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Sears shares drop 27% on news it will close 100 stores

BY SANDRA GUY

Sears Holdings Corp. announced Tuesday that disastrous holiday sales will force it to close 100 to 120 Sears and Kmart stores to raise cash — raising new concerns about the Hoffman Estates company's long-term survival.

Investors reacted strongly against the news, sending the stock plunging 27 percent to \$33.38 a share.

The store closings are the latest and most visible in a long series of moves to try to fix a 125-year-old retailer that has struggled with falling sales and shabby stores.

Sears' latest financial results "point to deepening problems at this struggling chain and renew worries about Sears' survivability," Credit Suisse analyst Gary Balter wrote in a note to investors Tuesday.

Revenue at stores open at least a year fell 5.2 percent to date for the quarter at both Sears and Kmart, the company said. That includes the critical holiday shopping period, when an industry forecast predicts retail sales will rise 3.8 percent this year over last.

Sears Holdings predicts fourth-quarter adjusted earnings will be less than half the \$933 million it reported for the same quarter last year. It said the store closings will generate \$140 million to \$170 million in cash from inventory sales, and more cash from the sale or sublease of real estate.

Sears Holdings has watched its cash and short-term investments plummet by nearly half since Jan. 31, from about \$1.3 billion to about \$700 million.

The company has not said which of its 3,560 U.S. stores it will close.

D'Ambrosio, the company's first full-time CEO in three years, acknowledged in an internal memo to employees that criticism over Sears Holdings, performance was likely to come, but that the company was prepared for the days ahead.

"We will bounce back and become stronger than ever," he said.

But Balter said Sears' weakening performance may lead its vendors to start to worry about their exposure.

"The moves announced by Sears point to desperation, with it closing about 6 percent of its big-box stores and reducing inventory," Balter wrote in his note. "While Sears pointed to room on its 'bank' line, it is surprising to see borrowings at one of the peak cash-flow times for a retailer, before some credit-card receipts but also before payments to suppliers for Christmas goods."

Andrew Jassin, co-founder at retail management consultancy Jassin Consulting Group, said his fashion supplier clients that sell to Sears aren't limiting orders, but they're watching to see what steps the company will take next.

"People are generally questioning the survivability long-term," Jassin said.

Sears spokesman Chris Brathwaite said that "while our operating performance has not met our expectations, we have significant assets," including inventory, real estate and valuable proprietary brands such as Kenmore and Craftsman.

The announcement came just two weeks after lawmakers agreed to a \$15 million break on Sears' state taxes over the next decade, as well as a 15-year extension of a special taxing district that reduces Sears' local property tax payment.

Gov. Pat Quinn called Sears' store closings regrettable but said, "We expect the headquarters to stay here and the jobs to be here, that's what the agreement is all about."

Asked about the announcement's timing, Brathwaite said in an email: "We typically publish a release after the holidays as the fourth quarter is the critical performance period for our company. . . . We're focused on improving our business and continuing to be a strong, contributing member of the Illinois business community."

State Sen. Ira Silverstein (D-Chicago) said he felt "betrayed."

"It wasn't a good Christmas or Hanukkah gift for the people of the state of Illinois," Silverstein said.

The weaker-than-expected results reflect what analysts say is a deteriorating outlook for the retailer.

Retail experts have complained for years, especially since hedge-fund billionaire Edward S. Lampert, Sears' chairman, merged Sears and Kmart in 2005, that Sears has failed to invest in its stores and its customer service.

"There's no reason to go to Sears," said New York-based independent retail analyst Brian Sozzi. "It offers a depressing shopping experience and uncompetitive prices."

Another expert, Jack Hendler, president of Net Worth Solutions, said he believes “it will be necessary” for Sears to sell its most valuable brands — Kenmore, Craftsman, DieHard and Land’s End — after many years of speculation about such a move. Sears Holdings has already started licensing certain items from the DieHard and Craftsman lines to rivals, stores.

“Each of the brands has value unto itself,” Hendler said.

Hendler speculated that South Korean appliance companies, notably LG Electronics, “would hit a home run” with a Kenmore acquisition.

Sears Holdings appeared to stumble early in the holiday season, as it opened its Sears, Roebuck and Co. stores at 4 a.m. on Black Friday, the day after Thanksgiving. Rivals including Best Buy Co., Wal-Mart Stores Inc. and Toys R Us opened as early as Thanksgiving night. Sears stores had opened on Thanksgiving Day in 2010. Kmart has been opening on Thanksgiving for years.

A hint that trouble might be brewing came in mid-December when Sears Holdings unexpectedly announced that 260 of its Sears, Roebuck and Co. locations would stay open until midnight through Dec. 23.

Sears said it will no longer prop up “marginally performing” stores in hopes of improving their performance and will now concentrate on cash-generating stores.

“These actions will better enable us to focus our investments on serving our customers,” D,Ambrosio said.

Contributing: Staff Reporter Lisa Donovan and AP