



# RadioShack Stock – Cue the Comeback?

by Will Ashworth | September 2, 2014 8:22 am

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**RadioShack** (RSH[1]) stock jumped a combined 50% last Thursday and Friday on reports that the company was close to securing a much-needed infusion of cash[2].

**Standard General LP** — one of RadioShack's largest shareholders with a 9.8% stake[3] — apparently also is looking to refinance the company's \$250 million second-lien term loan held by **Salus Capital Partners LLC** and **Cerberus Capital Management LP**, according to the Bloomberg report.



Radioshack, which is looking to fight off bankruptcy long enough to execute a successful turnaround — something **JCPenney's** (JCP[4]) Mike Ullman knows all too well — has seen its shares more than double from the ashes in the past week alone.

What's going on here? Is the latest news substantive in nature, or is RSH simply playing every trick in the book in hopes of buying itself enough time?

And to investors: Should you speculate on RadioShack stock given the information available, or should you pay your last respects and move on to something with a little more meat on the bone?

## RadioShack's Chances for Survival

First, let's consider the odds of RSH going bankrupt. The Altman Z-Score[5] is a good way to assess whether RadioShack stock has a snowball's chance in hell of surviving the next 24 months given its financial instability. Using the most recent Morningstar[6] numbers available, I get an answer of 3.4 (anything above 3 is considered safe based on the financial figures only), which suggests RSH isn't ready for the trash heap just quite yet. (That's despite an operating loss of \$344 million in the trailing 12 months through May 3.)

However, it's important to remember that the Z-Score, like any financial machination, isn't infallible. RSH still could file for bankruptcy in the immediate future, and holders of RadioShack stock would be up the proverbial creek.

In this case, caveat emptor definitely applies.

Next, let's have a closer look at RadioShack's capitalization and liquidity outlook[7], which are the financial underpinnings that determine its survival ... or lack thereof.

As of May 3, RSH had \$62 million in cash and cash equivalents, as well as access to \$362 million from its 2018 credit facility for a total liquidity position of \$424 million, while its total capitalization is \$687 million (including \$615 million in debt) — 16% lower than where it was at the end of 2013. These two numbers indicate how prepared the company is to meet its obligations and keep the doors open.

Four years ago (2010) when it was still making money, RadioShack's liquidity position was approximately double where it is today with almost 10 times the amount of cash. From this position, it's easy to see why RadioShack stock tumbled down below \$1. The turnaround is attempting to stem its losses, which saw retained earnings decline by \$98.3 million in the first quarter and \$539 million[8] over the past two fiscal years. Another couple like 2013, and retained earnings will be all but gone, putting RadioShack stock on Z-Score alert.

Is refinancing a big deal? Yes and no.

Standard General would like to see RSH paying a lower rate of interest on the \$250 million term loan it secured in December that has it paying 13.25% (prime rate plus 10%) to its lenders. In this interest-rate environment, it's a pretty hefty price to be paying. But even if RSH continues to pay the \$33 million or so in interest annually to service the loan, that's not what's driving the company into the ground.

The real problem is that RSH is losing its fight against obsolescence. **Best Buy** (BBY[9]) is in the same boat, but doing so from a much stronger financial position. As Best Buy CEO Hubert Joly [continues executing its](#) turnaround with significant cuts in expenses, it continues to struggle with revenue growth, although its online sales are doing extremely well thanks to its ship-from-store program that's been rolled out across the country. While Christmas is expected to be a tough one, Best Buy's online sales will soften the blow.

So, what does this have to do with RSH?

Not a whole heck of a lot, but it does indicate just how difficult RadioShack's turnaround[10] really is. Squeezed for cash, management hoped it would be able to quickly close 1,100 money-losing stores to focus on the remaining 4,100 offering hipper products and remodeled stores. Well, creditors squashed that plan, and now it's looking at just 200 or so closings annually over the next three years.

That wouldn't be so bad if RadioShack were in Best Buy's position ... but it's not.

## Bottom Line

RSH needs a rescue plan that's all-encompassing, providing financial, operational and marketing solutions that will work immediately. From all angles, it appears that current management doesn't have many answers. New financing might help keep the lights on, but if it doesn't figure out what its customer truly wants and is willing to pay for, eventually the doors are going to close.

Unlike JCP, which I firmly believe has permanently [turned the corner](#) and recovering nicely, RadioShack stock is far less likely to be able to mount a comeback. Unless you're a speculator by nature, I'd consider this latest move nothing more than a dead cat bounce.

In other words, avoid RSH like the plague.

*As of this writing, Will Ashworth did not hold a position in any of the aforementioned securities.*

**Endnotes:**

1. RSH: </stock-quotes/RSH-stock-quote/>
2. infusion of cash: <http://www.theglobeandmail.com/report-on-business/international-business/radioshack-soars-for-third-day-on-prospect-of-more-financing/article20259384/>
3. 9.8% stake: [http://www.sec.gov/Archives/edgar/data/96289/000092963814000451/a60356\\_sc13g.htm](http://www.sec.gov/Archives/edgar/data/96289/000092963814000451/a60356_sc13g.htm)
4. JCP: </stock-quotes/JCP-stock-quote/>
5. Altman Z-Score: <http://www.grahaminvestor.com/articles/quantitative-tools/the-altman-z-score/>
6. Morningstar: <http://financials.morningstar.com/balance-sheet/bs.html?t=RSH&region=usa&culture=en-US>
7. capitalization and liquidity outlook: <http://www.sec.gov/Archives/edgar/data/96289/000009628914000020/c289-20140503x10q.htm>
8. \$539 million: <http://financials.morningstar.com/income-statement/is.html?t=RSH&region=usa&culture=en-US>
9. BBY: </stock-quotes/BBY-stock-quote/>
10. turnaround: <http://www.businessinsider.com/what-radioshacks-rejected-plan-teaches-us-about-turnaround-around-retail-2014-8>

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