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Holiday Sales Woes Cast Cloud Over Sears

By MIGUEL BUSTILLO And ANN ZIMMERMAN

[Edward S. Lampert's](#) plan to build a reinvigorated retail giant from the crumbling ruins of Sears and Kmart is turning into a mess.



Sears will close about 120 Kmart and Sears stores in a bid to revitalize its business. Shares fell 27% in reaction. Karen Talley has details on The News Hub. Photo: Getty Images

[Sears Holdings](#) Corp. said Tuesday that it will close as many as 120 stores and record up to \$2.4 billion in quarterly charges after another bad holiday showing, raising fresh doubts among analysts about the future of the middle-market retailer.

Sales at stores open at least 12 months have slid every year since the company was created by the well-known hedge-fund investor in 2005. But its deteriorating condition has accelerated this year—it posted a \$421 million loss last quarter—and it said Tuesday that same-store sales for the eight weeks ending Christmas Day dropped 5.2% compared to the year before.

The 49-year-old Mr. Lampert has struggled to retain qualified executives: Under his watch, the company c-suite has become a revolving door. Stores have been criticized for showing their age.

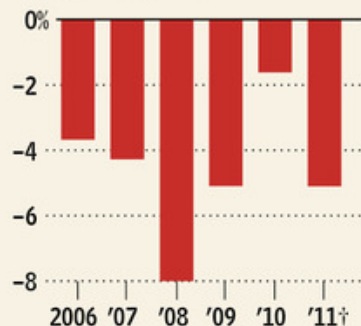
Its once highflying shares—which peaked at \$191.93 in April 2007 amid speculation that Sears would be an investment vehicle for Mr. Lampert akin to [Warren Buffett's Berkshire Hathaway](#) Inc.—plunged 27% to \$33.38 Tuesday. They have lost more than half their value this year and are down 73% since the merger closed in March 2005. The market capitalization of Sears by the end of Tuesday had dropped to \$3.6 billion.

That is far from what Mr. Lampert envisioned when he launched an \$11 billion purchase of venerable Sears, using money from Kmart, a company he had steered out of bankruptcy earlier in the decade. He predicted the merger would create a "powerful leader in the retail industry."

Known for being analytical, Mr. Lampert has been a hands-on manager at the retailer he built, often managing its day-to-day affairs from the Greenwich, Conn., offices of his hedge fund, ESL Investments Inc., according to former company executives.

Softer Side

Comparable-store sales at Sears, change from year earlier*



*Excludes Sears Canada

†Latest quarter to date

Source: the company

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Though he has remained far from public view, giving no interviews about Sears in recent years other than group chats with the press at his annual shareholder meeting and annual letters to investors, he has expressed a maverick's disregard for retail traditions.

He dismissed same-store sales and other traditional retail metrics as irrelevant, promising to run the company as an investor would, with a focus on measures such as earnings before interest, taxes and depreciation and spending on high-

growth areas such as online retailing.

But from the outset, Mr. Lampert's strategies for reviving the fading Sears and Kmart brands confounded retail experts, who especially question his decision to scrimp on renovating aging stores.

While store chains typically spend \$6 to \$8 per square foot on annual maintenance according to retail experts, Sears is spending a fraction of that amount—about \$1.90, according to investor research firm International Strategy & Investment Group.

Mr. Lampert's bare-bones décor frustrated some of his business partners, notably Martha Stewart Omniling Media Inc., whose relationship with Kmart ended acrimoniously in 2009.

"Have you been to a Kmart lately?" Ms. Stewart said in a CNBC interview around that time. "It's not the nicest place to shop."



Associated Press

Sears Holdings said it expects to close roughly 100 stores in a bid to revitalize its business and reduce expenses.

Instead, Mr. Lampert and his board used company cash to finance a flurry of stock buybacks in recent years—\$678 million in 2008, \$424 million in 2009 and \$394 million in 2010. The purchases had the effect of increasing Mr. Lampert's control of the company by reducing shares outstanding, while also punishing short sellers.

Sears recently put buybacks on hold.

Mr. Lampert, whose hedge fund controls roughly 60% of Sears shares and who serves as company chairman, didn't respond to requests for comment.

Sears Chief Executive Lou D'Ambrosio, a former tech executive who had no retail experience prior to assuming the job in February, said the company remained optimistic that it could reverse its fortunes with an increased focus on melding online and store operations to compete against the likes of [Amazon.com](http://www.amazon.com) Inc.

"We were not pleased with the results we issued, but in no way does that have us question the clarity of where we are taking the company," Mr. D'Ambrosio said in an interview Tuesday.

He noted in a memo to company employees Tuesday that there were some positive signs, including sales at Kmart's grocery division and the company's Lands' End business.

It has also gotten some recognition for improvements in its website, where sales were up 20% in the last quarter.

Though Sears and Kmart have been in decline for decades, Sears Holdings remains one of the largest retail chains in the U.S.,



Getty Images

Shoppers were scarce at a Sears in Milford, Conn., on Tuesday. The holding company's same-store sales fell 5.2% in the eight-weeks to Christmas.

with annual revenue last year of \$43.3 billion. It operates around 4,000 locations in the U.S. and Canada and employs roughly 250,000 people. The retailer continues to offer iconic brands, namely Craftsman tools, Die Hard batteries and Kenmore appliances. It also has tried to refresh its fashion business with a line of Kardashian clothes.

The anticipated closures represent about 5% of its roughly 2,200 fullsize stores. It said it would detail the locations being shuttered at a future date.

The sizable sales decline at Sears took place amid what is widely expected to be a solid if unspectacular holiday shopping season overall, with 3.8% overall sales growth according to the National

Retail Federation. Hyperaggressive competition may hurt profit margins at many chain stores.

At Kmart, a 4.4% drop in recent sales was blamed in part on fewer layaway purchases, as rival [Wal-Mart Stores Inc.](#) revived that pay-over-time service, stealing away strapped shoppers. A 6% sales drop at Sears stores reflected weaker consumer electronics sales, the company said.

"What is most surprising is that its cash balance is now negative—at a time when you get your maximum cash and you pay all your suppliers," said Credit Suisse retail analyst Gary Balter.

Mr. Balter pointed out that Mr. Lampert's favored measure, earnings before interest, taxes and depreciation, has fallen from \$3.6 billion four years ago to \$1.45 billion last year, and the company now projects them to drop to \$400 million this year. "You don't deteriorate like that and survive," he said.



A Sears spokesman said the company has \$3.5 billion in liquidity, including \$700 million in cash and \$2.9 billion in credit under existing borrowing arrangements, as well as \$8 billion to \$10 billion in inventory and a sizable real-estate portfolio.

"This provides our company with ample financial flexibility," the spokesman said.

Management instability has added to Sears's woes. It has had four chief financial officers in the past six years. For three years, the chief executive position was filled by an interim leader, [W. Bruce Johnson](#), before Mr. Lampert finally settled on Mr. D'Ambrosio. The e-commerce chief, Imran Jooma, last month was given the additional responsibility of overseeing marketing as chief marketing officer David Friedman left the company.

"It's really hard to make an imprint on holiday sales without a chief marketing officer," said a former Sears executive.

Sears will likely look to get out from underperforming stores where it is leasing space but retain the properties it owns, said Greg Maloney, president of the U.S. retailing at real-estate firm Jones Lang LaSalle Inc., which manages about 200 shopping centers with roughly 50 Sears stores.

That may be a mixed blessing for some mall landlords.

"The good news from a landlord perspective, even though you never want to see closure of a big retailer, is that it gives us an opportunity to find something that can perform better in that space and turn it into something more productive," Mr. Maloney said.

Sears' struggles include a failure to remain relevant in the clothing business, where rivals such as [Kohl's Corp.](#) have prospered by catering to the working-class demographic that once made Sears the largest retailer in the world.

Those shifts were evident at the Barton Creek Square mall in Austin, Texas, on Tuesday, where customer traffic at the Sears store was light, as a nearby [J.C. Penney](#) was livelier.

"I like to shop at J.C. Penney for casual clothes," said James Dean, a 38-year-old, out-of-work construction worker visiting from Washougal, Wash. "I might shop at a Sears for guy stuff, like tools, but not clothes."

—Karen Talley, Joann S. Lublin, Nathan Koppel and Dana Mattioli contributed to this article.

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