



Mossberg's Investor Digest

Best Idea Profile

RadioShack (NYSE: RSH)

DESCRIPTION:

Headquartered in Fort Worth, Texas, RadioShack sells consumer electronics products and services through its e-commerce site, www.radioshack.com, and a network of 4,400 company-operated stores, 1,400 dealer outlets, 700 wireless phone kiosks in the United States and 200 company-operated stores in Mexico. The company's revenue mix is 33% wireless, 28% personal and home electronics, 24% electronics accessories, and 15% batteries and battery chargers.

KEY INVESTMENT CONSIDERATIONS:

Sizable store base size offers a significant competitive moat – With more than 5,800 RadioShack stores, there is a location within 5 minutes of more than 90% of the U.S. population. This penetration certainly would be difficult to duplicate and is a key differentiator for consumer electronics manufacturers and wireless/satellite carriers looking to quickly roll out new products and services to a nationwide consumer base. To put the size of the store base in perspective, Wal-mart (NYSE: WMT) has 4,200 U.S. Stores, Target (NYSE: TGT) 1,680 stores, Best Buy (NYSE: BBY) 923, GameStop (NYSE: GME) 4,331, and 7-11 has 5,700. The large store base and trusted brand also gives the company purchasing and pricing power.

Strong balance sheet – The company has \$815MM in cash and access to another \$325MM through its line of credit, which has not been drawn upon. The company has adequate liquidity to service its \$772MM in debt and take advantage of opportunities if they come along. Last year the company generated \$275MM in operating cash flow and used \$111MM to repurchase 6.1MM shares (average price \$18.20). There is another \$90MM under the current authorization to repurchase shares.

RISK:

Sprint Relationship – Sprint is a significant partner to RSH's carrier business and RSH has significant receivables due from Sprint. Sprint's 4Q revenue was off 14% and its subscriber base shrank by 8.4% during 2008. Sprint carries significant debt levels and if it cannot turn around its declining subscriber base, it may be put on the auction block or worse.

CATALYST:

Wireless Opportunity – About 1/3 of all mobile phone sales are made through non-carrier retailers like RadioShack, Wal-Mart, Best Buy and Circuit City. With the Circuit City bankruptcy, its market share is up for grabs. Verizon, who had operated stores inside Circuit City, is undoubtedly looking for a new retail partner. If RadioShack can add Verizon back as a partner (RadioShack's previous relationship with Verizon ended in 2005), it could be a boon for RadioShack's wireless business. RadioShack already activates service for both Sprint and AT&T. Adding Verizon (the country's largest wireless service provider) would allow RSH to more effectively compete against Best Buy who already activates phones for the three major wireless carriers. RadioShack has revamped the wireless displays inside its stores and recently it has opened up three test stores dedicated to wireless under the name PointMobl.

VALUATION:

Shares trade at 3X EV to EBITDA, which is a bargain for a market leader that produced an ROE of 24% last year. This value is less than half that of other leading retailers, BBY, WMT, HD which are currently trading at 6x to 8x valuations. Also, the cash balance and strong cash flow generation indicates that the dividend, which yields an attractive 2.6%, is safe.

(NYSE: RSH)	
Investment Data (as of 4/20/09)	
Recent Price	\$9.68
52-Week Range	6.47 - 19.90
Fiscal Year End	December
Dividend	0.25
Yield	2.6%
Shares Outstanding	125 MM
Average Trading Volume (3 mos)	3.4 MM
Market Capitalization	1.2 B
Cash	815 MM
Long Term Debt	772 MM
Enterprise Value (EV)	1.2 B
LT Debt/ Equity	0.9
BV/ Share	6.50
TTM Revenue	4.2 B
P/ Revenue	0.3x
TTM EPS	1.54
P/ EPS	6.3x
TTM adjusted EBITDA	424 MM
EV/ TTM EBITDA	2.8x

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