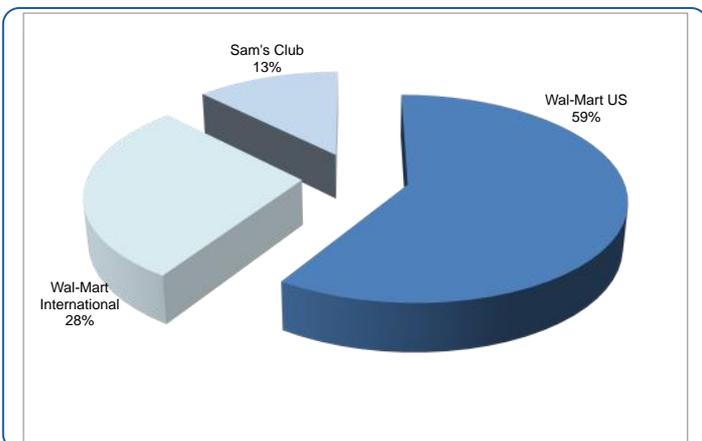


Wal-Mart: 2Q13 results disappoint

Wal-Mart reported a surprise decline in its 2Q13 same-store sales in the US, its biggest market, after shoppers came in less often as higher taxes and increased fuel prices left them with less spending money. In its results released yesterday the company said that comparable sales declined 0.3% in the 13-week period from 27 April-26 July with comparable traffic, although negative, improving c. 130 bpts from 1Q13. US Wal-Mart stores, which account for 59% of the company's total sales, have now posted the second straight quarter of declines in a key revenue figure after six consecutive quarters of increases. Revenue at stores open at least a year (which is seen as an important measure of a retailer's performance) fell 0.3% at its US business. The company's international business reported an increase of 2.9% to \$32.96bn. However, Wal-Mart did gain market share in the food, consumables and health & wellness/OTC category. Wal-Mart International grew net sales 2.9% to \$33.0bn.

Wal-Mart contribution to net sales by division, 2Q13:



Source: Company reports, Anchor Capital

Company CEO Mike Duke said that the retail environment was challenging across all its markets citing weak results from the US, Canada, Mexico, Japan and other international markets that it is relying on for long-term growth. 2Q13 profit rose 1.3% YoY to \$4.07bn or \$1.24/share, up 5.1% vs 2Q12's \$1.18/share. Excluding a tax-related charge, earnings were \$1.25/share - in line with estimates. Consolidated net sales reached \$116.2bn, an increase of \$2.7bn, or 2.4%. Currency exchange rate fluctuations had a nega-

tive impact on net sales of \$680mn. Consolidated operating income was \$6.8bn, up 1.4% YoY. Wal-Mart US grew operating income 5.2% and Sam's Club grew operating income (excluding fuel) 8.0%. Wal-Mart's international operating income fell 1.3% as comparable sales in Canada, Mexico, Japan and Britain fell, while rising slightly in Brazil and China.

Wal-Mart's sober evaluation of the disappointing results adds to concerns around consumer spending especially as the retailer is considered to be an economic bellwether, accounting for c. 10% of all non-automotive retail spending in the US. The group's latest results however appears to show many consumers, both in the US and abroad, are still struggling. In the US it would seem that although jobs are easier to get and the housing market recovery is gaining momentum, this has not been enough to get Americans to spend. Added to that Wal-Mart said Americans continue to wrangle with a 2-ppt increase in the Social Security payroll tax which was implemented 1 January this year.

Wal-Mart updated its full-year EPS guidance to a range of \$5.10-\$5.30 (previously \$5.20-\$5.40). Wal-Mart now expects overall sales to be up between 2% and 3% for the fiscal year, down from an earlier forecast of a rise of 5%-6%. The world's biggest retailer also cut its profit outlook by US\$10/share, to a range of \$5.10-\$5.30.



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