February 10, 2014

SOSNICK ON RETAILERS

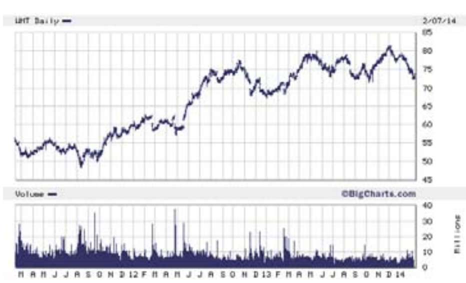
Walmart

BUY

Waiting to Hear How Walmart Will Be Energized

WMT-NYSE	$73.75
52-Week Range	$81-$68
Market Cap.	$235bn
Shares Outstdg.	3.3bn
Debt/Total Cap.	44.4%*
Divd. Yield	$1.88/2.5%
Avg. Daily Vol.	8.20mm

	EPS:	P/E
2015E	6.00	12.3x
2014E	5.50	13.4x
2013E	5.10	14.5x
2012	5.02	
2011	4.54	



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INVESTMENT OPINION: Slow sales growth and heavy cost burdens have masked progress the company has made and have held down WMT shares. If its new CEO presents a convincing scenario that includes tying up loose ends and spurring sales growth, WMT may move above $80.

On October 15, 2013, Mike Duke said Walmart's top priority was to grow same-store sales in the US. That didn't happen despite a mammoth effort for Black Friday. **US Walmart had positive comps for Nov-Dec. but same-store sales were slightly negative for 4Q/13** because the weather and a cutback in food stamps impacted sales.

Adjusted EPS will be slightly below guidance of $5.11-$5.21. We assume satisfactory operating results in 4Q/13 for US Walmart, less improvement than management had expected in international operations and that Sam's is struggling due to many low-volume clubs.

One-time charges, totaling $0.26 per share will reduce reported EPS. Housecleaning as a new CEO ascends is a normal but is not comforting.

When Mike Duke became CEO he made a reduction in the expense ratio a priority because bringing down the expense ratio is imperative for Walmart to retain its position as the low-price retailer. The ratio hasn't decreased to the extent expected due to sluggish sales growth, costs related to the Federal Corrupt Practices Act, to develop e-commerce and to implement best practices globally.

Costs for FCPA and implementation of best practices may be less burdensome in 2014 and e-commerce costs will grow but perhaps at a moderating pace. There should be an opportunity in 2014 to drive down the expense ratio and for EPS to float upward, if sales are satisfactory.

Doug McMillan became Walmart's CEO as it needs to be energized so that EPS growth does not depend primarily on share repurchases. He will presumably push for e-commerce growth and might roll out small concepts faster. While growth in Canada is planned, the international emphasis may be on corrective measures to improve profitability.

Walmart may benefit from a shakeout of weak competitors but faces stiff challenges from strong ones and newer ones, such as Amazon.

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 01-10-14)

Category	Coverage	*IB Services**
Buy	*54%*	*5%*
Neutral	*37%*	*15%*
Sell	*9%*	*0%*

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

Risks to Earnings and Appreciation Expectations

Walmart, with operations across the globe, is exposed to a myriad of economic, political, legal and operational risks. A copy of the risk recitation can be obtained at www.walmartstores.com/investors.

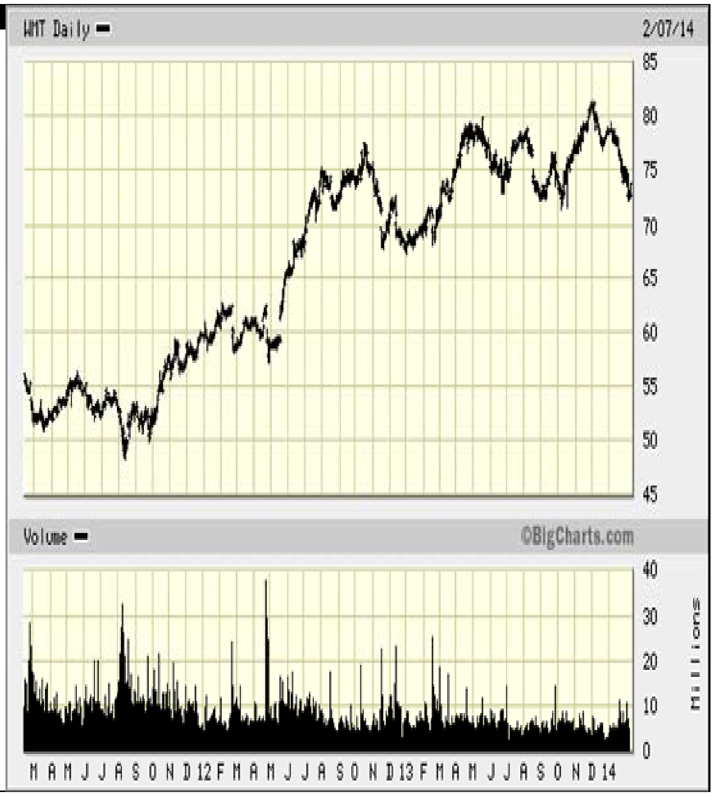
Economic uncertainties in the US and across the globe represent the most significant risk of a shortfall in its operating results relative to expectations, in our opinion.

Stiffening competition from food retailers and the impact of Amazon present Walmart with tougher challenges than it has faced in the past.

Its inability to bring down its expense ratio at faster pace has negative implications for its ability to sustain sufficiently wide gaps in terms of price leadership.

Increasingly bigger efforts, such as 2013's Black Friday events, are required to keep US Walmart's same-store sales from falling.

Date	Rating	Price
February 23, 2011	Buy	$53.05
March 11, 2011	Buy	$52.65
May 17, 2011	Buy	$55.70
May 26, 2011	Buy	$55.70
June 14, 2011	Buy	$52.62
June 21, 2011	Buy	$53.05
July 28, 2011	Buy	$53.42
August 9, 2011	Buy	$49.50
August 17, 2011	Buy	$51.92
September 25, 2011	Buy	$53.42
October 17, 2011	Buy	$55.46
October 26, 2011	Buy	$56.71
November 15, 2011	Buy	$57.33
December 5, 2011	Buy	$58.25
February 13, 2012	Buy	$61.90
February 21, 2012	Hold	$60.00
March 12, 2012	Hold	$60.45
April 4, 2012	Buy	$60.15
April 23, 2012	Buy	$62.45
May 17, 2012	Buy	$62.33
May 24, 2012	Buy	$64.70
June 4, 2012	Buy	$66.00
July 3, 2012	Buy	$70.22
August 16, 2012	Buy	$72.00
September 12, 2012	Buy	$74.11
October 2, 2012	Buy	$73.95
October 17, 2012	Buy	$76.87
November 15, 2012	Buy	$68.55
December 28, 2012	Buy	$67.85
February 21, 2013	Buy	$71.00
May 16, 2013	Buy	$78.20
July 18, 2013	Buy	$77.25
October 10, 2013	Buy	$73.60
October 16, 2013	Buy	$75.39
November 5, 2013	Buy	$77.25
February 10, 2014	Buy	$73.75



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