

SOSNICK ON RETAILERS

Walmart
The Line in the Sand
Rated: Buy
WMT, \$72.45, NYSE

Investment Opinion: Doug McMillon is rebuilding Walmart's foundation and positioning it for long-term success. As more of the Street realizes that, WMT shares will have the potential to regain ground lost from a fall from a high of \$90, and then move higher as Walmart regains vitality.

We came away from conversations with members of management at the annual meeting with a strengthened belief that: 1) US Walmart is being energized; 2) sales will move up soon.

October 1st is the line in the sand, a senior executive told us, when **stores must be** clean stores, in-stock and provide fast and friendly service and better assortments. **A more favorable shopping experience correlates with same-store sales gains**, he said. If so, sales should improve prior to October 1st become stronger during the holiday season and convert infrequent shoppers arriving for holiday shopping to regular shoppers in 2016 and beyond.

A better shopping experience might offer more immediate and sustained benefit than price cutting.

US Walmart seems likely to achieve 2Q/15 same-store sales guidance of 1%. Progress is occurring even in departments that were once laggards. (See the body of the report.) Grocery sales appear to be positive. Seasonal weather probably boosted sales of apparel to gains better than the mid-single digits in 1Q/15, and stirred sales for lawn & garden, grills and outdoor furniture.

Walmart's e-commerce efforts will be more intense this holiday season than last year—supported by four new fulfillment centers.

We recommend reading page 4 & 5 for our discussion of groceries and Kroger vs. Walmart.

We believe CEO McMillon expects earnings progress during the second and third years of a three-year investment period to improve Walmart from one end to another, particularly revitalizing stores in the US.

Evidence of improvement seems likely to surface sooner than skeptics anticipate.

A reenergized Walmart will likely hasten the burial of zombie retailers with billions of dollars of general merchandise and grocery sales, from which Walmart should obtain sales boosts.

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Risks

The earnings and investment outlook would become bleak if management's objectives to improve the business and grow sales consistently are not achieved.

Walmart is exposed to economic, political, legal and operational risks across the globe. Economic uncertainties and currency risks may cause a shortfall in operating results relative to expectations.

The multitude of risks that face this huge international company can be obtained from the transcript of management's latest update for investors at www.walmart.com/investors.

ANALYST CERTIFICATION

I, Bernard Sosnick, certify that all the views expressed in this research report accurately reflect my personal views of the subject company (ies). I also certify that I have not and will not receive compensation with respect to the issuance of this report.

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POTENTIAL RISKS

As the largest retailer in the US, Mexico and Canada and with representation in Latin America, UK, and Asia, the company faces numerous risks based on economic and political conditions and currency exchange rates. Legislation in the U.S. that might ease union organizing methods and trade and currency issues with China represent the major risks, in our opinion. Gilford Securities, Inc. has prepared the information and opinions in this report based on our analysis of public information. Gilford Securities, Inc. makes every effort to use reliable, comprehensive information, but we make no representation that the information is accurate or complete. Recipients should consider this report as only a single factor in making an investment decision and should not rely solely on investment recommendations contained herein, if any, as a substitution for the exercise of independent judgment of the merits and risks of investments.

ANALYST STOCK RATINGS

Buy The stock should outperform its industry or peer group by 20% or greater within a 12-18 month time frame.

Sell The stock is expected to under-perform its industry or peer group by 20% or greater within a 12-18 month time frame, or where fundamentals of a company have deteriorated significantly and the stock is expected to materially depreciate.

Neutral Performance in-line relative to broad market indexes and/or a representative peer-group return over 12-18 months; a potential source of funds.

Distribution of Gilford Ratings (As of 4-29-15)

| Category | Coverage | IB Services* |
|-----------|----------|--------------|
| Buy | 47% | 13% |
| Neutral | 43% | 7% |
| Sell | 3% | 0% |
| Not Rated | 7% | 0% |

* Percentage of companies within this category for whom Gilford has provided investment banking (IB) Services within the last 12 months.

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