
THE WALL STREET JOURNAL.

PlanetOut Is Under the Radar

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1,169 words
11 July 2007
The Wall Street Journal
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English
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Corporate interest in the gay dollar may be on the rise, but investor interest in **PlanetOut** Inc. continues to sink.

Since the San Francisco-based company went public about three years ago, its share price has remained well under the radar of mainstream investors, despite owning some of the gay community's most visible brands, including Gay.com and The Advocate and Out magazines.

Going public with an IPO price of \$9 in October 2004, the company initially saw a rise and hit a high of \$14.26 in November that same year. However, it has been a bumpy downward ride since, with shares trading around \$1.30 in June, giving the company a market cap of around \$22 million.

"**PlanetOut** remains a work in progress," said Roth Capital Partners analyst Richard Ingrassia, who said the stock is undervalued but that 2007 and 2008 are transition years. Mr. Ingrassia has a "buy" rating on the stock with a price target of \$4 a share. Roth Capital makes a market in **PlanetOut**'s securities and expects to receive or intends to seek investment-banking business from the company.

"While the transition from a subscription-based model to an advertising-based model will take longer than expected, we believe **PlanetOut** still possesses a virtually unchallenged combination of media assets to reach the gay demo," Mr. Ingrassia said.

PlanetOut's stock rebounded somewhat Monday after investors poured \$26 million in financing to help the company. The funding, which came in higher and faster than expectations, temporarily returns **PlanetOut** to solvency and allows it to invest and improve in its existing properties. Chief Financial Officer Dan Miller said the money signals a turnaround.

"We've had some significant challenges, but I think we took care of it," Mr. Miller said. "As we continue to knock-off and address these challenges, I'm really excited about what this business can do." The company is still considering strategic options -- though Chief Executive Karen Magee said she couldn't comment on whether the company was for sale. It would take at least 12 to 24 months to turn **PlanetOut** around, she has said, and the company may sell its adult-entertainment business.

PlanetOut faces tough competition in the gay media market. Although the company doesn't own a TV network, Viacom Inc.'s Logo network, NBC Universal Inc.'s Bravo and Here Networks LLC all have Web operations. Various blogs and lifestyle sites have also popped up, such as AfterEllen.com and AfterElton.com, newcomer Glee and Queerty, social-networking sites Manhunt.net, Adam4Adam.com and OurChart.com. In magazines, there is Instinct, Genre, Curve and Here magazine, among several others. Locally, there are gay newspapers including the Washington Blade, owned by franchise company Window Media LLC, and most of these have Web sites as well.

In a crowded market, **PlanetOut** prides itself on its visible brands, most of which are well-respected and have relatively long histories. Out magazine still grabs headlines -- as it did recently when it placed Jodie Foster and CNN's Anderson Cooper on its cover -- and the Advocate pulls celebrity covers and follows social trends.

The company has tried to extend those brands to the Web, but its online business, a key growth driver for gay media companies, isn't performing. Gay.com's overall viewership is facing competition from all sides, including Myspace.com, Match.com, blogs and free social connections sites.

More than doubling in size only a few months after its 2004 IPO, **PlanetOut**'s acquisitions haven't fared well. Its cruise business, RSVP Vacations, has been wavering from heavy costs and its magazine publishing unit

suffers from poor ad sales due to staffing shortages and lower page counts.

"It was quite a lot to go public," Ms. Magee said, and the acquisitions were a lot to "integrate, and manage well."

Bob Witeck, chief executive of Witeck-Combs Communications, a marketing-research firm with specialties in the gay market, said the company is "learning the economies of scale [but has] some of the fundamentals."

Despite **PlanetOut's** woes, companies continue to buy into the gay community, the members of which are very brand loyal, spend more and consume more media than most Americans, according to the growing body of market research.

"They've all done a good job in marketing to their consumers," said Jeff Garber, president of Opus Comm Group Inc., a consumer-research firm specializing in the gay market and consults with advertisers. "They have to educate the advertiser, proving that their media property has frequency. Those companies that don't have that approach have a tougher time."

But **PlanetOut** is relatively weak in marketing and advertising. Ad sales jobs have been left unfilled and its audience research needs improvement, the company has said. Coupled with its advertising woes, online subscriptions are falling, as alternatives poach away customers.

Advertising is reportedly strong in other areas of the market. Logo has signed more than 100 advertisers including Toyota Motor Corp.'s Lexus and Macy's Inc. It has doubled its reach to 27 million homes in two years, near the maximum of about 32 million possible for its distribution type.

"We feel very good about how we've scaled the business," said Lisa Sherman, Logo senior vice president and general manager.

Despite **PlanetOut's** problems in print, gay newspapers, marketing their audiences as engaged and loyal, have reported advertising growth. Political issues have attracted an attentive, steady audience for the local publications, said Sue O'Connell, co-publisher of Massachusetts newspaper Bay Windows and president of the National Gay Newspaper Guild. Bay Windows is also moving online, partnering with a new, localized lifestyle suite of Web sites, Edge.

PlanetOut cites declining demand for its online subscription service Gay.com. Other subscription services, like Manhunt, however, have kept pace. And customers are willing to pay for content. Here Networks, a premium channel much like HBO, has been growing in market share and profitability. The networks' online brand sees three million unique visitors per month, and Here also offers content for cell phones and iTunes.

"We know our customers," Here networks founder and chief executive Paul Colichman said. "When you're a premium service, people judge you by your original programming."

But **PlanetOut** is taking steps keep up. In the last three months, the company has hired a new chief technology officer to improve Gay.com's ease-of-use and eventually make **PlanetOut.com** a portal to its other properties. It's conducting what it calls "the most extensive consumer research [the] company has ever done" to help monetize its new media properties. It's filling empty spots in ad sales and streamlining its travel business to more manageable sizes.

"What we're trying to do now is focus on the big opportunities and execute on those possibilities," said **PlanetOut's** Ms. Magee, who became chief executive about one year ago.

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