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THE TRADER

Stocks Climb 2% as Nasdaq Tops 15-Year Record

Tech earnings beat expectations, sending the Nasdaq Composite and the S&P 500 to new highs. Also, challenges at athenahealth and World Wrestling.

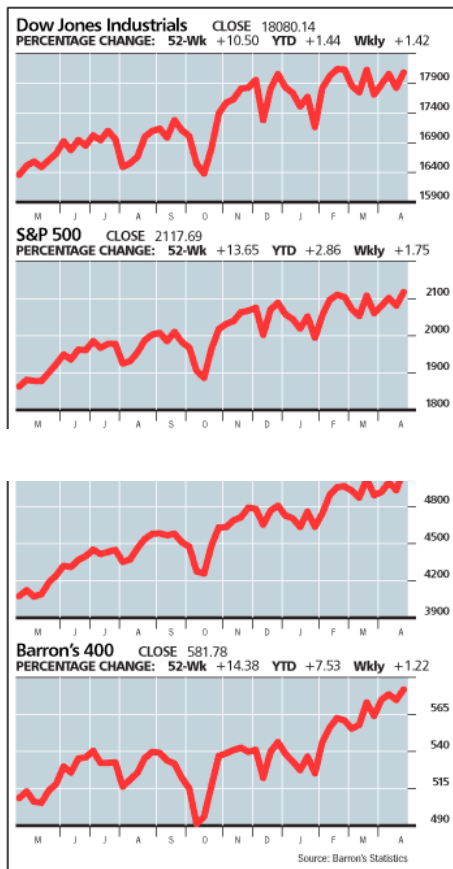
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By [VITO J. RACANELLI](#)
 April 25, 2015 12:02 a.m. ET

Vital Signs

Stock prices rose almost 2% last week, led by the tech sector's march to new highs. The tech-heavy Nasdaq Composite finally surpassed its March 2000 closing high of 5048 on Thursday, and extended its gains to finish the week at 5092, up 3.3%.

The tech sector jumped 4%, helped by better-than-expected first-quarter results from heavyweights such as [Microsoft](#) (ticker: MSFT), [Google](#) (GOOGL), and even [Amazon.com](#) (AMZN), which reported a loss but matched analysts' projections. Shares of all three rose sharply.



The Dow Jones Industrial Average added 254 points, or 1.4%, on the week, to 18,080.14, and the Standard & Poor's 500 index rose 37, or 1.8%, to 2117.69, also a new high.

Sluggish economic growth, weak earnings, a rising dollar, and the prospect of higher interest rates have kept U.S. stocks in a trading range since November. But the Nasdaq's move to new highs, along with similar gains globally, "makes it hard to argue against the resiliency of the market," says Ryan Larson, head of equity trading at RBC Global Asset Management.

Earnings reports last week were "better than feared," he says, noting profit expectations had dropped sharply.

Brad McMillan, chief investment officer at Commonwealth Financial, said a newly snorting Nasdaq and decent earnings reports could be the catalysts that

finally get the broader market out of its rut.




For last week's rally to continue, investors will have to "look past distractions" in coming weeks, says David Kelly, chief global strategist for JPMorgan Asset Management. For example, the preliminary read on U.S. first-quarter gross domestic product growth will be issued Wednesday, with a consensus expectation of a 1% rise. While it will likely show government spending down about 3% in the quarter, he says, private-sector GDP probably rose 1.8%. Weakness caused by lower energy prices and the strong dollar will

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fade, he says.

CRUNCH TIME FOR athenahealth

On Thursday investors will scrutinize first-quarter results from [athenahealth](#) (ATHN). Although the shares have fallen about 16% this year, to \$125.30, the stock remains richly valued, and further weakness is possible. After a couple of years of strong growth, athenahealth faces an increasingly competitive and even saturated market.

Based in Watertown, Mass., athenahealth offers “cloud-based services and mobile applications,” including billing, record-keeping, and communications for health-care providers. It primarily serves small medical practices and ambulatory-care facilities, and charges a percentage of collections. Its network of 62,000 providers has grown by about 20% annually.

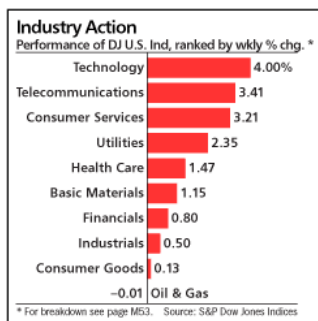
Bears on athenahealth say that future growth won't justify investors' high expectations, and that the stock could drop to as low as \$80. Analysts' consensus earnings-per-share estimates have come down for the past 12 months, and more cuts could be ahead.

Athenahealth trades for 107 times this year's expected earnings of \$1.17 a share—a mammoth price/earnings multiple under any circumstance, but especially so as 2015 earnings will be below last year's \$1.31 a share.

Tail winds that have benefited the company are disappearing, says David Trainer, president of independent stock researcher New Constructs. Certain government subsidies will end soon, he notes. Industry growth has eased, with the conversion to electronic health-care records showing mixed success in better cost containment and patient care.

Trainer notes that competitor [Allscripts Healthcare Solutions](#) (MDRX) has triple athenahealth's users. In the bigger inpatient market, entrenched rivals such as [Cerner](#) (CERN) and Epic Software Solutions will be difficult to dislodge, given their size and the cost of changing systems. Winning such business won't come cheap.

With roughly 30,000 doctors of the nation's 675,000 remaining to serve, athenahealth is “running out of fish in the small-practice pond,” says RBC Capital Markets analyst David Francis, who rates the stock Underperform.



The market's growth expectations for the second half of 2015 and 2016 are aggressive, and athenahealth's high multiple is at risk, Francis says. Cerner, with comparable growth, fetches 35 times expected earnings.

Additionally, Wall Street has gone along with athenahealth's flattering adjustments to generally accepted accounting principles (GAAP) in calculating earnings. The company strips out stock-compensation expense and amortization of intangible assets, among other costs. The practice is common at tech

companies, but when such expenses are added back to 2014 results, GAAP earnings per share swung to an eight-cent loss.

An athenahealth spokeswoman says pessimistic views don't take into account that athenahealth will be targeting business in a soon-to-begin replacement cycle for these services, and that the company's retention rate is 97%. Industry statistics show that 27% of ambulatory providers with electronic health records are now looking to replace their EHR systems. And 50% of large hospitals are looking to replace their systems by 2016. Athenahealth's sales-growth rate guidance for 2015 is a healthy 22%, the spokeswoman adds.

Still, the replacement market will be tougher to crack than original installations. This year could prove whether the cloud valuation sticks or investors have their heads in the clouds.

WRESTLING WITH WWE'S VALUATION

[World Wrestling Entertainment](#) (WWE) fans are rarely disappointed, but the company's shareholders are another story. The stock, which peaked just above \$31 in March 2014, lately has been bouncing around \$14.50. It could be headed even lower if subscriber growth for WWE's digital entertainment network falls short of the market's still-high expectations.

WWE announced on March 30 that the network's subscriber ranks had just about doubled, to 1.3 million, in the prior 12 months. Launched with great fanfare in February 2014, the Internet-based network offers subscribers an all-you-can-eat menu of new and old wrestling events for \$9.99 a month. WrestleMania 31, the latest version of the company's annual wrestling extravaganza, held March 29, was the most-viewed WrestleMania in history, which would seem to bode well for the network.

Yet WWE's stock fell 15% on the news, as discerning readers of the company's press release quickly realized that the latest subscriber boost came mainly from a free one-month promotion in February that contributed 200,000 new subs. WWE crowed that 154,000 subs were retained, but that was only after the company scrapped a six-month commitment requirement.

Trend not WWE's Friend

While WWE's total subscriptions have risen, the day rate of new subscribers has plummeted after the initial burst in early 2014.



November 2014 was another free-sign-up month, as is this April. That means annual revenue per sub, for the 12 months ending April 30, could amount to as low as \$90 for some subscribers, instead of \$120.

WWE has said the network "has the potential to drive significant economic returns." But it also noted last month that there could be seasonality in the "quarterly-adoption curve." Translation: There could be churn. In other words, viewers could sign up for just one month to get WrestleMania 31 for \$9.99, something that used to cost fans \$45 on televised pay-per-view.

WWE said in 2013 that it could "double or triple" 2012's \$63.2 million in operating income before depreciation and amortization, or OIBDA, by 2015. Yet OIBDA fell to \$30.4 million in 2013 and was a negative \$15.5 million last year.

Investors will get a first look at 2015 on Thursday, when WWE reports first-quarter results. A year ago, analysts expected WWE to earn \$1.53 a share this year, but the latest estimate is only 25 cents. Based on the stock's current price, WWE trades for 58 times earnings.

There is nothing wrong with the product. TV ratings remain strong, and revenue from other divisions, such as live entertainment, could be made to grow. Total revenue rose 7% last year, to \$543 million.

Investors confuse WWE's loyal fan base with a wide fan base. A look at the sign-up data shows that from the digital-network launch in February 2014 until April 7 of that year, the average sign-up rate exceeded 16,000 fans per day. Those were the early adopters. Since then, daily sign-ups have tailed off to a few thousand, even with free promos.

New subscription growth appears to be driven by free promotions and the annual WrestleMania event, says Emmanuel Lemelson, chief investment officer of Lemelson Capital Management. The retention of these subs is unclear. After the initial jump, subscriptions hardly changed until the November free promo, he points out. "WWE never seems to achieve what they say they will," says Lemelson, who has been both long and short the stock in the past. He holds one share now.

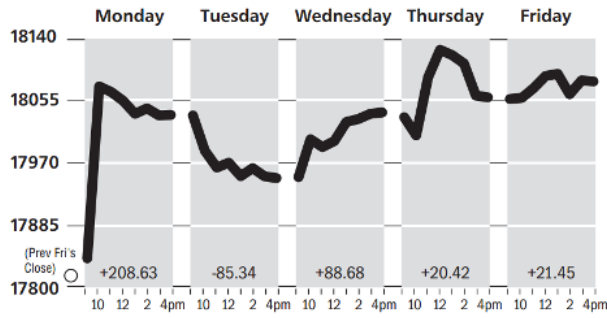
George Barrios, chief strategy and financial officer of WWE, says investors need to look at a "long arc of time" in considering subscriptions, and that the company expects three million to four million global subs long-term. He says the network hasn't been around long enough to get "a cadence" for sign-up trends.

WWE now gives a range of estimated OIBDA based on average paid subscribers. It estimates \$45 million to \$65 million in OIBDA for one million subs to \$210 million to \$230 million for 2.5 million subs. Average paid subs in 2014's fourth quarter were 567,000, up from 406,000 in the second quarter.

It looks like the company has a long way to go to achieve its targets. If it encounters problems, the stock could fall plenty more.

FIVE-DAY DOW COMPOSITE

Tech Power: The Dow rose 1.4% last week but didn't reach an all-time high, unlike the other major indexes. Tech ruled. Microsoft rose 15% and IBM 6%. P&G fell 2%.



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