

## RealMoney Investment & Trading Ideas



### Martha Stewart Living Dead

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**Martha Stewart Living Omnimedia** (MSO) shares are lower once again after the company reported a slightly better-than-expected quarter but was soft on fourth-quarter guidance.

The good news out of the call was the growth the Internet business (which is a tiny part of the overall company), increasing ad revenue and the improvement at Kmart. I do not see the company going anywhere in the near future however, nor do I see sustained profitability in 2008. The stock should be avoided, and I would short it if it rose to \$15 or more.

Martha Stewart Living Omnimedia reported a third-quarter 2007 loss per share from continuing operations of 8 cents. Revenue rose 13% year over year, to \$69.3 million.

Publishing revenue rose 27%, with advertising revenue gaining 40%. Ad pages rose 25% at *Martha Stewart Living*, by 21% at *Everyday Food* and 16% at *Body & Soul*. Fourth-quarter advertising looks strong, with ad pages approaching record levels from 2002 (pre-Stewart trial). The first two books were published under the Clarkson Potter agreement, which calls for 10 books in a five-year period. The next book is *Martha Stewart Wedding Cakes*.

The ninth Martha Stewart home community was opened. The upturn to near-term results was limited because of the real estate environment. Consumer responses are positive, and new communities are expected to be added in 2008.

The Martha Stewart Crafts line is now being rolled out to independent retailers. This segment has seen strong sell-through for Halloween products. The Martha Stewart Collection was launched at **Macy's** (M) in September. Early signs are encouraging, but there are no numbers to report so far.

On the last call, management was queried about declining same-store sales at Kmart. This was seen as a lack of inventory that could be corrected with a re-launch of fashion bedding in September. Since the re-launch, fashion bedding is up 42%. The co-branded food line with **Costco** (COST) is set to launch in early 2008.

The Internet business continues to be a strategic priority for the company. In October, page views rose 33% year over year, and time spent per visit was up 18% year over year. Revenue rose to \$3.3 million from \$2.8 million a year ago.

Updated full-year 2007 guidance calls for \$330 million of revenue (consensus at \$336.35 million); operating income of \$7.5 million to \$9.5 million; and \$33 million to \$35 million of adjusted earnings before interest, taxes, depreciation and amortization (EBITDA). Updated fourth-quarter 2007 guidance calls for \$120 million of revenue

(consensus at \$125.5 million); operating income of \$33 million to \$35 million; and \$37 million to \$39 million of adjusted EBITDA.

### **Martha Stewart Living Preview: Going Nowhere**

**Martha Stewart Living Omnimedia** (MSO) is expected to lose 13 cents per share on net revenue of \$68.48 million. In the year-ago period, Martha Stewart Living generated a loss of 13 cents per share on net revenue of \$61.05 million.

The stock of Martha Stewart Living Omnimedia is trading at multiyear lows. There is a very good reason for this: The company is going nowhere. Since Susan Lyne took over as CEO a few years back after the Martha Stewart verdict, the company made some splashy announcements and attempted to kick-start many projects. These efforts have not yielded acceptable returns.

The "Martha Stewart Apprentice" was a major failure. The Martha Stewart branded homes in conjunction with **KB Home** (KBH) got off to a nice start, but, of course, the housing market has since come into hard times. The publishing business is not generating the same advertising revenue that it once did despite some new titles being released. Martha Stewart Living's arrangement with K-mart is stable at best.

Finally, we should hear about the kickoff of the **Macy's** (M) merchandising agreement, but it may be too early in the process to have meaningful data to analyze.

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*At the time of publication, Rothbort was long SHLD, although positions can change at any time.*

*Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.*

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