

Thanks to Mike Jackson for posting this

## **Comments** DoubleClick's Concentration

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Yesterday, we looked at a possible case of severe overreaction-itis affecting Wall Street. Analysts who had expected online advertiser DoubleClick (Nasdaq: DCLK) to earn \$0.04 per diluted share (equal to its earnings in Q2 2003) punished the company for missing that estimate by driving its share price down to near green gene levels. The fact that the company had actually improved its operating efficiency by raising its gross and operating margins, however, was ignored.

That said, there was one facet of DoubleClick's earnings report that deserves criticism: stock dilution. According to the company's CEO, Kevin Ryan, DoubleClick has "invested in its business" by spending more than \$59 million to repurchase stock over the past six months. The result has been that, in contrast with such serial stock diluters as Intel (Nasdaq: INTC) and Cisco (Nasdaq: CSCO), or Oracle (Nasdaq: ORCL) and EMC (NYSE: EMC), since Q2 2003, DoubleClick has experienced a real rarity in the tech world: stock concentration, the act of making each existing shareholder's slice of the corporate pie a little bit bigger. To be precise, DoubleClick's share count has declined by 2.8 million shares, or 2% of diluted shares outstanding. Or has it?

If you read the company's first and second quarter earnings releases carefully, you will see that in Q1, DoubleClick bought back 1.9 million shares at an average price of \$10.74 per share and in Q2, 4.7 million shares at an average price of \$8.08 per share. Total shares repurchased: 6.6 million, or about 4.7% of diluted shares outstanding. Once more, just to be clear: The company bought back 6.6 million shares, yet its shares outstanding declined by only 2.8 million shares.

The situation seems remarkably similar to what we found when reviewing Symantec's (Nasdaq: SYMC) claims that it, too, was enhancing shareholder value by buying back shares. Total diluted shares outstanding may have declined at DoubleClick but the company issued new shares almost as fast as it bought up the old ones!

Moreover, consider this: DoubleClick's shares sold for just \$7 a share before Friday's big drop. Yet the company spent \$59 million to buy back 6.6 million shares at an average price of nearly \$9 a share. So it is hard to argue that the buybacks created any shareholder value at all. Rather, they just wasted shareholder money in a vain attempt to mask the transfer of even more shareholder money to company insiders through dilutive stock issuances.