



## Rating Action: Moody's downgrades RadioShack's CFR to Caa2; outlook remains negative

Global Credit Research - 05 Mar 2014

### \$325 million of rated debt affected

New York, March 05, 2014 -- Moody's Investors Service today downgraded RadioShack Corporation's ("RadioShack") corporate family rating to Caa2 from Caa1 and probability of default rating to Caa2-PD from Caa1-PD. In addition, the ratings for RadioShack's senior unsecured notes was downgraded to Caa3 from Caa2. The ratings outlook remains negative. RadioShack's Speculative Grade Liquidity assessment was lowered to SGL-3 from SGL-1 .

"The continuing negative trend in RadioShack's sales and margins has resulted in a precipitous drop in profitability causing continued deterioration in credit metrics and liquidity", Mickey Chadha, Senior Analyst at Moody's said. "The turnaround strategy put in place by the new management doesn't seem to be gaining much traction and it is unclear whether the closure of 1,100 stores announced by the company will result in stabilizing margins and reducing cash burn", Chadha further stated.

### RATINGS RATIONALE

RadioShack's Caa2 Corporate Family Rating reflects Moody's opinion that the overall business strategy of the company to reverse the decline in profitability has not gained much traction. The company's comparable store sales declined 8.8% in 2013 and gross margin declined to 34.1% for the fiscal year 2013 down from 38.4% for fiscal 2012. Moody's expects that the 2014 retail operating environment will remain challenging and the increasing price competition within the wireless mobility sector including wireless carriers will continue to pressure RadioShack's profits. The planned closure of a quarter of the company's domestic stores will significantly lower the company's scale and may result in significant costs associated with lease terminations which may be only partially offset through inventory liquidation proceeds.

RadioShack's increasing reliance on its low margin mobility business continues to pressure margins and the company's credit metrics have deteriorated to levels that are not meaningful. The company's ratings also reflect its vulnerability to product renewal cycles, product volatility driven by price competition from a variety of retail formats, small store size with the constant need to re-balance product mix and obsolescence risk inherent in consumer technology. The Rating is supported by RadioShack's adequate liquidity profile, and its selection of price-competitive national and private label products. The company's breadth of peripherals for digital and audio-visual products, which often require high-touch sales efforts, helps differentiate it from big-box stores.

The company's liquidity though adequate, has continued to deteriorate as it burns cash to fund its operating losses. Moody's expects the company to be increasingly reliant on its unrestricted cash balances as we expect operating losses to continue in 2014 and free cash flow to remain negative in the near term resulting in reduced financial flexibility. The nearest debt maturity is not until 2018 and the company had \$180 Million in cash and \$375 million availability under its ABL revolving credit facility at the end of fiscal 2013.

The following ratings are downgraded and point estimates updated:

Corporate Family Rating to Caa2 from Caa1

Probability of Default Rating to Caa2-PD from Caa1-PD

\$325 million senior unsecured notes due May 2019 to Caa3 (LGD 5, 81%) from Caa2 (LGD 5, 77%)

Speculative Grade Liquidity rating to SGL-3 from SGL-1

The negative outlook reflects the uncertainty regarding the company's ability to improve its operating performance in the next 12 months and our expectation that RadioShack's ongoing lackluster operating performance, margin erosion and cash burn will likely continue and credit metrics will remain very weak in the near to medium term.

Given the negative outlook and the steep decline in the company's operating performance and profitability, upward movement in RadioShack's ratings is unlikely in the near to medium term. Stabilization of the outlook will require sustained improvement in operating margins and absence of any further operating missteps. Stabilization of the outlook will also require good liquidity, and EBITDA demonstrating tangible incremental improvement.

In the longer term a higher rating will require no deterioration in liquidity, sustained positive comparable store sales growth and improvements in operating margins and profitability such that debt / EBITDA is sustained below 7.5 times and EBITA to interest is sustained above 1.0 times.

The failure of the company to reverse the sequential quarterly decline comparable store sales, EBITDA and earnings will lead to a downgrade. Ratings could also be downgraded due any deterioration in liquidity. Ratings could be downgraded if there is no improvement in credit metrics in the near to medium term.

The principal methodology used in this rating was the Global Retail Industry published in June 2011. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of these methodologies.

RadioShack is a retailer of consumer electronics and peripherals, as well as a retailer of cellular phones. It operates roughly 4,571 stores in the U.S. and Mexico. The company also generates sales through a network of 948 dealer outlets worldwide. Revenues for the fiscal year 2013 were approximately \$3.4 billion.

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Manoj Chadha  
Vice President - Senior Analyst  
Corporate Finance Group  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.

JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Janice Ann Hofferber  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

Releasing Office:  
Moody's Investors Service, Inc.  
250 Greenwich Street  
New York, NY 10007  
U.S.A.  
JOURNALISTS: 212-553-0376  
SUBSCRIBERS: 212-553-1653

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