Checklist

✓ Industry Overview
  • WMT Specs
  • Potential Growth
  • Downside Risk
  • Valuation
Industry Overview

- Economy is slowing…

- Recession is probably coming…
• A typical portfolio

![Graph showing All-Star Performance over time](image)

![Graph showing All-Star Performance](image)

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• Reverse wealth effect…

*All those nice things are suddenly out of reach…*
Industry Overview

• As a consumer where does this lead you to…

New Entrants

Suppliers — Existing Competitors — Buyers

Substitutes

PORTER’S FIVE FORCES

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Industry Overview

• Less discretionary dollars from the reverse wealth effect.
• Consumer spending more money on everyday goods than on discretionary items

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Checklist

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WMT Specs

- 5 different divisions under the Wal*Mart umbrella.
  - Discount Stores
  - Supercenters
  - International
  - Wal-Mart.com
  - Wal-Mart Reality

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WMT Specs

- Strong global presence 4 continents
  - Wal-Mart International
  - 2,373 Discount Stores
  - 1,104 Supercenters
  - 512 SAM's Clubs
- Strengthening Internet presence
  - Wal-Mart.com

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WMT Specs

- Flagship Division
- Discount Retailer
- 40,000-50,000 sq ft of retail space
- 36 Departments
- Have own brands

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WMT Specs

- One stop shop
- Full line of grocery and general merchandise
- First Supercenter opened in Mar. 1, 1988
- 100,000 to 210,000 sq. ft of retail space
- 200 to 550 associates (employees)

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WMT Specs

- Members-only warehouse club
- Stock only 3,500 most commonly used items
- Sold in bulk

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• Neighborhood Market, first introduced in 1998
• Quasi grocer and department store
• Cater more close to individual markets
• Compliment Supercenters

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WMT Specs

• Joint-venture between Wal-Mart Stores and Accel Partners
• Majority owned by WMT
• Independent from Wal*Mart

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• Sale and leasing of real estate adjacent to WMT stores.
• In-store leasing
  – Banks
  – Cooked food service
  – Retail
Checklist

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Potential Growth

- History of phenomenal growth
- 11 stock splits since 1970.
- Outperform industry
Supercenters to drive growth

Over the next five years:
  – Grow space @ 17%
  – Sales increase @ 22%
  – Operating profit to grow by 24%

Potential Growth

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Potential Growth

- Neighborhood Market Stores
  - Smaller than Supercenters
  - Allow WMT to penetrate markets which are not feasible to Supercenters
  - Increased flexibility
- Complementing Superstores
- Expand into a new market segment

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Potential Growth

- Porter’s Five Forces revisited…
  - New Entrants
  - Suppliers
  - Existing Competitors
  - Buyers
  - Substitutes

Lots of influence suppliers, lower COGS

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Potential Growth

- Has the backing of a bricks & mortar firm
- Slowing growth at competitors, e.g. Amazon.com
- Robust holiday traffic at Walmart.com
- Afford the capital expenditures needed
  - Must generate $175 million in losses before it can affect EPS by $0.02 per share

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Potential Growth

- Lower interest rates...
- Old Economy company, directly feel benefits of rate cuts
- Can go into bond market to get financing @ lower rate.

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Checklist

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Downside Risk

- Already trading at a premium to the market above historical average.
- But still below historical high premium of 86%

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Downside Risk

- Trouble brewing in Germany
  - Losses in 2001 are expected to be north of $200 million
- Devaluation of foreign currencies
- Entrance into new countries and markets, with higher than expected start-up expenses

Downside Risk

- WMT's sheer size can insulate it from discrete impacts on its P&L.
- WMT is like a diversified portfolio

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Checklist

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## Valuation

### Analysis as of February 2nd, 2001

- **ROE**: 23.66%
- **Return on Sales**: 85.64%
- **First Stage Growth Rate**: 20.00%
- **Second Stage Growth Rate**: 15.00%
- **Perpetuity Growth Rate**: 5.00%
- **Supernormal Period**: 5 years
- **Cost of Equity**: 10.54%
- **Tax Rate**: 36.75%
- **Shares Outstanding (mil)**: 4,466.665

### Performance Summary

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Assets</th>
<th>Current Liabilities</th>
<th>Working Capital</th>
<th>EPS</th>
<th>Add Dep &amp; Amort</th>
<th>Minus Principle Repay of Debt</th>
<th>Minus Preferred Dividends</th>
<th>Plus Proceed, new debt &amp; pref</th>
<th>Minus CapEx per share</th>
<th>Minus Change WC per share</th>
<th>FCFE</th>
<th>PV Factor</th>
<th>PV of FCFE</th>
<th>Intrinsic Value of WMT</th>
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### Valuation Summary

- Intrinsic Value of WMT: **$59.28**
- Current Price of WMT: **$55.43**

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**INVESTMENT ANALYSIS GROUP**
## Valuation

### Sensitivity Analysis:

<table>
<thead>
<tr>
<th>Growth Rate:</th>
<th>Price:</th>
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<tr>
<td>20% (current)</td>
<td>59.28</td>
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<tr>
<td>5%</td>
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### Valuation

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<td>ROE</td>
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<td>-1.72%</td>
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</table>
### Valuation

<table>
<thead>
<tr>
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<th>TGT</th>
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<tbody>
<tr>
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<td>1.12</td>
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<td>Price/Book</td>
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<td>ROE</td>
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**INVESTMENT ANALYSIS GROUP**

### Valuation

<table>
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<th>COST</th>
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<td>Price/Sales</td>
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<tr>
<td>ROE</td>
<td>23.06%</td>
<td>15.55%</td>
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</table>

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Valuation

- Purchase at $47
- Sell if:
  - If the Supercenter expansion falters
  - If the Neighborhood Market scheme encounters problems.
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