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Staples Can't Find "Easy" Button for "08

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While Staples Inc. is weathering the economic downturn better than rival Office Depot Inc., the world's largest office products supplier sees no quick turnaround from sagging U.S. customer demand.

The chain of more than 2,000 stores and 76,000 employees on Tuesday trimmed its profit and sales forecasts for the full year, and reported its fourth-quarter profit dipped 1 percent.

Staples' retail customer traffic fell 6 percent in the fourth quarter, and "remains choppy," Staples Chairman and Chief Executive Ron Sargent told analysts on a conference call. "I feel like we're kind of bumping along the bottom of this recession."

Shares of the Framingham, Mass.-based retailer fell 46 cents, or 2.1 percent, to $22.03 in afternoon trading, after dropping almost 5 percent earlier in the session.

Staples earned $333.2 million, or 47 cents per share in the three months ended Feb. 2, matching the expectations of analysts surveyed by Thomson Financial. In the same quarter a year earlier, Staples' profit was $336.5 million, or 46 cents per share.

Sales rose 1 percent to $5.32 billion - just shy of analysts' expectations for $5.37 billion - from $5.29 billion a year earlier.

Staples' latest results were for a period with 13 weeks, one less week than in the same fiscal quarter in 2006. Using a 13-week comparison in both quarters, Staples' per-share profit rose 15 percent, with sales up 8 percent.

Staples' earnings came a week after Delray Beach, Fla.-based Office Depot reported its fourth-quarter profit tumbled 85 percent. The drop was due in part to slumping sales in places with sharp housing market downturns like Florida - a state where Office Depot is more heavily invested than Staples.

Staples also has recently maintained stronger profit margins than Office Depot and another rival OfficeMax Inc., said Dan Davidowitz, a portfolio manager with Polen Capital Management, which holds about $30 million worth of shares in Staples.

"Their margins have held up well," Davidowitz said. "They've been very strong operators in a difficult environment."

Nevertheless, Staples' sales at North American stores open at least a year - a key measure of retail performance - fell 6 percent, driven by weak sales of office furniture and business machines.

That decline was partly offset by a 4 percent increase in sales of delivered business products. International sales rose 13 percent, but just 3 percent accounting for fluctuating currency.

Staples forecasts sales to grow in the mid-single digits in percentage terms in 2008, down from a forecast it offered in November for a 2008 sales growth in the high single digits. Staples expects per-share earnings to increase in the high single digits for the year, compared with the previous forecast of growth in the low teens.

The company is more cautious after a sales slowdown that bottomed out in December before improving slightly in January.

"At this point, we're feeling less confident about our ability to forecast demand, and that's why we've revised our guidance for the short term," Sargent told analysts.

However, the company is sticking with plans to add 100 stores this year, compared with 120 last year.

Staples also is increasing this year's annual dividend to shareholders to 33 cents per share from 29 cents per share a year ago.

Staples executives declined to take analysts' questions on whether the company might increase its $3.67 billion bid to acquire Netherlands-based Corporate Express NV, which rejected Staples' unsolicited offer as too low on Feb. 19. Some analysts expect an eventual agreement for an acquisition that would expand Staples' profitable segments serving business customers and overseas clientele.

"I'm sure they're still interested in Corporate Express," Davidowitz said. "It would probably be a decent return on their investment, even if they offer a higher price."