



Aaron's Calls Get Hot as Potential Winner in Weak Economy

Ticker/Price: AAN (\$30.6)

Analysis:

Aaron's (AAN) with 5,000 May \$30 calls bought this morning up to \$3.60, aggressive action with IV30 up 30%. AAN has seen some smaller call buys in late February that remain in OI in the August \$45 strike while 1,000 May \$45 short puts remain from bull risk reversals. Shares are working out of a narrow range this week and back above the 50-MA with YTD VWAP above at \$36. AAN is breaking back above March value today and room to \$42.50 with some momentum as it fills a big gap. The \$1.87B company trades 6.96X earnings and 0.47X sales with strong FCF and limited debt. They trade at a 0.9X Net Debt / EBITDA with liquidity concerns very minimal with a \$550M in cash and \$185M remaining on their existing revolver. On 4/21, the company settled a consumer disclosure probe with the FTC which remained a headwind and ended a potentially long litigation. AAN's stands out as a potential beneficiary of a prolonged economic recovery and possible recession in 2020/2021 with rent-to-own sales historically strong during periods of uncertainty. The company has noted the \$25B rent-to-own market remains highly underpenetrated with just 25% of their TAM active and they see higher volumes from subprime customers with 700 or lower FICO. The company's Progressive Leasing business continues to expand their retail partnerships adding Lowe's (LOW) in 2019 and talk they could pursue a similar partnership with Home Depot (HD). Analysts have an average target for shares of \$55. Stephens cutting to Neutral on 4-7. They think the closing of non-essential retailers in major markets will weaken the Progressive business. Loop Capital has a Buy rating and \$40 PT for shares. They note that the company is better positioned to weather the upcoming economic downturn than it was heading into the "Great Recession". Also, the firm thinks investor impatience could boil over if the stock continues to lag driving management to divest the Aaron's business, a significant positive catalyst. Short interest is 5.9%. Hedge fund ownership fell 1.5% in Q4. Point72, Rip Road Capital, and Victory Capital buyers of stock. The last notable insider buy was back in July when a director bought \$126,660 in shares at \$63.33.

Hawk Vision:



Hawk's Perspective: AAN looks like an attractive play over the next year though up a bit too much to chase today, one to look for consolidation basing.

Confidence Ranking: \$\$