

# Not Your Uncle's Dividend Stock

By ALEXANDER EULE

*Shares of World Wrestling Entertainment offer a muscular mix of income and earnings growth.*

**WORLD WRESTLING ENTERTAINMENT** (ticker: WWE) is in a generous mood as of late.

Founder and Chairman Vince McMahon is sharing his personal fortune with [WWE](#) fans through a series of \$1 million giveaways. For investors, the company's generosity has taken the form of a hefty dividend.

Best known for body slams and over-the-top acting, WWE would like to add "income stock" to its list of attributes. In February, the company boosted the quarterly dividend for non-McMahon-family shareholders by 50%.

Yet, shares are down 20% from a 52-week high in April. Over the last 12 months, the stock's 11% decline has only slightly outperformed a 13% fall for the Russell 2000 small-cap index.

But at 9%, the dividend yield is too good to ignore, and all signs point to the company's ability to maintain the payouts.

The dividend comes on top of decent prospects for earnings growth. For the period between 2006 and 2011, WWE forecasts average annual earnings growth of 12%.

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To be sure, the company faces competition from increasingly popular -- and gruesome -- mixed martial arts leagues like Ultimate Fighting Championship. Broader categories like videogames also compete for the hearts and minds of WWE's fan base of mostly boys and young men.

But WWE, formerly known as the World Wrestling Federation or WWF, has proved its staying power over the decades, despite ebbs in popularity.

"It's the soap opera for the masses," says Michael Pachter, a Wedbush Morgan Securities analyst.

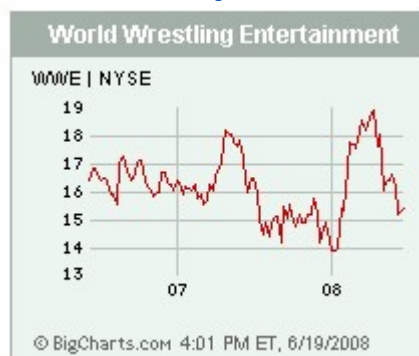
In recent years, WWE stars such as The Rock and Stone Cold Steve Austin have been replaced by wrestlers like Triple H, with his "Crotch Chop" taunt, and Big Show, who stands seven feet tall.

WWE's *Monday Night Raw*, a weekly program on USA Network, consistently ranks at or near the top of Nielsen Media Research's list of most-viewed cable broadcasts. Those broadcasts spur demand for videogames, action figures and other memorabilia. Fees from that licensing flow straight to WWE's bottom line.

But can the dividend be sustained? George Barrios, WWE's chief financial officer, tells Barron's Online, "We're committed to the current level for the long-term."

In 2007, WWE had a net cash flow of \$98.2 million, more than enough to fund its \$69 million in dividend payments. The higher quarterly dividend, at 36 cents a share, will bump the dividend payments to about \$80 million in 2008. (The McMahon family, which owns 66% of WWE stock, is holding its dividend steady at 24 cents a quarter.)

**At a Glance**  
World Wrestling Entertainment



<b>Stock Price:</b>	\$ 15.98
<b>52-Wk High:</b>	\$ 19.86
<b>52-Wk Low:</b>	\$ 13.35
<b>Market Cap:</b>	\$ 1.1 billion
<b>Est. 2009 EPS:</b>	\$ 0.93
<b>2009 P/E:</b>	17.2
<b>Est. Long-Term EPS Growth*:</b>	16 %
<b>Est. ('09/'08) EPS Growth:</b>	13 %
<b>Revenue (trailing 12 months):</b>	\$ 541 million
<b>Dividend Yield:</b>	9%
<b>Chief Executive:</b>	Linda McMahon
<b>Headquarters:</b>	Stamford, Conn.

\* Based on analyst estimates looking ahead three to five years.  
Sources: Barron's Online, Thomson Reuters

While additional expenses could cut into 2008 cash flow, the company has a safety net should any funding gap arise. WWE finished the first quarter with \$220 million in cash and short-term investments and debt of just \$5 million.

"They will not cancel this dividend, period," says one major shareholder, who requested anonymity.

On Wall Street, WWE is still trying to sell the story. Dividend-seeking stock investors, after all, are more accustomed to companies that produce electric power or own shopping malls, not ones that market muscle-bound, trash-talking performers.

"Here you have WWE which is edgy," says Jamie Clement, an analyst with independent research firm Sidoti & Co. "I just think it takes awhile for the investing community to get its arms around the stock."

Clement upgraded WWE to Buy on Monday and sees shares reaching \$19 in the next year. On Thursday, WWE closed at \$15.98.

Analysts surveyed by Thomson Reuters expect net income of \$59 million in 2008, or 82 cents per share, and revenue of \$528 million. For 2007, the company reported earnings of 72 cents a share on revenue of \$486 million.

Wedbush Morgan's Pachter thinks the dividend sets a floor for WWE stock of about \$14. "I think your downside is pretty limited here," he says. "And upside is a function of the growth story."

Invesco Aim portfolio manager Juan Hartsfield bought WWE shares for his AIM Small Cap Equity Fund early in 2007, sensing an upswing in attendance figures for WWE and the residual benefits for the company.

"If people are coming to shows, they're going to watch on TV and then buy their licensed products," Hartsfield says. He likes WWE's licensing model for its "high profit in a capital-efficient manner."

In 2007, WWE's North American events averaged 6,600 spectators, up from 5,800 and 4,800 in the two prior years. That's a long way from the year 2000 -- the company's most recent heyday, when average attendance was 12,000 per event.

Hartsfield says attendance swings are a natural part of WWE's cyclical nature, tracking the development of talent and the emergence of stars.

McMahon, meanwhile, is rarely short on ideas for how to enliven his brand and engage the audience. His current giveaway promotion for WWE viewers helped this week's *Monday Night Raw* beat all broadcast and cable shows for its timeslot among males in the 18 to 49 segment.

For 2008, management expects continued attendance growth in North America, though the figure fell 9% in the first quarter. WWE says the mix of venues and locations during the quarter makes for an unreliable year-over-year comparison.

It's outside North America where WWE has the greatest upside, according to Sidoti's Clement. The segment comprised a quarter of revenue in 2007. And international revenue and profits increased by 41% and 38%, respectively, in the first quarter. The company says its Latin American events attracted sellout crowds that averaged 11,000 fans.

While continued momentum for live events, increased international exposure and the demand for related consumer products should help the stock, it might take some time.

Costs related to new high-definition technology and an expanded television production facility are expected to crimp results over the next year.

"We're not looking for any particularly glowing earnings reports over the next couple of quarters," says Clement.

A struggling economy could also make WWE fans think twice about their next ticket purchase. Still, CFO Barrios says the company has yet to feel the impact of a slowdown. "Our fans are so passionate," he says. "Even in tough times, people still want to get their enjoyment."

With a yield of 9%, WWE investors can find enjoyment of their own.