

What makes TWMC a smart risk/reward play? Its vast hoard of cash sitting in its bank account! As of 3/6/14, they have \$131 million on the books, which is 95% of their market cap. Couple this with practically \$0 in debt and you have a company worth investing in, as long as they are not running at a loss!

Now what's even more important than the stockpile of the cash: understanding what the company will be doing with it to deliver stockholder value. Unfortunately, the money isn't being re-invested into the business for an above average return. However, in 2014 TWMC will use \$16 million to award stockholders (as of 3/18/14) a \$.50 dividend. Over the past 2 years, TWMC has been moderately buying back its own stock at a rate of ~1million shares per year; and currently has another \$19.4 million allotted to continue.

Trans World Entertainment is successfully navigating its turnaround. Net income has increased by 2.3% [2013 v 2012 totals], even though yearly sales dropped by 14.5%. A clear sign that efficiencies are improving and cost cutting measures are working. Also to note: Robert Higgins the founder of the company will be stepping down as CEO and choosing a successor. He owns 50.4% of all outstanding stock, there will be great incentive to groom someone very capable of the position. While he retains a position on the board surely the old dog will teach the new dog some old tricks!

Increasing the "Trend" Business

	*2013	2012	2011	2010	2009	2008	2007
Movies	44.00%	43.80%	42.30%	43.70%	41.70%	41.30%	38.80%
Music	26.00%	30.90%	34.20%	35.50%	35.20%	35.40%	39.10%
Video Games	5.00%	4.70%	5.20%	5.70%	8.60%	9.10%	9.00%
Electronics	10.00%	10.50%	9.70%	7.90%	7.80%	14.20%	13.10%
Trend	15.00%	10.10%	8.60%	7.20%	6.70%		

*posted on 3/6/14 Earnings Call

The trend product line is comprised of t-shirts, action figures, posters, hats, and other collectibles. During our research, we were disappointed to find out that store managers have no decision when it comes to their stores product mix. In order for the business to grow this needs to change immediately.

F.P.I. & TWMC employees came to a consensus that management should:

- 1) Increase T-Shirt & Action Figures selection in every store.
- 2) Include single side vinyl for new music release to capitalize on buyer trend.
- 3) Promote & Sell "future and new market" electronic entertainment consoles.

Compelling Valuation & Horizon



When reviewing valuation, we are going to refer to book value for Trans World Entertainment. When comparing Stock Price to Book Value; F.P.I. sees TWMC selling at 72 cents on the dollar. We estimate that intrinsic value will grow at around 9.7% per year, which gives us a forecasted real return of 13.47% per year. F.P.I. stands by a 2-3 year investment horizon for Trans World Entertainment and has current plans of increasing its position in the company if the correct opportunity arises: anytime the company trades at a Price/Book of .65 and below.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST

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Accurate Research and Graphs made possible by:

