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Agenda

- Industry Overview
- Company Overview
- Thesis
  - Recession = Opportunity
  - International Growth
  - Other Catalysts
- Risks
- Relative Valuation
- DCF
U.S. Food Industry ($1132 billion)

Food Retail ($907 billion)
- Convenience Stores ($291 billion)
  - Conventional ($376 billion)
  - 7-Eleven ($15 billion)
- Supermarkets ($500 billion)
  - Supercenters ($124 billion)
  - Wal-Mart ($126 billion)

Foodservice Distributors ($225 billion)
- Warehouse Clubs ($96 billion)
  - Smart & Final ($2.3 billion)
  - Costco ($20 billion)
  - Sysco ($35 billion)
- Food Distributors ($158 billion)
Consistent, stable growth
- Historical growth: $640 billion in 2003 to $720 billion in 2007 at a CAGR of 3.0%
- Projected growth: $720 billion in 2007 to $798 billion in 2012 at a CAGR of 2.1%

Supercenters and discount warehouses are projected to be the fastest-growing segments of the food retail market
- From 2006 to 2011, supercenters are forecasted to grow at a CAGR of 7% to 8%

Customers prefer a one-stop shopping experience
World’s largest food retailer
- 7262 stores worldwide
- 20% market share

3 Business Segments
- Wal-Mart Stores, U.S.
  - Supercenters
  - Discount Stores
  - Neighborhood Stores
- Sam’s Club
- International Stores
Got Stores?
Revenue Breakdown by Business Segment

International (25.10%)

Sam’s Club (11.72%)

Wal-Mart Stores (63.18%)
Wal-Mart Stores, U.S.

- **Supercenters**
  - Average 187,000 sq. ft.
  - General merchandise & full-service supermarket
  - Accounts for 70% of the Wal-Mart Stores segment

- **Discount Stores**
  - Average 108,000 sq. ft.
  - General merchandise & limited food products
  - Converted 109 stores to supercenters in 2008

- **Neighborhood Stores**
  - Average 42,000 sq. ft.
  - Full-service supermarket & limited merchandise
Sales Breakdown by Merchandise Category

- Grocery, 41%
- Seasonal and Hardlines, 12%
- Entertainment, Electronics, and Toys, 14%
- Home, 6%
- Apparel, Shoes, and Jewelry, 12%
- Health and Wellness, 9%
- Health and Beauty Aids, 6%
Sam’s Club

- Membership-only warehouse club
  - Sells bulk brand-name merchandise and private-label products
  - 2nd largest in America
  - 591 Sam’s Club locations nationwide
- Price leadership strategy
  - Targets price-sensitive customers and small businesses (convenience stores, restaurants, etc.)
- Membership fees
  - Consumers: $40/yr.
  - Businesses: $35/yr.
Operates 3242 stores in 14 countries

Fastest-growing segment
- 16.9% increase in sales Q2 2008

Entry strategies
- Acquisition of local supermarkets
  - Bought Trust-Mart centers in China
- Joint-venture agreements
  - Bharti Enterprises in India
Wal-Mart International Presence

- Canada: 310
- United Kingdom: 348
- China: 212
- Japan: 393
- Mexico: 1,097
- Central America: 478
- Puerto Rico: 55
- Brazil: 325
- Argentina: 24

Units: 3,242
Associates: 620,000
Recession = Opportunities
International Growth
Other Catalysts
Valuation
Recession = Opportunity

Graph showing stock performance from June 29, 2001, to April 12, 2002:
- WMT: +22.51%
- S&P 500: -9.33%
Price Leadership

- Saved customers $20 billion in 2008
  - Saved average family ~$2,500
- Cut prices on many food items by 30% in 2008
  - Competitors struggled with rising fuel; grain, and other food costs
- Strong bargaining power over suppliers
  - Pressured General Mills to redesign its packaging to shave costs
  - Planned sustained price cuts on many items
The Future of Price Leadership

Ed Cohen - 40 years old
Chart 1: WMT performance across categories

Source: Company data
WMT comps aligned to respective competitor's latest published quarter as of 10/16/08.
100 million customers per week visit Wal-Mart stores in U.S.
- Avg. income of Wal-Mart customer is $35,000 compared to $48,000 national median

Opportunity to gain market share through middle-class customers
- Credit crunch turns middle-class customers into value-driven shoppers
  - Opportunity to steal Target’s customer base
- Cut down on discretionary items, focus on necessities (Wal-Mart’s forte)
Wal-Mart’s new strategy for attracting more affluent customers:

- Broadened product base
  - George Coat
- Locally produced products
Capitalizing on recession

- Change in advertising scheme from “Every day low prices” to “Save money. Live Better.”
- New slogan and advertisements cater to middle class image
Middle-class customers have historically complained about poor shopping environment

- Aggressive remodeling strategy
  - Doubling remodeling spending to $1.7 billion in 2009
  - Wider aisles, hardwood floors, better bathrooms, etc.
Strategic focus on growing revenue from existing stores over building new sites

<table>
<thead>
<tr>
<th>U.S. Units</th>
<th>2007</th>
<th>2008E</th>
<th>2009E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount Stores</td>
<td>7</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Supercenters</td>
<td>191</td>
<td>166</td>
<td>134</td>
</tr>
<tr>
<td>Neighborhood</td>
<td>20</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>Total Wal-Mart U.S.</td>
<td>218</td>
<td>191</td>
<td>151</td>
</tr>
</tbody>
</table>

Historic problem with overexpansion
- Cannibalization causes 1.5% decrease of comparable same-store sales growth
- Continued Price Leadership
  - Economic downturn makes customers abroad increasingly price-sensitive
- Increased market share in mature markets, esp. UK, Japan, and Canada
- Strong Sales Growth in Emerging Markets

<table>
<thead>
<tr>
<th>Country</th>
<th>Q2 2008 Growth Rate</th>
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<tbody>
<tr>
<td>Mexico</td>
<td>12.2%</td>
</tr>
<tr>
<td>Brazil</td>
<td>16.6%</td>
</tr>
<tr>
<td>China</td>
<td>32.2%</td>
</tr>
</tbody>
</table>
Focus on Emerging Markets

Mature Markets
- UK
- Canada
- Japan
- Puerto Rico

Emerging Markets
- Mexico
- China
- Brazil
- Central America
- Argentina
- India

Capital allocation %*
- Past 5 years: 67%
- Next 5 years: 47%

- Past 5 years: 33%
- Next 5 years: 53%
International Segment Catalysts

- **Recent Weaknesses and Strategic Remedy**
  - 1. Produce quality
    - Moved from #4 to #2 over last 3 years
  - 2. Stronger inventory management
    - Less stock-outs in international locations
  - 3. Improved customer satisfaction
    - Halved the number of customer complaints over last 3 years

- **Cost Cutting**
  - Shipping costs: fuel usage per SKU will fall 17% in the next 3 years
5.5% same-store sales growth in Q2 2008
Outperformed market by 800 bps in Q2 2008
Wal-Mart in Japan

- Japan is 2nd largest retail market after U.S.

- Transforming Japan: SEIYU
  - WMT officially owned 100% of SEIYU in June 2008
  - LTM: remodeled 50 stores
    - Remodeling 50% square footage in next 18 months
  - Decreased SG&A 170 bps
  - > 15% same store sales growth
China

- Trust-Mart acquisition in ’07 added 100 stores
- ROI expected to double over next 5 years
- China Direct Farm Program
  - Improved PR
  - Bargaining power over suppliers
  - Quality control
  - Estimated 1 M participants by 2011
$4 Prescription Plan

- Provides generic drugs at $4 for up to a 30-day supply
  - 350+ Prescription drugs
  - 1000+ OTC drugs
- Saved customers $1 billion since Sept. 2006
- Recently implemented Phase 3
  - Covers 90-day prescription for $10
  - Additional women’s health medications
  - OTC drugs became available
- Drives more consumers to stores
- Brands Wal-Mart as a health care provider
- Earlier holiday season advertising and floor models
- Planned economic stimulus packages will greatly benefit Wal-Mart sales
  - Wal-Mart gained 200 bps same-store sales growth from the first stimulus package
- 3-year agreement with 1-800 Contacts, Inc. to integrate store, web, and phone services for customers, offering lower prices and better service
<table>
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<tr>
<th>Risks</th>
<th>Mitigates</th>
</tr>
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</table>
| PR: Low wages and poor employee benefits | 1. Raised employee wages by 6% in 2006  
2. Military Partnership                                                                  |
| PR: Predatory pricing (shuts down mom & pop businesses)                                     | Increase overall economic welfare of the community                                                                                      |
| PR: Environmental pollution                | Series of eco-friendly initiatives, including using energy-efficient light bulbs and installing sun-tracking mirrors in stores          |
## Risks

<table>
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<th>Mitigates</th>
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<tbody>
<tr>
<td>Weak sales in Home segment of Wal-Mart U.S.</td>
<td>Home segment comprises only 6% of U.S. revenues</td>
</tr>
<tr>
<td>Currency Fluctuation</td>
<td>Hedging to mitigate losses</td>
</tr>
<tr>
<td>Competitors (Walgreens, CVS, Rite Aid, etc.) match Wal-Mart’s prices for $4 prescriptions</td>
<td>Wal-Mart retains first-mover advantage</td>
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<tr>
<td>Decline in Sam’s Club membership renewals</td>
<td>Trial $10, 10-week membership</td>
</tr>
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</table>
Wal-Mart signed a licensing deal with Disney to put Hannah Montana images on clothing and apparel.

Risk: Miley Cyrus gets pregnant.
Mitigate: None.
Wal-Mart’s screwed.
- 76% of Wal-Mart’s customer base is Republican
- Risk: Republican image drives away liberal customers
- Mitigate: Wal-Mart went against the American Family Assoc. by carrying *Brokeback Mountain* DVDs

We’d be scared too if we saw this guy at Wal-Mart.
### Relative Valuation

![Walmart Logo]

<table>
<thead>
<tr>
<th>Company</th>
<th>Market Cap ($)</th>
<th>Oper. Margin (%)</th>
<th>P/E (ttm)</th>
<th>EV EBITDA</th>
<th>ROA (%)</th>
<th>ROE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart</td>
<td>211 B</td>
<td>5.83</td>
<td>15.94x</td>
<td>8.519x</td>
<td>8.94</td>
<td>20.75</td>
</tr>
<tr>
<td>Target</td>
<td>26 B</td>
<td>7.98</td>
<td>10.15x</td>
<td>6.464x</td>
<td>7.66</td>
<td>18.69</td>
</tr>
<tr>
<td>Carrefour</td>
<td>22 B</td>
<td>4.6</td>
<td>11.73x</td>
<td>5.510x</td>
<td>4.26</td>
<td>18.89</td>
</tr>
<tr>
<td>Kroger</td>
<td>19 B</td>
<td>3.24</td>
<td>15.22x</td>
<td>6.707x</td>
<td>6.95</td>
<td>24.53</td>
</tr>
<tr>
<td>Costco</td>
<td>21 B</td>
<td>2.75</td>
<td>16.67x</td>
<td>7.796x</td>
<td>6.19</td>
<td>14.40</td>
</tr>
<tr>
<td>Safeway</td>
<td>9 B</td>
<td>4.27</td>
<td>10.02x</td>
<td>5.036x</td>
<td>6.81</td>
<td>13.92</td>
</tr>
</tbody>
</table>

- Historically trades at a higher P/E multiple than all its peers
- Trading at a discount to its 10-yr. avg. P/E of 23.6x
Key Takeaways

- IAG is smarter than the market
- Project Impact
- Entry into India
- Phase three - $4 prescription plan
- Relative Valuation
“Customers are counting on Wal-Mart for the lowest prices, and we remain committed to our mission to save people money so they can live better.”

-Lee Scott, CEO