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Quiksilver slips on no snow

Its shares drop 9.7% after the ski and snowboard maker's earnings plunge.

By Leslie Earnest
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Quiksilver Inc., the world's largest surf wear company, wiped out last quarter on the ski slopes.

Shares of the Huntington Beach company fell 9.7% on Friday, a day after it announced that fiscal first-quarter profit plummeted 87% from a year earlier.

The parent of the Quiksilver, Roxy and Rossignol brands blamed the earnings plunge on a miserable winter sports season that has worsened in the last several weeks. The company also significantly reduced earnings expectations for this year, prompting at least four analysts to cut their ratings on the company's stock Friday.

Quiksilver shares fell $1.25 to $11.71 after touching a 52-week low of $10.90 during the session. The stock is down nearly 26% this year.

If investors were irked, Duke Edukas, co-owner of Surfside Sports in Costa Mesa, was sympathetic. His snowboard sales have fallen 40% this season because of skimpy snow.

"Every company in the snow business has felt it," Edukas said. "Me and my partner and other people I deal with in the industry, we're all talking about it."

Quiksilver Chief Executive Robert B. McKnight Jr. also cited snow in speaking with analysts Thursday as he announced quarterly earnings, calling this "the worst season in the past several decades."

Ski resorts closed, freezing the sale of new equipment, he said. Stuck with leftover inventory, retailers are expected to make fewer orders this year.

Quiksilver said that it had seen heavy markdowns, poor reorders and a significant reduction in orders for next season and that the effects were likely to be felt throughout the year.

The company said it earned $2.5 million, or 2 cents a share, in the quarter that ended Jan. 31, compared with $18.6 million, or 15 cents, a year earlier. Sales rose 2% to $552.5 million.

Quiksilver said it expected per-share profit of 53 cents this year, well off the 77 cents that was previously anticipated.

Analysts were particularly disappointed because just last month the company cut its first-quarter profit projection to 4 cents a share from 9 cents and its annual estimate to 75 cents to 78 cents a share from 91 cents.

Management will have to "build back credibility," analyst Dorothy Lakner of CIBC World Markets said in a note to clients as she downgraded the stock to "sector performer" from "sector outperformer."

"We still have a hard time understanding how management could have gotten it so wrong and that, in turn, lessens our confidence in even our newly lowered estimates," she said.

Executives worked to assuage analysts' concerns during the conference call.

"We are determined to learn from this situation and to use it to develop a business that is healthier and more resistant to swings in the market," McKnight said.

In a move that might help, about 50 analysts and investors will gather Monday for a meeting with company executives in Park City, Utah, where Rossignol has its U.S. headquarters. Together, they will hit the slopes — McKnight on his snowboard and Chief Financial Officer Steven Brink on skis.

"We'll get a chance to go out in the snow and test some products and give them an insight into products that they won't get just by reading some reports," Brink said.

They won't have to worry about snow, a spokesman for Park City's Chamber of Commerce said Friday.

"There's well over 5 feet of snow for a base right now," Craig McCarthy said, and more was forecast for Friday night. "We are one of the lucky ones."

Although the company is eager to show off the snow equipment that it has developed since purchasing Skis Rossignol of France in 2005, it also is trumpeting the strength of its other brands.

Revenue from Quiksilver, Roxy, DC and smaller clothing brands grew 17% in the first quarter, Brink said, but sales from hard goods — including Rossignol ski gear and Cleveland Golf equipment — fell 26%.

Was the Rossignol purchase a bad move? Brink said he didn't think so.

"Hopefully, the snow will fall next season as usual and people will see the power of the combined business," he said.

Edukas put it another way.

"Without snow, it's not a good acquisition," he said. "With snow, it is a good acquisition."

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