MEDILL REPORTS CHICAGO

Kristene Quan/MEDILL
Shoppers pass by the Sears' store on State Street. The retailer plans to sell off 11 stores to a real estate investment trust.

Sears' shares soar despite $2.4 billion loss

by KRISTENE A. QUAN
Feb 23, 2012

Sears Holdings Corp.'s shares jumped Thursday after news that the retailer will spin off its Sears Hometown chain, its outlet stores and certain hardware stores. It will also sell off 11 mall-based Sears stores to a real estate investment trust.

Sears' stock price rose even though the retailer posted a colossal fourth-quarter loss of $2.4 billion as a result of asset write-downs and tax-related expenses.

In the quarter ended Jan. 28, the Hoffman Estates-based company posted a net loss attributable to shareholders of $2.4 billion, or $22.63 per diluted share, compared with a profit of $374 million, or $3.43 per share, in the year-ago quarter.

Revenue fell 4 percent to $12.48 billion from $13.0 billion last year.

Excluding one-time items, the department store chain's adjusted earnings from continuing operations totaled 54 cents per diluted share. That significantly missed the 78 cents a share forecast by analysts surveyed by Bloomberg LP.

Sears' poor fourth-quarter performance was due in large part to sales declines. Same-store sales, those open for at least a year, declined 4.1 percent at U.S. Sears' stores and 2.7 percent at Kmart stores.

“We are taking immediate action to address our fourth-quarter performance including cost and inventory reductions, honed and targeted marketing, margin actions, and bringing in new talent to strengthen our merchandising and leadership team,” said Louis J. D’Ambrosio, CEO and president of Sears Holdings, in a release.

The retailer announced that it will separate its Sears Hometown chain, independently owned stores predominately located in rural communities, its outlet stores and some hardware stores into a separate company. That company will be owned by certain shareholders of Sears Holdings, who will have the option to sell their shares. That move is expected to generate between $400 million to $500 million in proceeds for Sears Holdings.

The acquiring shareholders are likely to include ESL Investments Inc., Sears Holdings’ largest shareholder, and Sears Chairman Edward S. Lampert. ESL is Lampert's investment company.

The unusual transaction and large write-offs left some analysts scratching their heads.

“The company gives no guidance, but the sales and earnings have been so volatile it’s hard to put much weight on our own forecasts: the trailing numbers have so many charges they aren’t very meaningful,” said Paul Swinand, an analyst at Morningstar Inc.

Sears has faced declining sales under the leadership of Lampert, who orchestrated the takeover of Sears by Kmart in 2005.

“There’s only one fact about Sears--its performance has been consistently terrible, and they’re on life support,” said Howard Davidowitz, chairman of Davidowitz & Associates Inc., a New York retail consulting and investment banking firm.

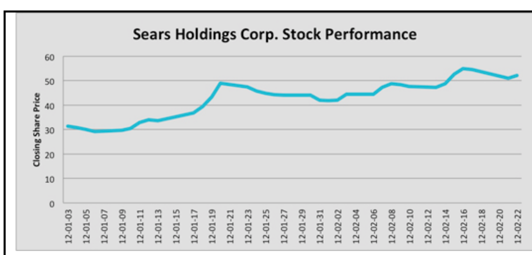
The retailer also has come to an agreement to sell 11 Sears stores to Chicago-based General Growth Properties Inc., which operates malls. The acquisition will result in a $270 million gain for Sears and is expected to close in the second quarter. The Sears store at Market Place Shopping Center in Champaign will be sold off.

“They’re obviously enthusiastic and optimistic and about those plans, in my opinion, it’s not anything different than what retailers have done in the last 10 years,” said Philip Emma, a managing director at R. W. Pressprich & Co. in New York. “It’s not like they’re reinventing retail. What they’re saying is not really anything new.”

For the full year, Sears’ net loss totaled $3.14 billion, or $29.40 per diluted share, compared with a profit of $1.3 million, or $1.19 per share, in 2010.

Revenues for 2011 decreased 2.6 percent to $41.57 billion, down from $42.66 billion in 2010.

Sears Holdings Corp.’s shares surged $9.72, or 18.7 percent, to close at $61.80 Thursday.



SEC/Kristene Quan/MEDILL
Sears Holdings Corp.'s share price has increased in the past two months.