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Bloomberg.com

April 21, 2010

Williams-Sonoma Shares, Options Jump on Takeover Talk

By Jeff Kearns and Matthew Boyle

April 21 (Bloomberg) -- Williams-Sonoma Inc.'s shares jumped to a two-year high and trading of bullish options surged to the highest level since July on renewed speculation that the U.S. gourmet-cookware retailer may be acquired.

Williams-Sonoma, based in San Francisco, advanced $1.88, or 6.5 percent, to $30.72 at 2:06 p.m. in New York Stock Exchange composite trading. Earlier it reached $31.20, the highest intraday price since November 2007.

More than 20,000 call options to buy the stock changed hands, 29 times the four-week average and 10 times the level for puts to sell the stock. May $35 calls quadrupled to 20 cents for the biggest gain and were the second most-active contracts. Next month's options expire May 21. The stock hasn't closed above $35 since July 2007.

"It's typical speculative activity, where investors are looking at the short-term options as a cheap way to play it if there is an announcement," Frederic Ruffy, senior options strategist at WhatsTrading.com, said in a telephone interview. New York-based WhatsTrading provides options-market analysis.

Leigh Oshirak, Williams-Sonoma's spokeswoman, said in an e- mail that the company does not comment on rumors or speculation.

Williams-Sonoma's performance has improved during the last three quarters, the result of a post-recession strategy of cutting costs and reducing the number of markdowns offered, Anthony Chukumba, an analyst at BB&T Capital Markets in New York, said in a telephone interview. This has increased same- store sales and widened gross margin, he said. Chukumba recommends holding the shares.

Same-Store Sales

In the fourth quarter ended Jan. 31, comparable-store sales rose 7.6 percent, versus a 22.3 percent decline in the year-ago quarter. Gross margin, or the percentage of revenue remaining after subtracting the cost of goods sold, widened to 41.4 percent from 33.9 percent in the year-ago quarter.

The company has been caught up in takeover speculation that is "like a contagious disease" in the retail industry, Chukumba said.

Joseph Feldman, an analyst at Telsey Advisory Group in New York, said Williams-Sonoma might be attractive to suitors. "There is very little debt and pretty good cash flow," Feldman said in a telephone interview. "You could leverage this thing up and it starts to look pretty interesting."

Less Expensive Purchase

The company had $8.7 million in long-term debt for the quarter. The ratio of its enterprise value to its trailing 12-month earnings before interest, taxes, depreciation and amortization, a ratio commonly used to value a cash-based business, is 10 percent, according to Bloomberg data.

The average EV/EBITDA ratio for 634 North American retail companies as of their latest regulatory filing was 14.9 percent, the data show. That makes Williams-Sonoma a less expensive purchase than its peers.

In January, the company announced that Howard Lester, chairman and chief executive officer, will retire in May after leading the company for 31 years. During that time, Williams- Sonoma expanded to more than 600 stores from four. The board said in a news release that it plans to name president Laura J. Alber to succeed Lester.

Williams-Sonoma owns and operates six home-centered retail businesses including its namesake stores and catalog business, Pottery Barn, Pottery Barn Kids, PBTeen and West Elm.

‘Large Bets’

Each of the three most-active options, May $30 calls, May $35 calls and June $35 calls, gained on volume that exceeded the number of outstanding contracts before today. May $30 calls changed hands 8,228 times, compared with an open interest of 1,751 before today. May $35 calls had volume of 7,479 and previous open interest of 294.

“There are large bets going on right now that before expiration, Williams-Sonoma is going to be trading significantly over $35,” said Ophir Gottlieb, a trader and head of client services at Livevol Inc., a San Francisco-based provider of options market data and analytics. Speaking in a telephone interview, he said, “Buying these calls is an especially bullish bet when it’s in the front month before expiry.”