24/7 Wall St.

Insightful Analysis and Commentary for U.S. and Global Equity Investors

24/7 Wall St. Ten Brands That Will Disappear In 2013

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Each year, 24/7 Wall St. identifies 10 important American brands that we predict will to disappear within a year. This year's list reflects the brutally competitive nature of certain industries and the reason why companies cannot afford to fall behind in efficiency, innovation or financing.

American Airlines will disappear in 2013 because of its inefficiency. It was the premier carrier in the United States for almost 30 years — even surviving through periods when most other carriers went bankrupt. However, it lost its critical advantage of scale when Northwest merged with Delta (NYSE: DAL) and Continental merged with United (NYSE: UAL). Within two years, American became a medium-sized carrier.

Research In Motion (NASDAQ: RIMM) may be the best example of an innovative company that lost its edge. As a result, it will disappear in 2013. Five years ago, RIM was the only smartphone company of any size, and it had almost the entire corporate market. But it made a fatal mistake in failing to adapt its technology for consumer use. In June 2007, Apple (NASDAQ: AAPL) launched the iPhone, and the rest is history.

Pacific Sunwear (NASDAQ: PSUN) no longer has the capital to compete. The retailer will be gone by the end of 2013. In the company's most recent 10-Q, it said one of its biggest risks was running low on capital and not meeting financial obligations.

We made many accurate calls last year, but the speed with which some of them came true was surprising. MySpace was sold by News Corp. (NASDAQ: NWS) less than a week after our list was published.

Several other 2011 nominees are also no longer around. Saab filed for bankruptcy only five months after 24/7 published last year's predictions. The car company has been sold yet again to an investment group called National Electric Vehicle Sweden (NEVS), probably for little more than car parts.

In Nov. 2011, Ericsson dumped its half of the Sony Ericsson mobile phone business, apparently aware of something that Sony (NYSE: SNE) has yet to realize — the smartphone industry is owned by Apple and Google's (NASDAQ: GOOG) Android-run phones. Similarly, Yum Brands! (NYSE: YUM) dumped A&W as sales were miniscule compared to flagship brands KFC and Taco Bell.

A few of the companies we said would vanish are still operating — barely. American Apparel is now a penny stock. Nokia (NYSE: NOK) is another company 24/7 still predicts will go away soon. The former Finnish heavyweight just fired 10,000 employees, or 20% of its workforce.

We also made a few bad calls. Sears (NASDAQ: SHLD) and Sony Pictures are still operating in essentially the same form they were a year ago. Kellogg's (NYSE: K) Corn Pops and *Soap Opera Digest* are doing just fine.

This year we continue to take a methodical approach in deciding which brands to include on our list of brands that will disappear. The major criteria are:

1) a rapid fall-off in sales and steep losses;
2) disclosures by the parent of the brand that it might go out of business;
3) rapidly rising costs that are extremely unlikely to be recouped through higher prices;
4) companies that are sold;
5) companies that go into bankruptcy;
6) companies that have lost the great majority of their customers; or
7) operations with rapidly withering market share.

Each brands on the list suffers from one or more of these problems. Each of the 10 will be gone, based on our definitions, within 18 months.

This is 24/7 Wall St.'s 10 brands that will disappear in 2013.

10. Avon

It would be hard to find another large American company as bad off as Avon Products (NYSE: AVP). Avon's long time CEO, Andrea Jung, was ousted late last year after nearly wrecking the company. Avon's new CEO, Sherilyn S. McCoy, formerly of Johnson & Johnson (NYSE: JNJ), joined the company in April. She has not run a public corporation, let alone one in big trouble. The Security and Exchange Commission's examination of Avon's communications with securities analysts already has cost CFO Charles Cramb his job. Avon is also under scrutiny for whether its Chinese operations meet compliance standards under the Foreign Corrupt Practices Act. One of Avon's core problems is that the beauty market is highly competitive, yet management has not concentrated on its core business. As Morningstar analyst Erin Lash recently wrote, "Despite restructuring initiatives that have cost the firm nearly $800 million through fiscal 2011, it appears to us that Avon is constantly putting out fires rather than proactively moving forward." There is much to fix. Avon announced disastrous earnings in the previous quarter, and it forecast that things will get worse. Avon, however, is fortunate that it may have a suitor. In May, perfume company Coty offered $24.75 a share for Avon, nearly 20% above Avon's stock price at the time. Coty had the financial backing of, among others, Warren Buffett. Avon dragged its feet and Coty withdrew its offer. But Coty, another consumer products firm or a private equity house will be back. Since the Coty offer was withdrawn, Avon's shares have dropped below $16. That price is down from $43 four years ago. The market has no confidence in Avon, but with its brand and revenue, it is an ideal takeover target.

9. MetroPCS

This tiny carrier has lost any chance it may have had to compete with larger competitors T-Mobile, AT&T (NYSE: T), Verizon (NYSE: VZ) and Sprint-Nextel (NYSE: S). Investors have abandoned the company, depressing its shares from a 52-week high of $17.84 to $5.86 — very near its period low. Competition with the larger companies has begun to take a significant toll. The Associated Press recently reported that, "MetroPCS Communications Inc. says it gained a net 131,654 subscribers in the quarter, the worst result in years for the first quarter, which is normally the company's strongest. It ended the quarter with 9.5 million customers." The carrier's first-quarter earnings were so weak that a number of securities analysts downgraded its shares. MetroPCS often is mentioned as a takeover target. In May, several Wall St. analysts said that the company was in buyout talks with T-Mobile, which is owned by giant European telecommunication company Deutsche Telekom. This immediately gave MetroPCS (NYSE: PCS) stock a push higher. Later in the same month, MetroPCS shares rose again as the CEO of Sprint-Nextel said he expects consolidation in the cellular carrier market. Sprint and T-Mobile both continue to struggle because of their modest subscriber bases compared to AT&T and Verizon. Each needs more customers. While MetroPCS is too small to survive on its own, its buyout would give either company the additional customer critical mass it needs.

8. The Oakland Raiders

The Raiders will play in the NFL next year. They just will not play in Oakland. The team, founded in 1960, was one of the original members of the AFL and joined the NFL when the leagues merged in 1970. The Raiders won the Super Bowl in 1976, 1980 and 1983. The team's track record has been poor over the past decade. The Raiders left Oakland once before, when the franchise worked out a better stadium deal in Los Angeles from 1983 to 1994. Oakland lured the team back with an agreement to add $220 million in improvements to the stadium where the team would play. One reason the team will leave Oakland again is the financial plans of the new owners. Al Davis had controlling ownership of the team from the 1960s until he died last year. His heirs and several smaller shareholders now control the team. Current team managing owner Mike Davis already has said he may move the Raiders back to LA to get a better stadium deal. The current Oakland stadium contract expires next year. Davis recently told the *San Francisco Chronicle*, "Yeah, Los Angeles is a possibility. Wherever's a possibility. We need a stadium." The Raiders also could move to Santa Clara, where they would share a stadium with the San Francisco 49ers, much as the New York Jets and Giants do.

7. Salon.com

Launched in 1995, Salon.com is one of the pioneering news and commentary sites on the web. In recent years, it has been eclipsed by larger and better financed sites such as The Atlantic and Washington Post (NYSE: WPO)-owned Slate. Of course, today there are thousands of websites that comment on the news each day. Some of these, like The Blaze, which is owned by Glenn Beck, are well funded. In a sign that Salon is very close to being shuttered, the company "lost" its CEO and CFO recently. Chief technology officer, Cynthia Jeffers, was put in charge. But Salon will need a great deal more than new management. At the end of the final quarter of 2011, Salon had $149,000 in the bank against short-term liabilities that included $12.7 million in loans. During the same quarter, Salon lost $997,000 on revenue of $1.03 million. Rumors are that John Warnock, the cofounder of Adobe Systems (NASDAQ: ADBE), and investment banker Bill Hambrecht fund the company. But as it falls apart at the seams, more money is unlikely to be forthcoming.

6. Suzuki

American Suzuki Motor sold 10,695 cars and light trucks in the first five months of this year. That was down 3.9% compared with the same period in 2011. The sales gave the manufacturer a U.S. market share of just 0.2%. One reason the company has trouble moving its vehicles is the poor reputation of its cars. In the 2012 JD Power survey of U.S. vehicle dependability, Suzuki's scores in power-trains, body and materials, and features and accessories were below those of almost every other brand. One sign Suzuki is having trouble selling its vehicles is that it currently offers a very aggressive zero-percent financing package for 72 months on all of its 2012 cars, trucks and SUVs. Even with aggressive sales tactics, Suzuki cannot improve its position in the American market. Most of its cars sell for less than $20,000 and its trucks and SUVs for under $25,000. Almost every other manufacturer with a broad range of vehicles has flooded this end of the market with cheap, fuel-efficient models. Arguably the most successful car company in the U.S. based on growth — Hyundai — does particularly well in this segment.

5. Pacific Sunwear

Pacific Sunwear built its reputation offering "California-style" accessories, primarily sunglasses, shoes and swimwear. The company was started in a surf shop in Newport Beach in 1980. Recently, highly regarded corporate balance sheet and earnings research firm GMI Ratings put Pacific Sunwear of California on its list of companies at risk of going bankrupt. That should come as no surprise. Five years ago, the company's stock traded for $23. Recently, it dropped to $1.50. In its most recent reported quarter, Pacific Sunwear lost $15 million on revenue of $174 million. The retailer's cash and cash equivalents dropped to $22 million from $50 million at the end of the previous quarter. Pacific Sunwear management said the company would have a non-GAAP net loss in the current quarter as well. Pacific Sunwear also disclosed it had a new line of credit with Wells Fargo (NYSE: WFC). Its comments about the loan in its latest 10-Q were telling: "if we were to experience same-store sales declines similar to those which occurred in fiscal 2010 and 2009, we may be required to access most, if not all, of the New Credit Facility and potentially require other sources of financing to fund our operations, which might not be available." Why is the company in so much trouble? It is too small and is in a commoditized business. Nearly every major department store chain sells products similar to those Pacific Sunwear offers, and so do many niche retailers. Pacific Sunwear, meanwhile, has only 729 small stores. What will happen to the retailer? It could be bought by a larger company — its market cap is only $108 million — or it may go out of business with its inventory sold to other retailers.

4. Research In Motion

RIM once owned the smartphone market. Its BlackBerry products were used largely by businesses. It is hardly worth repeating the story of how RIM was late to the consumer market, where it has been pounded relentlessly by Apple and an army of Google Android phones from manufacturers as diverse as Taiwan's HTC, South Korea's Samsung and Motorola in the U.S. The pace at which the company fell apart once the process began was even more extraordinary than its rise. Revenue and net income jumped from $6 billion and $1.3 billion, respectively, in fiscal 2008 to $20 billion and $3.4 billion in fiscal 2011. In just the past year, however, the company has warned twice that it would miss its earnings forecast, replaced its long-time CEO, warned a third time about its first-quarter loss, and disclosed plans for layoffs of thousands of employees. The company's board said it was reviewing "strategic options," which would include a sale. The best measurement of the swiftness of RIM's fall is the change of its share of the U.S. smartphone market. Research group NPD recently reported that RIM's U.S. market share was 44% in 2009 but only 10% last year. Data from research group Comscore shows that share has fallen further this year. The net effect on RIM's stock price has been devastating, taking it down from $144 four years ago to $11 recently. RIM cannot survive as a standalone operation in the face of these trends. The *Wall Street Journal* recently reported "outright buyers could include Asian handset makers like HTC Corp or online retailer Amazon.com Inc. which has jumped into the tablet business."

3. Current TV

Al Gore's Current TV was on life support even before it fired its only bankable star, Keith Olbermann, in March following a set of battles with the host over his perks. He was replaced by serial talk show host failure Eliot Spitzer. Compared to Olbermann's March figures, Spitzer's ratings in April were down nearly 70%, according to TV audience measurement firm Nielsen. At the time, *The Hollywood Reporter* wrote, "Replacement Eliot Spitzer pulled an anemic 47,000 total viewers in the first outing of Viewpoint, with just 10,000 among adults 25-54. The weeks since saw an early rebound, particularly in the demo, but in its four weeks on air Viewpoint has steadily declined in both respects." Reuters recently reported that Current TV's audience had fallen enough that cable giant Time Warner Cable (NYSE: TWC) may have the right to discontinue carrying the channel. The closest Current TV has to a star is talk show veteran Joy Behar, a former cast member of "The View," who had her own show canceled by CNN's HLN in November. Gore does not have the pockets to keep a network with no future going.

2. Talbots

Battered retailer The Talbots (NYSE: TLB) is supposed to be taken private by Sycamore Partners for just over $2.75 a share, or $190 million. The offer has been delayed for some reason. Sycamore already has lowered its offer once from $3.05 a share it extended to the company in December. Among all the badly damaged retailers hurt by the recession, compounded by its failure to appeal to consumers with distinctive products, Talbots has to be near the top of the list. While its shares traded for almost $26 five years ago, they now change hands for $2.50. It is a wonder that Sycamore wants to buy the retailer. Even if the deal closes, Sycamore may find there is no solution to making the company viable again. When it last announced earnings, Talbots management said it planned to close 110 stores. The company also said it would try to find a new CEO. Talbots made only $1 million last quarter on $275 million in revenue. At the same time it announced earnings, it admitted that it could be in default under its debt facilities if its financial condition deteriorated further. Talbots has been flanked by a number of department stores that carry women's discount ware and a number of niche chains, including Ann Taylor (NYSE: ANN), Chico's FAS (NYSE: CHS) and Limited Brands (NYSE: LTD). The company's earnings demonstrate clearly the extent to which customers have abandoned Talbots. Its revenue was $2.3 billion in fiscal 2008, a figure on which it lost money. Annual sales are barely half that now. With the exception of a tiny profit last year, the retailer has lost money every year in the past five.

1. American Airlines

American's parent AMR filed for Chapter 11 bankruptcy in Nov. 2011. The airline itself still operates largely as it did prior to the filing, but with some of the advantages the bankruptcy of a parent brings. Labor costs will be cut, along with debt service and lease obligations for airplanes. AMR says it plans to emerge from Chapter 11 as a viable airline. But that will not happen. US Airways (NYSE: LCC) already has made it clear that it wants to buy American's assets. As soon as the rumors of a potential buyout started in April, some of American's largest unions said they backed such a plan as a way to protect jobs. Earlier this month, US Airways CEO Doug Parker announced his desire to merge the two airlines. With US Airways probably willing to give AMR's creditors a good deal to get American's assets, the potential deal received tremendous support from bondholders and analysts. US Airways has much to gain from this transaction, as its position in the carrier market has been eroded by the mergers of Northwest and Delta and the later combination of United and Continental.

Douglas A. McIntyre

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