Penney reports 4Q loss dragged down by charges

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J.C. Penney Co. reported a loss of $87 million in the fourth-quarter due in part to an aggressive turnaround plan that includes ditching blockbuster sales for everyday low prices in its stores.

In recent years, Penney has suffered because its core middle-income customers have been among those hardest hit by the weak economy. It's also failed to make its stores fun places to shop. But under new CEO Ron Johnson, the retailer is overhauling just about every aspect of its business.

"While 2011 was a year of transition at J.C. Penney, 2012 will be a year of transformation," Johnson, a former Apple Inc. executive who became CEO in November, said in a statement.

At the core of the retailer's plan is making pricing in its stores more predictable for customers and breaking the cycle of heavy discounting that has depressed the chain's profits and hurt its image.

Penney is eliminating hundreds of discounts a year in favor of a three-tier strategy: everyday prices that are about 40 percent less than what they were a year ago, monthlong sales on select items and clearance events during the first and third Friday of each month. As part of this, the company added a monthly catalog to highlight some items.

Penney also is changing the in-store shopping experience. Penney announced in December that it will develop mini-shops in its stores with homemaking doyenne Martha Stewart.

Last month, the company outlined plans to add 80 to 100 other brand shops inside its stores. It's also planning to add spots in its stores called Town Squares, like Apple's Genius Bars, that will offer services and advice.

Penney's fourth-quarter results were impacted by the changes. The company, based in Plano, Texas, said Friday that its loss amounted to 41 cents per share for the three-month period ended Jan. 28. That compares with net income of $271 million, or $1.13 per share in the year-ago period.

The impact of its pricing strategy, which debuted Feb. 1, lowered results by an additional 59 cents. Restructuring and management charges totaled 56 cents per share. Excluding those charges, the company earned 74 cents per share, which beat estimates for a profit of 68 cents per share, according to FactSet.

Revenue slipped 5 percent to $5.42 billion, reflecting the company's exit from its catalog business. Analysts expected $5.5 billion. Revenue at stores open at least a year fell 1.8 percent for the quarter.

Penney shares slipped 43 cents, or about 1 percent, to $41.51 in trading as investors.

Going forward, Penney faces a challenge in selling shoppers on its new pricing. Some like the thrill of the sale and Penney has become known for its heavy discounting.

Fitch Ratings said it's not sure that shoppers will accept the pricing structure or that the company can lift sliding sales and improve profitability. So it dropped its rating this week on Penney's debt to the "speculative" range, better known as "junk."

Johnson said shoppers seem to be reacting well to the trendy fashion and accessories highlighted in its new monthly catalog, but it needs to better educate the new pricing strategy in the fine jewelry department. During a pre-recorded call Friday, he noted that February sales are trending below a year-ago, but the chain is learning a lot about the consumer.

Penney reiterated that it expects to earn at least $1.59 per share for the current full year. Analysts are expecting $1.84 per share, according to FactSet.