

Brinker International Inc. And Ethan Allen Global Inc.

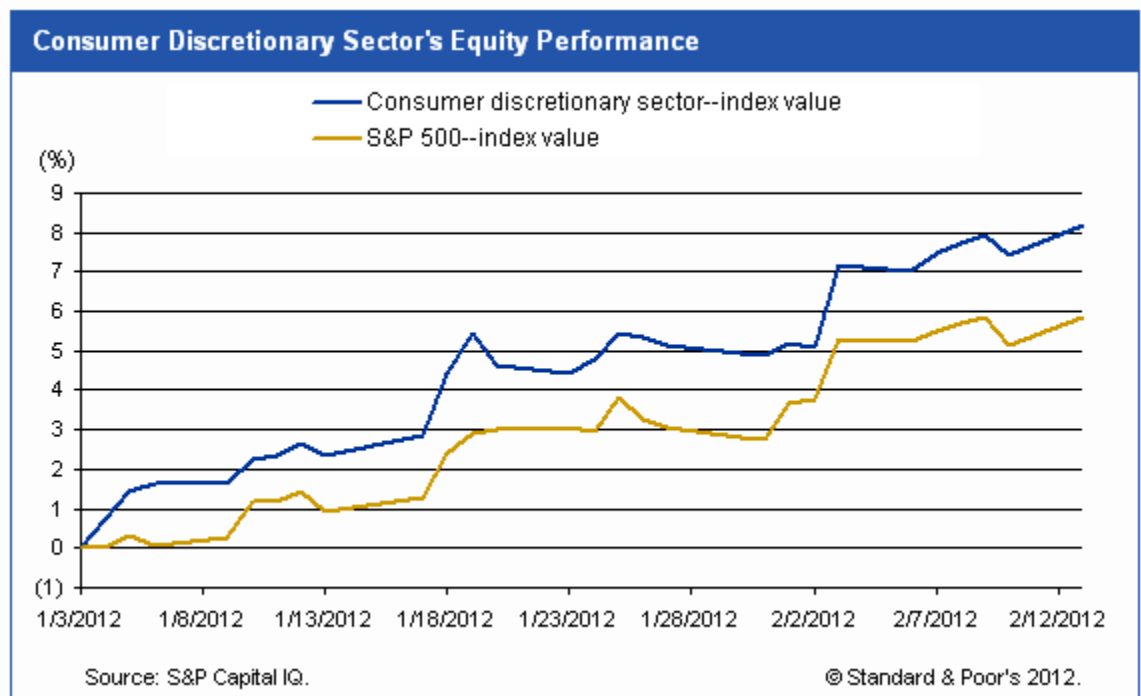
RISK-TO-PRICE SCORE	
Ticker	CUSIP
ETH	297599AC6
Q1	136.4

RISK-TO-PRICE SCORE	
Ticker	CUSIP
EAT	109641AE0
Q1	204.8

U.S. retail sales rose to \$401.4 billion in January, up 0.4% from December and 5.8% from January 2011, providing further evidence--along with modest improvement in unemployment--that the nation's economy continues to strengthen. Dining and drinking establishments as well as garden equipment and supplies dealers showed particular strength, with sales up 8.2% and 8.1%, respectively, from January 2011, according to the U.S. Department of Commerce.

Year to date through Feb. 13, the consumer discretionary sector has appreciated 8.2%, outperforming the S&P 500 Index. The sector, buoyed by an expanding economy, is expected to report earnings growth of 10% in 2012, the most significant increase after industrials (11%), according to data aggregated by S&P Capital IQ.

Chart 1



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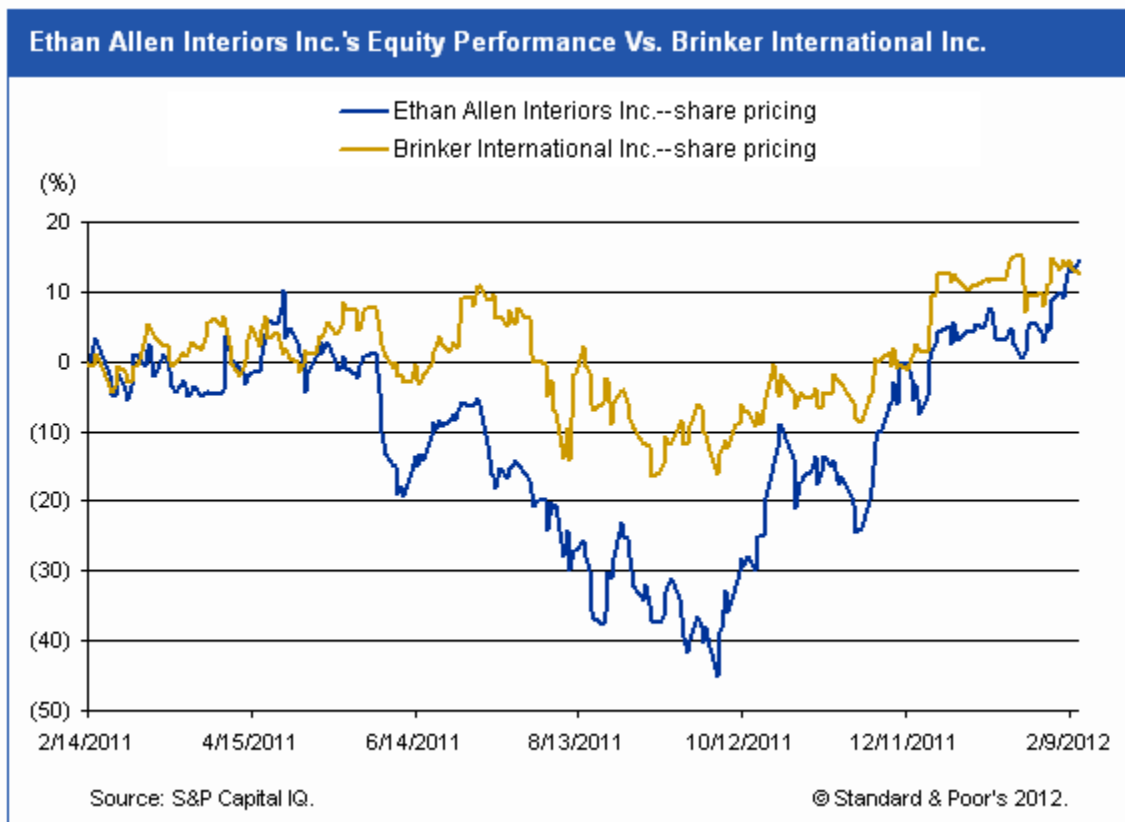
The Global Markets Intelligence (GMI) research team wanted to see what kind of investment opportunities the consumer discretionary sector offered to investors who want to ride the cyclical upside. We queried our North American Risk-to-Price (R2P) universe for bonds issued by companies in this sector. We specified noncallable issues with duration of at least two years, and the screen returned 531 securities; 299 scored in R2P's first and second quartiles, with an average ranking in the 75th percentile. A year ago, 293 out of 519 bonds scored in the first and second quartiles, and ranked, on average, in the 74th percentile. First and second quartile issues best compensate investors for underlying market and credit risks, by our analysis.

Brinker International's \$300 million 5.75% note due June 1, 2014, was one of the top-scoring bonds in our screen, ranking in the first quartile and 98th percentile. The note has ranked in the first or second quartile since Dec. 29, 2010.

Rated 'BBB-' by Standard & Poor's Ratings Services, the bond offers an attractive option-adjusted spread (OAS) of 197 basis points (bps) for its short duration of 2.2 years, low bond price volatility of 0.0192%, and a reasonable probability of default (PD) of 0.017%--an improvement from a PD of 0.0217% when we last commented on this bond (see "Risk-to-Price Commentary: Brinker International Inc.," published Jan. 25, 2011, on the Global Credit Portal). We note that the PD has partially benefited from 12.6% appreciation in Brinker's share price, which has a negative correlation to the estimated risk of default.

Ethan Allen Global Inc.'s \$200 million 5.375% note due Oct. 1, 2015, guaranteed by Ethan Allen Interiors Inc., was another bond we found attractive for its risk-adjusted return. Ranking in the first quartile (since Nov. 28, 2011) and 97th percentile, this issue has an OAS of 392 bps, bond price volatility of 0.1328%, and a PD of 0.0136%. The note's PD has also improved with help from gains in the company's share price.

Chart 2



Credit metrics are another major component of an R2P score. Standard & Poor's has a 'BBB-' rating with a stable outlook on Brinker and a 'B+' rating with a stable outlook on Ethan Allen. Selected credit metrics for the latter improved from the middle to the end of 2011. The same ratios for Brinker show modest improvement or only slight deterioration.

Table 1

Selected Metrics--Ethan Allen		
	Dec. 31, 2011	June 6, 2011
Return on capital (%)	6.1	4.5
EBITDA margin (%)	9.0	7.9
Current ratio (x)	1.9	1.7
EBITDA less capital expenditures/interest expense (x)	4.8	4.0
Total debt/EBITDA (x)	2.4	3.1

Source: S&P Capital IQ.

Credit protection measures for Ethan Allen "have shown substantial improvement in recent quarters, reflecting improved profitability and debt reduction," Standard & Poor's said (see "Summary: Ethan Allen Interiors Inc.," published Dec. 21, 2011). "We believe Ethan Allen will further improve its operating performance and credit measures as its business continues to recover from the economic downturn."

Table 2

Selected Metrics--Brinker		
	Dec. 31, 2011	June 29, 2011
Return on capital (%)	14.0	12.0
EBITDA margin (%)	12.7	12.4
Current ratio (x)	0.6	0.5
EBITDA less capital expenditures/interest expense (x)	9.4	9.6
Total debt/EBITDA (x)	1.7	1.5

Source: S&P Capital IQ.

Standard & Poor's believes Brinker's credit metrics should remain generally stable, and expects revenue and operating performance to improve in fiscal 2012 (ending June 30, 2012) "as benefits from continuing operating initiatives will more than offset the effects of commodity inflation and result in margin expansion" (see "Summary: Brinker International Inc.," published Oct. 28, 2011).

Analysts polled by S&P Capital IQ expect both companies to report earnings growth in their respective fiscal years. Brinker, which has a history of profitability dating back to 1999 (earliest available), should earn \$1.89 per share in fiscal 2012, 24% more than in fiscal 2011. Analysts forecast earnings growth of 81% to \$1.05 per share for Ethan Allen in 2012.

Investors who are looking for exposure to the consumer discretionary sector may want to consider one or both of these securities for their portfolios. The risk-adjusted returns on these bonds are favorable, and the recent retail sales report gives us more confidence in the industries in which these companies participate. Table 3 below lists the top 20 results from our screen, providing investors with a choice of consumer discretionary issuers and maturities.

Table 3

Risk-to-Price Score Ranking (Selected North American Consumer Discretionary Corporate Debt)													
	CUSIP	Offer amount (mil. \$)	Coupon	Price	Yield (%)	Volatility (%)	Maturity	OAS (%)	PD (%)	Duration	R2P score	R2P quartile	R2P percentile
Harley-Davidson Funding Corp.	41283DAC7	500	5.750	107.41	3.005	0.0236	12/15/2014	1.6674	0.0061	2.7	266.5	1	99
Brinker International Inc.	109641AE0	300	5.750	105.66	3.175	0.0192	6/1/2014	1.9647	0.0170	2.2	204.8	1	98
Leggett & Platt Inc.	524660AU1	180	4.650	104.91	2.785	0.0234	11/15/2014	1.4682	0.0144	2.6	179.9	1	97
News America Inc.	652478AY4	200	7.600	114.65	3.315	0.0685	10/11/2015	1.8019	0.0070	3.3	169.4	1	97
Gannett Co. Inc.	364725AN1	250	8.750	107.73	5.675	0.0217	11/15/2014	4.3623	0.0583	2.5	163.9	1	97
Ethan Allen Global Inc.	297599AC6	200	5.375	99.80	5.435	0.1328	10/1/2015	3.9219	0.0136	3.3	136.4	1	95
Hillenbrand Inc.	431571AA6	150	5.500	105.54	4.695	0.3684	7/15/2020	2.4581	0.0039	7.1	124.1	1	94
Wyndham Worldwide Corp.	98310WAE8	250	7.375	116.70	4.845	0.4430	3/1/2020	2.6727	0.0036	6.4	122.9	1	94
AutoZone Inc.	053332AG7	200	6.950	116.91	2.785	0.1633	6/15/2016	1.1420	0.0042	3.9	122.5	1	94
Wyndham Worldwide Corp.	98310WAF5	250	5.750	108.30	4.165	0.3820	2/1/2018	2.2461	0.0036	5.3	121.7	1	94
CBS Corp.	124857AA1	200	7.625	118.39	2.655	0.1495	1/15/2016	1.0986	0.0047	3.6	120.0	1	94
Harley-Davidson Financial Services	41283LAA3	450	3.875	103.28	3.015	0.1559	3/15/2016	1.4073	0.0061	3.8	117.1	1	94
Leggett & Platt Inc.	524660AV9	200	5.000	106.90	2.915	0.0684	8/15/2015	1.4233	0.0144	3.2	115.8	1	93
May Department Stores Co.	577778AS2	125	9.750	119.66	6.795	0.3397	2/15/2021	4.5560	0.0094	6.6	115.3	1	93
News America Inc.	652478BX5	400	8.000	119.95	3.355	0.1652	10/17/2016	1.6539	0.0070	4.1	115.1	1	93
Starbucks Corp.	855244AC3	550	6.250	118.75	2.575	0.1962	8/15/2017	0.7222	0.0026	4.7	114.8	1	93
CBS Corp.	960402AS4	325	7.875	122.56	5.245	0.4354	9/1/2023	2.7688	0.0047	8.3	113.3	1	93
AutoZone Inc.	053332AJ1	250	7.125	120.01	3.625	0.2900	8/1/2018	1.6468	0.0042	5.6	112.8	1	93
VF Corp.	918204AS7	250	5.950	117.95	2.555	0.2039	11/1/2017	0.6729	0.0026	5.0	110.5	1	92
PVH Corp.	718592AB4	100	7.750	111.06	6.395	0.4304	11/15/2023	3.9148	0.0073	8.7	109.4	1	92

Analysis as of Feb. 13, 2012. OAS--Option-adjusted spread. PD--Probability of default.

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