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Playboy stock tumbles following disappointing first quarter loss

by **ARANYA TOMSETH**

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Chicago-based international multimedia adult entertainment company Playboy Enterprises Inc. swung to a loss due to strains on its domestic media businesses, falling short of Wall Street expectations. The stock plummeted 9 percent.

In the first quarter ended March 31 the company lost \$3.1 million, or 9 cents per diluted share, on revenues of \$78.5 million, compared with a profit of \$1.5 million, or 4 cents per diluted share, on revenues of \$85.4 million in the year-earlier period.

All three of Playboy's divisions – entertainment, publishing and licensing – suffered revenue declines.

Playboy's net loss for the first quarter included \$1.1 million in charges related to restructuring and severance expenses. In a press release, the company stated that a one-time inventory expense of \$600,000 related to the outsourcing of e-commerce business and investments in upgrading Playboy.com contributed to lower online profits compared with the first quarter of the previous year.

However, in an earnings conference call, Playboy Chief Financial Officer Linda Havard said these expenses will ultimately contribute to improved profitability for the company.

Playboy also reported \$400,000 in unrealized losses on foreign currency contracts.

David Miller, an analyst who covers Playboy for Sanders Morris Harris Group, downgraded the stock to a sell recommendation in August 2007. Miller said Tuesday he maintains this rating, given the poor earnings report.

"The results are very disappointing," Miller said. "We like the management team a lot, there are no balance sheet issues, but we felt they were becoming a victim of circumstances beyond their control."

According to Miller, those circumstances include the rapidly rising cost of pulp and fuel – two commodities that Playboy relies on heavily to produce and deliver its monthly magazine. In addition, Miller said Playboy magazine's circulation base is being eaten away by tough men's magazine competitors such as Stuff, FHM and Maxim.

Playboy Chairman and CEO Christie Hefner said the company is focused on two overreaching priorities in the coming year – the continued growth of licensing, and the expansion and improvement of Playboy's online services.

"On the digital media side – including both online and mobile – here we are investing," Hefner said in the conference call. "We believe strongly that by upgrading both our infrastructure and the breadth of our content, we have an opportunity to increase traffic, and through that, direct consumers to an array of retail purchase activities that will both grow revenues and profits for online but also create links that will help all of our other properties."

Hefner added that Playboy's established brand name gives the company an advantage over its competitors.

"Unlike many traditional media companies, this is a business that is already profitable and a business in which we've demonstrated our ability to generate revenues across multiple revenue streams," Hefner said.

However, Miller said he was discouraged by the licensing results reported Tuesday. Income for the licensing group was \$10.5 million, down 8.4 percent from \$11.2 million in the first quarter of 2007.

"The one business that investors could rely on to deliver returns didn't come through today and the stock has taken a hit," Miller said. "Given these fundamentals, I can't put my head around even upgrading the stock to neutral at this time."

Wall Street projects earnings of 8 cents per diluted share for the current quarter and 30 cents per diluted share for all of 2008. In 2007, Playboy had earnings of 24 cents per diluted share.

Playboy stock closed at \$7.49 Tuesday, down 77 cents from Monday's close of \$8.26.