



Position Close Update: Regis Corporation (RGS)

Regis Corporation (RGS: \$22/share) – Closing Short Position – up 31% vs. S&P up 6%

Regis Corporation was originally selected as a [Danger Zone pick on 2/20/18](#). At the time of the report, the stock received an Unattractive rating. Our short thesis highlighted falling after-tax profit ([NOPAT](#)), falling same-store sales, poor corporate governance, and an overvalued stock price.

During the 202-day holding period, RGS underperformed as a short position, rising 31% compared to a 6% gain for the S&P 500.

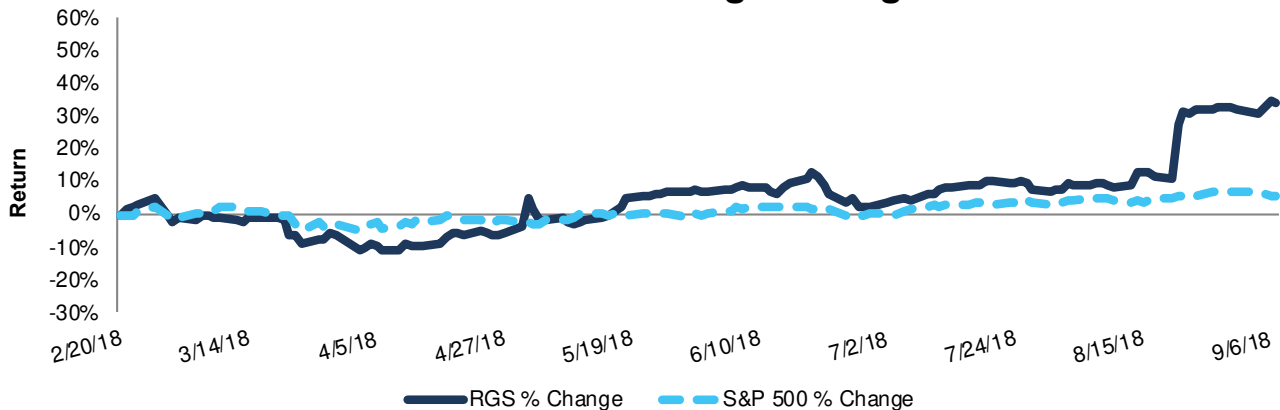
RGS was upgraded to Neutral on 8/24/18 after we parsed its latest 10-K filing. Since putting new management in place, RGS appears to be reaping the benefits (compared to the prior three years) of converting company owned stores to franchised stores. Franchised stores now represent 51% of total stores (up from 29% the prior year) and NOPAT margins improved from 3% in fiscal 2017 to 6% in fiscal 2018. Additionally, same store sales increased in fiscal 2018 for just the second time in the past eight years.

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While RGS still earns a bottom-quintile 3% return on invested capital ([ROIC](#)), its valuation no longer presents attractive risk/reward given the improving fundamentals. The stock now has a price-to-economic book value ([PEBV](#)) ratio of 1.5, compared to 4.9 in fiscal 2017. As a result, we are closing this position.

Figure 1: RGS vs. S&P 500 – Price Return

RGS Performance During Holding Period



Sources: New Constructs, LLC and company filings

Note: Gain/Decline performance analysis excludes transaction costs and dividends.

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Disclosure: David Trainer, Kyle Guske II, and Sam McBride receive no compensation to write about any specific stock, style, or theme.

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