

## RealMoney Investment & Trading Ideas



### SPLS Meets Earnings Estimates, Guides Down

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**Staples** (SPLS) was sold off hard at the open but regained much of that loss after the conference call ended and into midday activity. The company has done a good job of navigating the difficult domestic environment, and it continues to focus on global diversification. Between a stronger European business and growth in China and India, Staples has some promising opportunities in its future.

This is in complete contrast to **Office Depot** (ODP), which is too concentrated in California and Florida and does not have a cohesive or strategic global plan. In addition, while I think that the **Dell** (DELL) agreement is not the direction in which Dell needs to move, it will be beneficial for Staples on the margin.

Staples reported fourth-quarter 2007 EPS of 47 cents on net sales of \$5.324 billion. For the full year, the company earned \$1.38 per share on net sales of \$19.373 billion. Please note that fiscal 2006 was a 53-week year while 2007 was a 52-week year. When equalizing fourth quarter 2006 to fourth quarter 2007, on a 13-week basis, net sales rose 8.3%. Operating margins rose 20 basis points, to 9.7%, across the entire company.

For North America, retail sales grew 3.5% (adjusted for the extra week). Same-store sales dropped 6% due to traffic declines as traffic was flat. Sales were strong for computers, GPS, copy, print and ink. Sales were weaker than expected for furniture and business machines. Delivery sales rose 12.4%, with organic growth of 8.2%.

Operating margins declined 20 basis points, to 10.6%, while operating income rose by only 1.7%. The program to sell Dell computers has so far gotten off to a strong start. Staples is the only retailer that offers a full line of Dell equipment.

The company plans to open 120 stores in 2008 (100 in U.S. and 20 in Canada), bringing the total to 1,738 stores. Also, 100 standalone copy and print shops will be opened.

Internationally, sales grew 18.1% in total and 7.9% in local currency, excluding the extra week. Operating margins improved 155 basis points, to 6.8%, with European margins improving 200 basis points. Sales doubled to \$200 million in China, where the company has 32 stores, and the delivery business is growing fast. The joint venture in India has gotten off to a great start. The store count in Europe increased by two, to 268.

Negative comps are expected well into 2008. Expect mid-single-digit sales growth and high single-digit EPS growth in 2008. According to current consensus estimates, I note that EPS is expected to grow by midteens and sales were expected to grow by mid to upper single digits.

### SPLS Preview: Supplies Are Limited

**Staples** (SPLS), the premier office supply chain, is scheduled to report its fourth-quarter and full-year 2007 results before the market opens and follow up with a conference call later on.

Consensus estimates call for the company to earn 47 cents per share on revenue of \$5.37 billion. In the year-ago quarter, Staples earned 46 cents per share on revenue of \$5.30 billion.

Unlike **Office Depot** (ODP) , which delivered a disappointing report last week, as I [highlighted](#) in my earning coverage, Staples could prove to have both a better quarter and better prospects going forward.

One major distinction between Staples and Office Depot is that the former is more geographically diverse than the latter, which is concentrated in economically slower states such as Florida and California.

Furthermore, Staples appears to be gaining market share at the expense of Office Depot.

Finally, I think that there is a qualitative issue relative to the management teams and their corporate philosophies, which gives me a greater level of confidence for Staples rather than Office Depot.

Either way, the office supply goods subsector is not in a sweet spot right now, and I would continue to avoid it until we are back into an economic upswing.

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