

Circuit City December Sales Fall 1.7%; Share Decline 2004-01-07 11:18 (New York)

Jan. 7 (Bloomberg) -- Circuit City Stores Inc., the second-largest U.S. electronics chain, said December sales declined 1.7 percent to \$1.71 billion, hurt by sluggish demand for home-audio and video-game products. The retailer's shares fell as much as 11 percent. Sales at stores open at least a year dropped 2 percent, the Richmond, Virginia-based company said in a statement. Some analysts had expected a 4.9 percent in so-called same-store sales, according to Thomson Financial.

Chief Executive Alan McCollough said sales increases at the end of the month weren't enough to offset earlier disappointing results. It was the second consecutive December that Circuit City's sales have declined. Circuit City has been losing market share to bigger rival Best Buy Co., which has said fourth-quarter same-store sales will increase as much as 8 percent.

"Best Buy is the main problem they are facing," said Chris Antley, who helps manage more than \$1 billion at Columbia, South Carolina-based CCM Investment Advisers LLC, which owns shares of Best Buy. "It is the 900-pound gorilla and Circuit City is doing everything it can to keep up."

Shares of Circuit City fell 98 cents to \$9.12 at 11:11 a.m. in New York Stock Exchange composite trading after dropping to \$8.99. They rose 37 percent last year, while Richfield, Minnesota-based Best Buy more than doubled.

Competition

Circuit City faced intense competition during the holiday sales season from Best Buy and other retailers, including Wal-Mart Stores Inc., which in 2002 surpassed Circuit City as the No. 2 seller of consumer electronics in the U.S.

Best Buy boosted advertising, has promoted a new customer loyalty program and obtained exclusive merchandise such as a DVD by the Rolling Stones.

"Best Buy has been able to take market share," said David Yucius, president of Atlanta-based Aurora Investment Counsel, which owns Best Buy shares among its \$140 million of assets. Best Buy has used its buying power, inventory management,

store operations to outperform Circuit City, he said.

In December 2002, Circuit City's sales fell 5 percent to \$1.74 billion while same-store sales declined 6 percent. At the same time Best Buy's sales rose 10 percent to \$4.24 billion while sales at its U.S. electronics stores open at least 14 months rose 2.1 percent.

Same-store sales are a key indicator of a retailer's business because they exclude results of new and closed stores from comparisons.

McCullough has been trying to make Circuit City more competitive in recent years by initiating a store remodeling program, revamping compensation for store sales people and shedding an unprofitable bankcard unit.

Circuit City hasn't provided a fourth-quarter forecast. It was expected to have a fourth-quarter profit from continuing operations of 49 cents a share, the average estimate of analysts surveyed by Thomson Financial. In November, the company sold its bankcard portfolio to FleetBoston Financial Corp.

Circuit City plans to open 65 to 70 stores, more than half of them relocations, in the fiscal year that starts March 1 to help boost revenue. The company operates about 623 stores.

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-0- (BN) Jan/07/2004 16:18 GMT