

UPDATE 3-Pixelpark Q3 sales collapse, outlook bleak.

By Boris Groendahl

FRANKFURT, Nov 20 (Reuters) - Shares in German Internet agency Pixelpark fell as much as 20 percent on Tuesday after the company posted worse-than-expected third quarter sales and earnings and said it was unlikely to break even this year.

Sales at Pixelpark, a unit of media group **Bertelsmann**, came in at 17.4 million euros (\$15.32 million), down 38 percent year-on-year and well below the average forecast of 24.2 million euros from a Reuters poll of analysts.

Losses before interest, taxes, depreciation and amortisation (EBITDA) were 7.7 million euros, also missing the average analysts' forecast of five million euros. Operating losses were 14.2 million euros, the company said.

Pixelpark stock dropped some 17 percent by 1700 GMT to 7.55 euros while the Neuer Markt Nemax 50 index was 2.35 percent weaker at 1,286.55 points.

The company said its sales collapsed due to the lower spending on online activities that has hit the entire Internet agency sector.

Analysts said the figures made grim reading.

"There's not much left to say," said SES Research analyst Klaus Linde, who downgraded Pixelpark to "underperform" after the results. "I was totally surprised. Anything in the low twenties (for sales) would have been the weakest I would have expected."

"Pixelpark seems to have got a grip on its costs, but this doesn't help when the revenues are missing," said HypoVereinsbank analyst Stefan Borscheid.

Pixelpark blamed a reduction in September sales in almost all of its segments and said it was not expecting significant improvement in the next six months.

"It no longer appears realistic that the company will reach breakeven point this year," it said in a statement.

RUNNING OUT OF CASH?

Pixelpark, which implemented a cost-cutting plan in May, is continuing to lose money at a rate that could make it necessary to raise more cash soon, but the analysts were divided over whether it would face a liquidity crisis soon. The third quarter losses are set against a cash position of 17.8 million euros as of September 30.

Bertelsmann, which owns a 60.3 percent stake in Pixelpark, provided the company with an extra 14.9 million euros in May but has said it would welcome other investors in the company.

"Given their cash position, Pixelpark's existence is in danger. I could imagine that **Bertelsmann's** cash infusion in May was the last anchor for them," Linde said.

But HypoVereinsbank's Borscheid said he saw no immediate threat for the company as he expected losses to narrow in the fourth quarter.

"If they come close to breakeven, I expect **Bertelsmann** to back them with more cash again," Borscheid said.

Bertelsmann said it had not reached any decision about whether it would provide further funding but rejected speculation that it may stop backing the company.