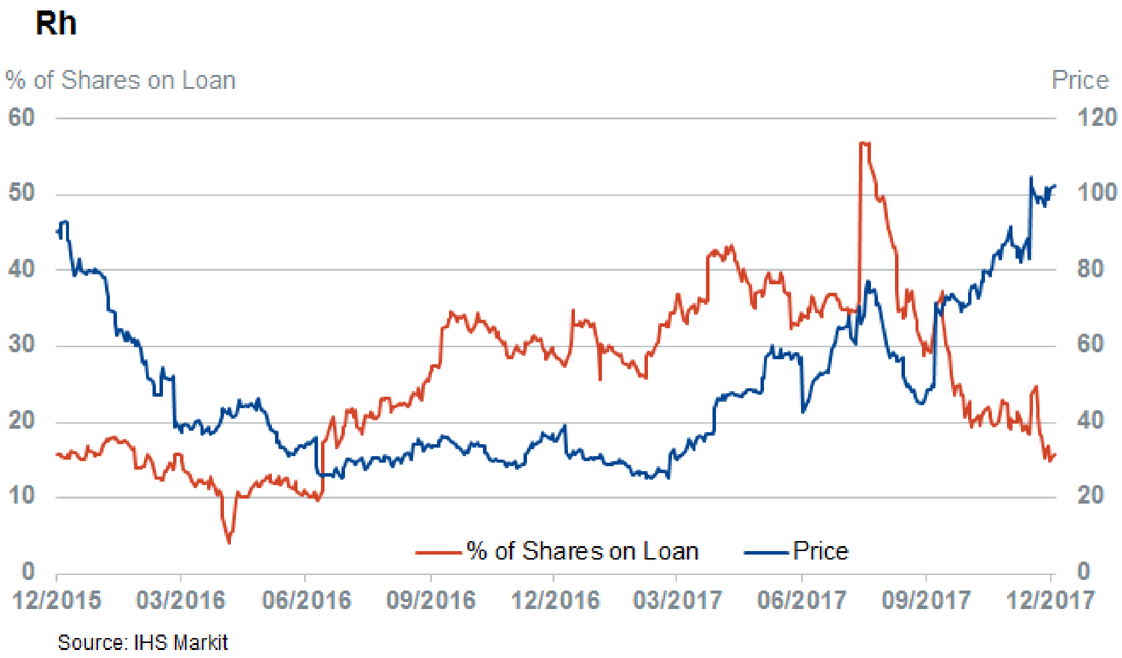
# Won't Get Fooled Again? Earnings for RH and other US retailers

Tuesday, December 5th, 2017

## Short sellers have been actively shifting their positions in several beleaguered retailers ahead of imminent earnings announcements

- Restoration Hardware shorts dwindling but still very much present
- Short sellers stick with a winner in Fred's
- Demand for Conn's increasing with the price

With more than 200% YTD share appreciation, the short demand for shares of furniture seller Restoration Hardware Inc has continued to trail off. The dramatic share buy-back disclosed in July caused metrics for shares outstanding and float to spike – as highlighted by the red line in the chart below.




This may have been interpreted as an increase in short demand, but it was purely the result of the denominator changing; the number of shares on loan has been in decline since April. When the firm last reported earnings in September, a massive top line and EPS beat caused shares to rally more than 40%. Short demand halved in the subsequent three months, but shorts still represent 15% of outstanding shares ahead of today's earnings announcement.

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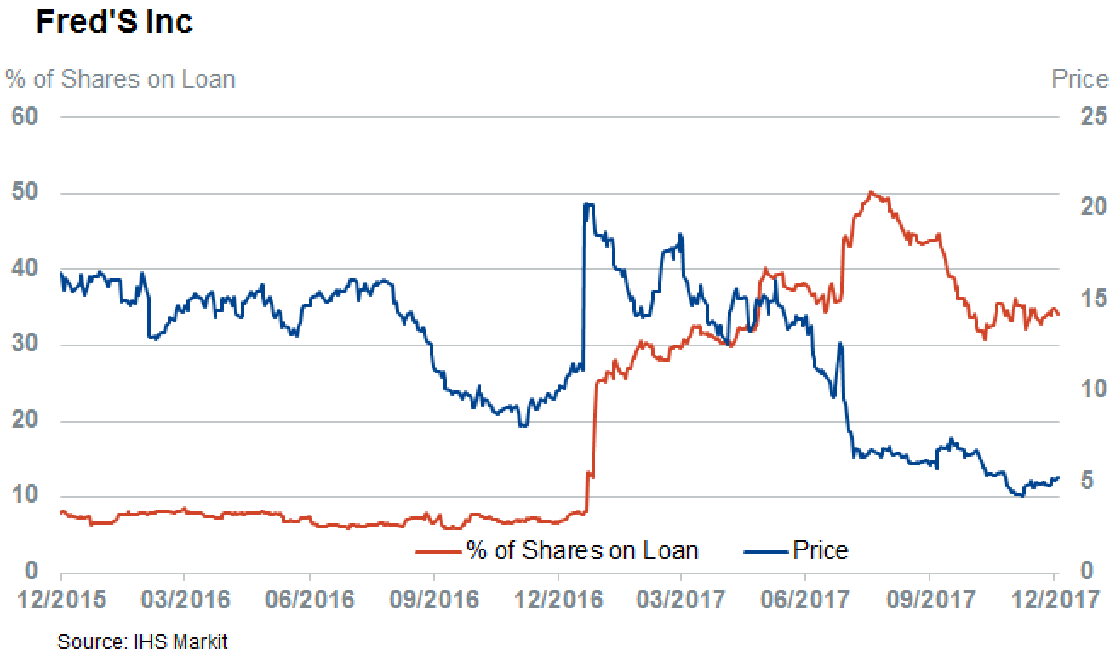
Fred's Inc, which operates more than 600 pharmacy and general merchandise stores, has been one of the highest shorted US retail names in 2017. With the share price having lost more than two thirds of its value YTD, short sellers are sticking with a winner, though they've taken some profits during the quarter.



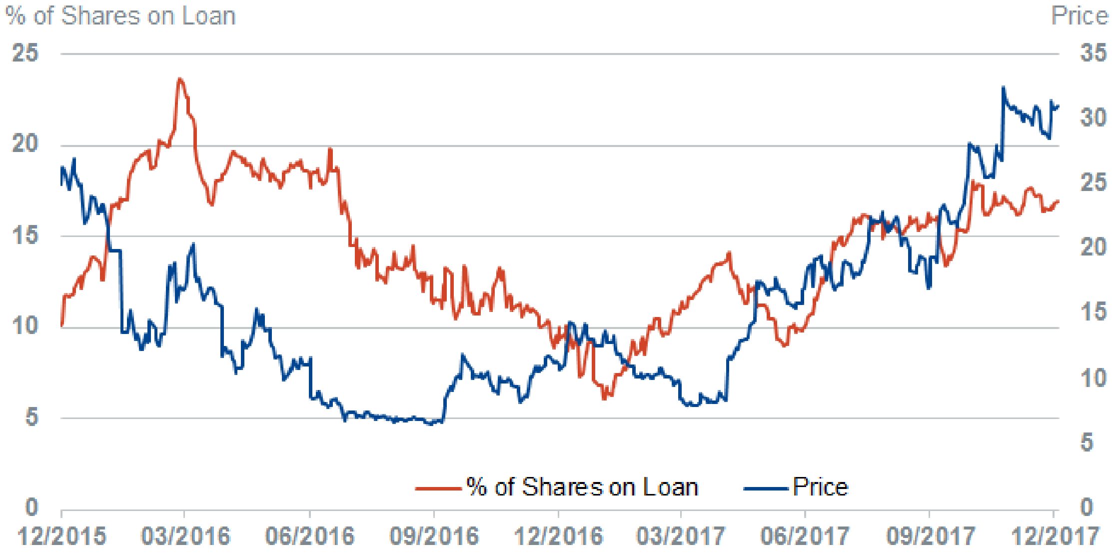

Over 35% of the firm's shares are still on loan – but that's down from the 2017 peak of 50% observed in July.

When the firm last reported earnings in September, the small top line and EPS beat, along with the appointment of a new chairman, led shares to spike more than 15%. Though the shares soon gave up that advance, it highlights the risk of incremental positive news for highly shorted stocks.

With utilization of the lendable supply and borrow fees declining from the mid-year peak in demand, this position is less costly to carry. But, with current borrows equivalent to 15 days of trading volume, there could still be a rush to the exit on positive news. Despite a significant paper profit on the position in 2017, short sellers seem to be holding off throwing in the towel until they've wrung a bit more from it.

Short demand for Conn's increased during the quarter, despite a 60% rally in share price following the last earnings report in September. While short demand only increased marginally, it's worth comparing to the decline in shorts following the release of Q1 results in April. This also led to a sharp move higher in price.

## Conn'S Inc




Source: IHS Markit

Utilization is down in the 70s and borrow fees are only a little outside of GC, making Conn's an easier short to carry relative to earlier this year. Regardless,  with the short position still greater than ten days trading volume, there could be additional upward pressure on prices following any positive results from the firm.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