

BLUE NILE (NASDAQ:NILE)

Industry: E-commerce/ Luxury Retail

Analysts: Alina Costica, Dina Model & Neal Sangani

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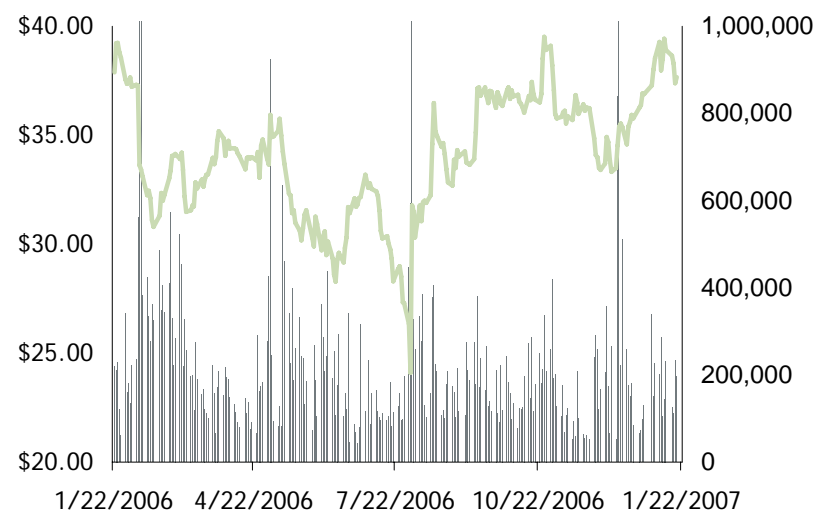
BUSINESS DESCRIPTION

Blue Nile, Inc. engages in the online retailing of diamonds, jewelry, and watches in the United States, the United Kingdom, and Canada. The company's products include rings, wedding bands, earrings, necklaces, pendants, bracelets, and watches. It offers its products under the brand name "Blue Nile" through its Web sites, www.bluenile.com, www.bluenile.co.uk, and www.bluenile.ca. The company was founded in 1999. It was formerly known as RockShop.com, Inc. and changed its name to Internet Diamonds, Inc. in June 1999, and later to Blue Nile, Inc. in November 1999. The company is headquartered in Seattle, Washington.

INVESTMENT THESIS

Recently dubbed the "evil empire" by struggling mom and pop jewelry stores, Blue Nile is now "going after the Tiffany-type customers" in an effort to gain a larger piece of the \$30 billion US diamond jewelry market. Already the industry leader in online diamond engagement ring sales, Blue Nile's zero inventory model continues to generate strong free cash flows through a negative payment cycle. Simultaneously, the company continues to gain consumer acceptance with diamond prices nearly 35 percent lower than typical retailers. With a focus on selection, fair prices, and customer service, we believe Blue Nile will continue to impressively grow in an arena where online juggernauts Amazon and Overstock.com have failed. Despite a recent surge in shares following expectations of a robust holiday season for most online retailers, our valuation suggests further long-term upside potential by focusing on the free cash flow generation of the company.

STOCK PRICE PERFORMANCE



FINANCIAL SUMMARY

Results of Operations	FY Ended Jan 1,			
	2004	2005	2006	LTM ⁽¹⁾
Revenue	\$128,894.0	\$169,242.0	\$203,169.0	\$214,421.0
<i>Growth</i>	--	31.3%	20.0%	5.5%
EBIT	11,298.0	14,857.0	18,049.0	17,013.0
<i>EBIT Margin</i>	8.8%	8.8%	8.9%	7.9%
After-tax Earnings	26,986.0	9,987.0	13,153.0	12,508.0
<i>Net Margin</i>	20.9%	5.9%	6.5%	5.8%
D&A	1,293.0	1,510.0	1,717.0	1,889.0
CapEx	(3,506.0)	(1,417.0)	(1,072.0)	(2,017.0)
Interest Expense	(209.0)	0.0	0.0	0.0

Balance Sheet Data	
Total Debt	\$0.0
Cash & Equivalents	\$71,921.0
Net Debt	(\$71,921.0)

Credit Statistics	LTM
Total Debt/EBITDA	0.0x
Net Debt/EBITDA	-3.8x
EBITDA/Interest	--

Public Market Overview	
Share Price (01/24/07)	\$37.38
<i>52 Week High</i>	\$39.99
<i>52 Week Low</i>	\$24.10
Diluted Shares Outstanding	16,969,431
Market Value of Equity	\$634,317.3
Plus: Net Debt	(71,921.0)
Enterprise Value	\$562,396.3

Valuation Multiples	2004	2005	2006	LTM ⁽¹⁾
EV/Revenue	4.4x	3.3x	2.8x	2.6x
EV/EBITDA	44.7x	34.4x	28.5x	29.8x
EV/EBIT	49.8x	37.9x	31.2x	33.1x

Note: All figures in thousands, except per share data.

(1) Figures as of 10/1/2006

