

Circuit City shares plummet

12.24.07

ATLANTA: Electronics retailer Circuit City Stores forecast a loss for the holiday season, citing store changes that were hurting sales, and its shares plummeted almost 25 per cent to four-year lows.

The company, which also reported a wider-than-expected third-quarter loss, had previously forecast a profit for the current quarter that includes the Christmas holiday.

"It's a dire situation," Alan B. Lancz & Associates president Alan Lancz said. The Toledo, Ohio, investment advisory firm has a short position in Circuit City.

"It goes back to the company releasing its best and highest-paid sales people earlier this year," he added.

The third-straight quarterly loss at Circuit City contrasted sharply with main rival Best Buy Co, which reported a 52pc jump in profit and boosted its full-year forecast.

As Circuit City's results have weakened this year, some analysts have speculated that the retailer could be ripe for a takeover.

"I do not see this company going to zero," Lancz said.

"There is a national footprint, assets there that are going to be worth something to an acquirer strategically."

The loss came to \$207.3 million, or \$1.26 a share, for the quarter ended November 30, compared with a loss of \$20.4m, or 12 cents a share, a year earlier.

Excluding a non-cash expense of \$102.8m, the loss was 64 cents in the latest period, wider than the loss of 31 cents a share expected by analysts.

Net sales fell 3pc to \$2.96 billion, below the \$3bn analysts expected. Sales at stores open at least a year, or same-store sales, fell 5.6pc. Same-store sales fell 5.8pc in the United States and 1.1pc internationally.

The same-store sales weakness "points to continued and material share loss" compared with the 6.1pc US same-store sales gain for Best Buy, Sanford Bernstein analyst Colin McGranahan said in a research note.

Circuit City noted higher sales of flat-panel televisions, notebook computers, video games and navigation systems, but cited lower sales of projection and tube TVs and desktop computers.

Richmond, Virginia-based Circuit City has cut costs and closed some stores in a bid to turn around its business amid an onslaught of competition from Best Buy and other chains such as Wal-Mart Stores.

This year, Circuit City restructured its headquarters and reorganised store leadership. It replaced more than 3,000 workers with lower-paid staff, a move criticised by analysts who said it cost the company sales.

"Changes we made ... contributed to poor execution," said Circuit City chief executive Philip Schoonover during a conference call.

He cited lower rates of sale closures and fewer sales of add-ons such as extended warranties that carry higher profit margins.