

September 29, 2004

Stock Rating
Outperform

Sector Rating
Market Weight

Year-End 2005 Target Price
\$65

Valuation Method
P/E

52-Week Range
\$61-\$51

<u>GAAP EPS</u>	<u>Post-Option Exp.</u>	
2003: \$2.07	\$2.04	
2004E: \$2.40	\$2.37	
2005E: \$2.73	\$2.70	

<u>P/E</u>		
2004E: 22.0x	22.3x	
2005E: 19.3x	19.6x	

Dividend/Yield
\$0.52/1.0%

Common Shares (mil)
4,242.5

Equity Market Capitalization (\$ mil)
\$224,046

Book Value per Share
\$10.17

Est. 5-Yr EPS Growth Rate
13%

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Wal-Mart Stores, Inc.

(WMT-52.81)

Dare to Compare — Our Pricing Survey

- **WE CONDUCTED A PRICING SURVEY DURING SUMMER 2004 AT THREE MAJOR DISCOUNTERS: WAL-MART, TARGET, AND KMART.** We toured a number of markets and conducted a pricing survey comparing Wal-Mart's prices on a variety of national and private brand merchandise to prices at Target and Kmart.
- **OUR CONCLUSION: WAL-MART IS INDEED THE LOW-PRICE LEADER.** The same basket of goods at Wal-Mart is 2.1% cheaper on average than at Target and an astonishing 14.7% cheaper than at Kmart. While Wal-Mart maintains price leadership, Target matches closely and Kmart plays the high-low game.
- **WAL-MART ENSURES LOW PRICES THROUGH ITS TECHNOLOGICAL SAVVY AND CONSTANT, DILIGENT MONITORING OF PRICES.** While Wal-Mart's logistical expertise enables it to deliver the lowest prices, we believe extensive data gathering and close price monitoring ensure that no competitor is undercutting the company.
- **WE MAINTAIN OUR OUTPERFORM RATING ON WAL-MART SHARES.** WMT shares are trading at 22x our fiscal 2004 EPS estimate of \$2.40, approximately a 29% premium to the market multiple. Our 2005 year-end price target of \$65 assumes 21x our preliminary fiscal 2006 estimate of \$3.10.

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PLEASE READ THE IMPORTANT DISCLOSURE AND ANALYST CERTIFICATION INFORMATION IN THE ADDENDUM SECTION OF THIS REPORT.

Company Description:

Wal-Mart Stores, Inc. is the world's largest retailer, with projected net sales of \$285 billion in 2004 and a total store base of 5,088 units worldwide. In the U.S., Wal-Mart will operate approximately 3,703 stores by year-end, consisting of 3,146 Wal-Mart stores that include the discount stores, Supercenters, and Neighborhood Market formats, as well as 557 Sam's Clubs. The company is pursuing an aggressive store expansion program with 8% total square footage growth, led by the successful rollout of Supercenters. Wal-Mart has been gaining market share by offering a broad assortment of merchandise, from apparel to perishables, at the lowest prices.

Key Upcoming Events/Developments:

- ♦ **Tuesday, October 5, and Wednesday, October 6.** Wal-Mart is hosting its 11th Annual Analyst Meeting at the Embassy Suites Hotel near corporate headquarters in Northwest Arkansas.
- ♦ **Thursday, October 7.** Wal-Mart is scheduled to report September same-store sales. We are assuming 2%-4% comps versus a 6.0% comparison last year.
- ♦ **Tuesday, November 16, 2004.** Wal-Mart is scheduled to report third-quarter (ending October) fiscal 2004 earnings. We are projecting EPS of \$0.52 versus \$0.46 in the same period last year.

CAPITALIZATION (7/31/04)

	\$ Mil.	%
Long-Term Debt	20,144	31.1
Minority Interest	1,436	2.2
Equity	<u>43,144</u>	<u>66.7</u>
TOTAL	64,724	100.0

KEY FINANCIAL RATIOS

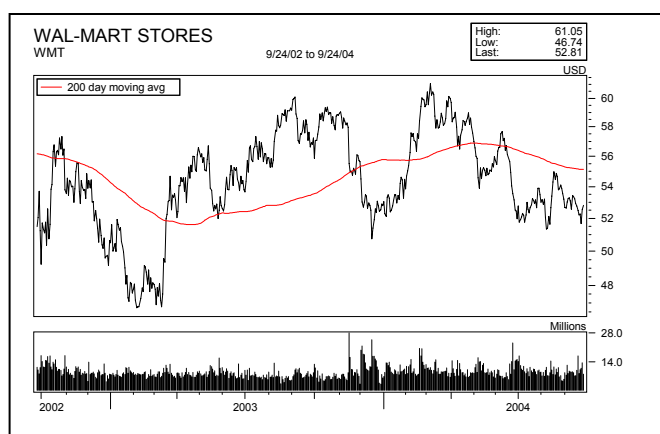
Debt/Equity	73.2%
ROA LTM	9.4%
ROE LTM	22.3%

VALUATION

	2004E	2005E
Price/Earnings	22.0x	19.3x
Enterprise Value/EBITDA	11.7x	10.5x

BENCHMARKS

	2004E	2005E
S&P 500 ⁽¹⁾	17.0x	15.8x
P/E Relative to Market	1.3x	1.2x



Source: FactSet Research Systems Inc.

QUARTERLY EARNINGS PER SHARE

	2003	2004E	2005E
April	\$0.42	\$0.50A	\$0.57
July	0.56	0.62A	0.70
October	0.46	0.52	0.60
January	<u>0.63</u>	<u>0.75</u>	<u>0.86</u>
YEAR	\$2.07	\$2.40	\$2.73

FINANCIAL SUMMARY

(\$ in billions, except per share data)

Year-End	Revenue	— Gross —		— Operating Expense —		— Operating —		Net	Diluted	Free
		Income	Margin	Expense	% Revenue	Income	Margin	Income	GAAP	Cash Flow
									EPS	per Share
2005E	\$316.2	\$74.5	23.6%	\$50.6	16.0%	\$19.2	6.1%	\$11.6	\$2.73	\$0.27
2004E	287.9	67.6	23.5	46.2	16.1	17.0	5.9	10.3	2.40	0.16
2003	258.7	59.9	23.2	41.1	15.9	15.0	5.8	9.1	2.07	0.99
2002	231.6	53.3	23.0	36.6	15.8	13.3	5.7	8.0	1.79	0.34
2001	219.7	48.1	21.9	32.9	15.0	11.9	5.4	6.7	1.49	0.17

Note: Fiscal year ends in January of the following year.

(1) Based on consensus EPS.

All pricing is as of the market close on September 24, 2004, unless otherwise indicated. Special thanks to Addison Dana and Noah Elbogen for their contributions to this report.

Truly the Everyday Low-Price Leader

Wal-Mart is well-known for its everyday low pricing strategy, epitomized by its tagline, “Always Low Prices. Always.” We believe its pricing strategy helps Wal-Mart gain market share year after year. However, exactly *how* low is “low?” What are the prices that consumers around the country are seeing when they shop for their everyday needs? It seemed to us that the only way to find out was to hit the stores.

Thus, during the summer of 2004, we toured multiple markets and conducted a pricing survey that compared Wal-Mart’s prices on a variety of branded and private label merchandise to those of nearby Targets and Kmart. We chose Target and Kmart as they are Wal-Mart’s closest competitors, in our view, both being big-box discounters with an expansive, similar assortment of products.

Wal-Mart Stayed True to Its Reputation for Low Pricing

Overall, we found that Wal-Mart stayed true to its reputation — the same basket of goods at Wal-Mart is 2.1% cheaper on average than at Target and an astonishing 14.7% cheaper than at Kmart. In addition, we determined that Wal-Mart’s price leadership varied depending on product categories. For example, Target matches price closely in consumables, while Kmart charges considerably more on staples. The pricing strategies of these three retailers became apparent, with Wal-Mart emerging as the low-price leader, Target staying competitive on consumables, and Kmart playing the high-low game. We also examined the correlation between price competitiveness and proximity of stores as well as the pricing variability between stores in different markets within the same company. Our analysis revealed no discernible relationship between the competitiveness of the market and the distance between the stores, although we believe there could be several factors at play. Furthermore, we found that Wal-Mart adjusted prices locally, but was relatively consistent between markets compared to its two competitors. Finally, we delved into how Wal-Mart monitors the prices of its competitors to ensure its price leadership. In the following sections we provide further details on our findings, our conclusions, the methodology, and stores that we visited.

Our Pricing Study Confirmed Our Long-Term Positive View on WMT Shares

Wal-Mart shares are currently trading at 22.0x our fiscal 2004 (ending January 2005) EPS estimate of \$2.40, approximately a 29% premium to the market multiple. This is below the three-year and five-year historical average premiums of almost 50%. We are establishing our year-end 2005 price target of \$65, which assumes 21x our preliminary fiscal 2006 EPS estimate of \$3.10, below historical levels on an absolute basis. On a relative basis, it represents a 42% premium to the market multiple, assuming a 7% earnings growth rate for the market from the current 2005 consensus. (We assumed a growth rate similar to the current 2004-05 growth rate of 7%.) Risks to our price target include deflation, a downturn in consumer spending, rising oil prices, pending lawsuits, and the threat of unionization. In addition, we note that the

rebalancing of the S&P Index in 2005 could pressure the stock price as Wal-Mart's weighting in the index is expected to decline. Potential upside to Wal-Mart's mid-term goal of 13%-15% total shareholder return (earnings plus dividend plus share repurchase) could come from aggressive store expansion, better performance at Sam's Clubs, margin benefits from global procurement, and opportunities internationally.

We maintain our Outperform rating on Wal-Mart shares. Our pricing study confirmed our long-term positive outlook on the company. In our view, Wal-Mart's position as the low-price leader should allow it to continue to gain market share, and we believe competitors will be hard-pressed to beat Wal-Mart's prices, not only because of the company's logistical expertise but also because of its diligent price monitoring. Wal-Mart's EPS growth of 15.5% over the last five years on a CAGR basis and 14.9% over the past ten years illustrates consistency of results over the long term.

Results of Survey

**WAL-MART IS THE
UNDISPUTED
EVERYDAY LOW-
PRICE LEADER**

Immediate Conclusions

Exhibit 1. Store Price Statistics Versus Wal-Mart

	Kmart vs. Wal-Mart	Target vs. Wal-Mart
Average Difference vs. Wal-Mart	\$2.23	\$1.00
Std Dev. of Difference	\$4.58	\$2.73
Low	\$(9.55)	\$(8.26)
High	\$32.99	\$21.99
Median Difference vs. Wal-Mart	\$1.01	\$0.14
WMT Is x% Cheaper than Competitor⁽¹⁾	14.7%	2.1%
Total Observations	259	326

(1) Calculated as the "Median Difference" (i.e., TGT/KMRT's price minus WMT's price on a similar item) divided by the "Average Price" of all goods (in our sample basket) at the discounter (TGT or KMRT). Essentially, it is the median of the price differences between products at TGT/KMRT and their comparables at WMT, divided by the average price of the sample basket at TGT/KMRT.

Source: Bear, Stearns & Co. Inc.

Exhibit 1 aggregates the results derived from our pricing survey and highlights our chief conclusion: *Wal-Mart was 2.1% cheaper than Target and 14.7% cheaper than Kmart on average, using the median differences and median prices for our selected basket of goods.* Simply put, Wal-Mart is the undisputed everyday low-price (EDLP) leader. Wal-Mart sticks to its guns and delivers prices that are always low, if not the lowest. We believe Wal-Mart's prices are now the reference point for others to match, namely Target and the dollar stores. Wal-Mart guarantees low prices by keeping constant tabs on its competition and acting swiftly to protect its low-price reputation. To combat competitors' attempts to undercut their prices, the retailer developed "Save on Their Sale Price" and "Dare to Compare" sections at the front of the store, which compare competitors' prices for the consumer. These sections are representative of the rest of the items we noted in the store, as we found that only 98 out of 585 prices recorded were lower at Kmart and Target. Those prices that did undercut Wal-Mart were all on sale and/or for a limited time only.

Our study shows that Target also offers value to its customers, as the aggregate basket of goods at Wal-Mart was only 2.1% cheaper than at Target. This highlights Target's strategy of matching Wal-Mart's prices on like-for-like items, especially in consumables. Kmart's prices were noticeably uncompetitive compared to Wal-Mart's as well as Target's. Wal-Mart's median prices on a similar basket of goods undercut Kmart's by 14.7%, which highlights Kmart's high-low pricing strategy. In our opinion, Kmart's pricing strategy lures customers in with a sale on a particular item, but overcharges them on the rest of the store, especially on consumables.

Differences in Prices by Category

The aggregate result pointed to Wal-Mart being the low-price leader, but we took another step to determine whether Wal-Mart's price leadership varied depending on product category.

Exhibit 2. Kmart and Target Pricing by Category Versus Wal-Mart

	Consumables Food	Consumables Bath & Hygiene	Consumables Miscellaneous	Electronics	Home, Bath, Bedding	Women's Apparel	Men's Apparel
Kmart							
Avg Price Difference b/w Kmart and Wal-Mart	\$ 0.84	\$ 0.67	\$ 1.25	\$ 6.92	\$ 3.20	\$ 1.44	\$ 2.06
Standard Dev.	\$ 0.69	\$ 0.45	\$ 1.30	\$ 8.50	\$ 5.77	\$ 2.85	\$ 4.01
Low	\$ (0.44)	\$ 0.02	\$ (1.45)	\$ (9.55)	\$ (4.85)	\$ (3.92)	\$ (6.74)
High	\$ 2.22	\$ 1.61	\$ 4.27	\$ 32.99	\$ 25.23	\$ 7.00	\$ 12.99
Median Difference	\$ 0.77	\$ 0.55	\$ 0.75	\$ 6.13	\$ 1.11	\$ 1.00	\$ 1.17
WMT Is x% Cheaper than KMRT ⁽¹⁾	21.2%	11.7%	7.0%	5.7%	6.3%	7.3%	9.4%
Total Observations Compared to Wal-Mart	35	39	64	34	29	21	37
Target							
Avg Price Difference b/w Target and Wal-Mart	\$ 0.17	\$ (0.00)	\$ 0.13	\$ 2.72	\$ 1.31	\$ 1.94	\$ 2.05
Standard Dev.	\$ 0.54	\$ 0.34	\$ 0.90	\$ 5.11	\$ 3.38	\$ 2.57	\$ 2.83
Low	\$ (0.97)	\$ (0.97)	\$ (2.17)	\$ (4.99)	\$ (4.85)	\$ (2.69)	\$ (8.26)
High	\$ 2.58	\$ 0.55	\$ 3.95	\$ 21.99	\$ 10.23	\$ 6.15	\$ 8.15
Median Difference	\$ 0.14	\$ 0.02	\$ 0.03	\$ 2.99	\$ 1.11	\$ 1.06	\$ 2.23
WMT Is x% Cheaper than TGT ⁽¹⁾	4.3%	0.5%	0.3%	2.1%	6.1%	6.0%	16.5%
Total Observations Compared to Wal-Mart	44	45	89	37	39	21	51

(1) Calculated as the "Median Difference" (i.e., TGT/KMRT's price minus WMT's price on a similar item) divided by the "Average Price" of all goods (in our sample basket) at the discounter (TGT or KMRT). Essentially, it is the median of the price differences between products at TGT/KMRT and their comparables at WMT, divided by the average price of the sample basket at TGT/KMRT.

Source: Bear, Stearns & Co. Inc.

Exhibit 2 shows that Kmart overcharges its customers more on food than any other category. Wal-Mart's median price in the category is 21.2% cheaper than at Kmart. For example, Kmart charges \$3.49 for a 20-ounce box of Cheerios as opposed to \$2.50 at a Wal-Mart in the same market. Kmart is also uncompetitive in the bath & hygiene category, with Wal-Mart undercutting it by a median average of 11.7%. From the data that we collected, we believe it's reasonable to say that Wal-Mart offers greater value than Kmart in all categories that we surveyed, again reinforcing Kmart's high-low price strategy.

The data tell quite a different story for Target. Target matched Wal-Mart's prices to the pennies on like-for-like items in the consumables category. Wal-Mart managed to undercut Target by 4.3% in food and by just 0.5% and 0.3% in bath & hygiene and miscellaneous, respectively. (Miscellaneous includes freezer bags, paper towels, laundry detergent, etc.) Target's prices were higher in more discretionary areas, but here we believe that Target can charge more due to higher quality, better fashion content, and/or its "chic/cool" perception. Target's highest price differential was in men's apparel, where Wal-Mart was cheaper by 16.5%.

Exhibit 3. Target and Kmart Pricing by Consumables and Discretionary

	Target			Kmart		
	Total	Consumables	Discretionary	Total	Consumables	Discretionary
Avg Price of Total Basket	\$ 21.50	\$ 5.46	\$ 42.03	\$ 20.10	\$ 6.39	\$ 38.38
Median Price of Total Basket	\$ 6.58	\$ 3.03	\$ 15.92	\$ 6.89	\$ 4.09	\$ 14.99
Avg Difference vs. Wal-Mart	\$ 1.00	\$ 0.11	\$ 2.06	\$ 2.23	\$ 0.99	\$ 3.65
Median Difference	\$ 0.14	\$ 0.02	\$ 1.61	\$ 1.01	\$ 0.72	\$ 1.51
WMT Is x% Cheaper than Competitor ⁽¹⁾	2.1%	0.8%	10.1%	14.7%	17.5%	10.1%
Std Dev.	\$ 2.73	\$ 0.72	\$ 3.71	\$ 4.58	\$ 1.02	\$ 6.34
Low	\$ (8.26)	\$ (2.17)	\$ (8.26)	\$ (9.55)	\$ (1.45)	\$ (9.55)
High	\$ 21.99	\$ 3.95	\$ 21.99	\$ 32.99	\$ 4.27	\$ 32.99
Total Observations	326	178	148	259	138	121

(1) Calculated as the "Median Difference" (i.e., TGT/KMRT's price minus WMT's price on a similar item) divided by the "Average Price" of all goods (in our sample basket) at the discounter (TGT or KMRT). Essentially, it is the median of the price differences between products at TGT/KMRT and their comparables at WMT, divided by the average price of the sample basket at TGT/KMRT.

Source: Bear, Stearns & Co. Inc.

Exhibit 3 more effectively highlights the difference in pricing between consumables and discretionary items for Target and Kmart versus Wal-Mart. We lumped together food, bath & hygiene, and miscellaneous into consumables, and electronics, home, bath & bedding, women's apparel, and men's apparel into discretionary. Again, the most obvious conclusion is that Target is competitive in consumables against Wal-Mart, while Kmart is less competitive in consumables compared to other areas of the store. A similar basket of goods is cheaper at Wal-Mart by just 0.8% compared to Target in the consumables category, while discretionary items are 10.1% less expensive at Wal-Mart on a median average basis. Interestingly, Wal-Mart's price advantage in discretionary items at Kmart is similar to Target's at 10.1%, but in the consumables category, Kmart seems to be willfully charging higher prices, with Wal-Mart undercutting it by 17.5%.

Pricing by Market

Are some markets more competitive than others? Markets that have Wal-Mart, Target, and Kmart where we conducted our pricing surveys included Atlanta, Georgia; Piscataway, New Jersey; Massapequa, New York; Saddle Brook, New Jersey; Horsham, Pennsylvania; and East Meadow, New York. We looked at each market individually to determine whether price variations were similar across markets or if they differed widely.

Exhibit 4. Pricing by Market Versus Wal-Mart

	Atlanta, GA (6/25/04)		Piscataway, NJ (7/1/04)		Massapequa, NY (7/15/04)	
	Target	Kmart	Target	Kmart	Target	Kmart
Avg Price of Total Basket	\$ 17.80	\$ 17.91	\$ 16.83	\$ 16.97	\$ 21.94	\$ 18.05
Median Price of Total Basket	\$ 6.99	\$ 6.49	\$ 6.49	\$ 7.19	\$ 6.37	\$ 5.99
Avg Difference vs. Wal-Mart	\$ 0.53	\$ 1.81	\$ 0.45	\$ 2.54	\$ 0.78	\$ 2.44
Median Difference	\$ 0.05	\$ 0.99	\$ 0.04	\$ 1.05	\$ 0.18	\$ 1.16
WMT Is x% Cheaper than Competitor ⁽¹⁾	0.7%	15.3%	0.6%	14.5%	2.8%	19.4%
Std Dev.	\$ 2.04	\$ 3.01	\$ 2.23	\$ 4.78	\$ 1.83	\$ 5.70
Low	\$ (4.99)	\$ (3.92)	\$ (4.99)	\$ (9.55)	\$ (2.98)	\$ (4.85)
High	\$ 6.15	\$ 11.99	\$ 10.23	\$ 25.23	\$ 6.15	\$ 32.99
Total Observations	41	39	42	46	44	42

	Saddle Brook, NJ (7/27/04)		Horsham, PA (8/3/04)		East Meadow, NY (8/11/04)	
	Target	Kmart	Target	Kmart	Target	Kmart
Avg Price of Total Basket	\$ 29.33	\$ 24.27	\$ 22.24	\$ 18.57	\$ 21.86	\$ 24.69
Median Price of Total Basket	\$ 9.99	\$ 6.92	\$ 6.99	\$ 6.99	\$ 6.49	\$ 8.19
Avg Difference vs. Wal-Mart	\$ 0.90	\$ 1.14	\$ 1.43	\$ 1.90	\$ 1.39	\$ 3.17
Median Difference	\$ 0.20	\$ 0.61	\$ 0.37	\$ 0.45	\$ 0.27	\$ 1.24
WMT Is x% Cheaper than Competitor ⁽¹⁾	2.0%	8.8%	5.2%	6.4%	4.2%	15.1%
Std Dev.	\$ 2.35	\$ 2.47	\$ 2.09	\$ 3.22	\$ 3.33	\$ 5.99
Low	\$ (3.87)	\$ (6.74)	\$ (0.43)	\$ (2.67)	\$ (2.98)	\$ (4.69)
High	\$ 10.15	\$ 10.02	\$ 8.15	\$ 12.02	\$ 21.99	\$ 32.99
Total Observations	42	37	40	43	52	52

(1) Calculated as the "Median Difference" (i.e., TGT/KMRT's price minus WMT's price on a similar item) divided by the "Average Price" of all goods (in our sample basket) at the discounter (TGT or KMRT). Essentially, it is the median of the price differences between products at TGT/KMRT and their comparables at WMT, divided by the average price of the sample basket at TGT/KMRT.

Source: Bear, Stearns & Co. Inc.

Wal-Mart was cheaper than Target by a range of 0.6%-5.2%, indicating that Piscataway, New Jersey, was the most competitive market and Horsham, Pennsylvania, was the least competitive market between the two retailers. Interestingly, Kmart's most competitive market with Wal-Mart was Horsham, Pennsylvania. Wal-Mart undercut Kmart by a range of 6.4%-19.4%, with Massapequa as the least competitive market. We also looked at price competitiveness in each market, using the aggregate result of Wal-Mart beating Target by 2.1%, and Kmart by 14.7% as benchmarks. Exhibit 5 summarizes the results. For example, in the Atlanta market, Target was more competitive, giving Wal-Mart a less-than-2.1% edge, and Kmart was less competitive, with Wal-Mart beating it by more than the median average of 14.7%.

Exhibit 5. Price Competitiveness by Market

	Target	Kmart	Median Household Income
Dunwoody (Atlanta), GA	More	Less	\$61,302
Piscataway, NJ	More	More	\$75,329
Massapequa, NY	Less	Less	\$67,858
Saddle Brook, NJ	More	More	\$55,060
Horsham, PA	Less	More	\$57,292
East Meadow, NY	Less	Less	\$69,012

Source: Bear, Stearns & Co. Inc.; U.S. Census Bureau.

The data show no noticeable pattern. In some markets, Target and Kmart are both more competitive than the median result; in others, they are both less competitive; and in some it's a combination of both. In addition, we looked at the median household in each of the towns that we visited. We used data from the 2000 U.S. Census, when the median household income was \$41,994. We note that in many cases, the Target and/or Kmart store was not located in the same township as the Wal-Mart store, in which case we took the average median household income of the towns where the stores were located. Clearly, the inhabitants of the markets we toured were more affluent than the average American household. We believe this could partly explain why Kmart was not very price competitive. Perhaps Kmart believes its customers in those markets are relatively price inelastic because of their affluence and feels it can get away with charging higher prices, resulting in maximizing its high-low strategy.

Correlation Between Price Competitiveness and Proximity of Stores

In the next step, we examined the relationship between prices and the proximity of the competition. We discussed price competitiveness by market in the previous section, but is there a correlation between prices and the proximity of stores? For example, did Target match prices more closely to Wal-Mart stores two miles away than those 15 miles away? Is there a noticeable price war between neighbor stores?

As Exhibit 6 indicates, we found no major correlation between price competitiveness and proximity of stores in the markets we surveyed. We looked at Target and Kmart against Wal-Mart separately, and measured the distance between the stores. In the first part of the exhibit, markets are sorted by miles between a Target and a Wal-Mart store in descending order, and the next column shows the corresponding median difference in price as a percent of median price for that market. If there was a correlation, then we would most likely see that the median difference in price as a percent of median price decreases as the stores get closer. However, the data demonstrate that there is no clear relationship. For Target, the Seattle market is the most competitive when the stores are 16 miles apart, and the East Meadow market is less competitive than average when the stores are only three miles apart. We ran a regression analysis to confirm our initial conclusions and, with an R-squared of 0.2, the data did not support a relationship. In the second part of the exhibit, we similarly compared Wal-Mart and Kmart stores. Once again, the regression analysis produced a low R-squared number and we found no valid relationship between the proximity of the two stores and pricing differences.

Exhibit 6. Store Proximity Versus Median Price Differences as % of Median Price

Target	Miles from WMT	WMT Is x% Cheaper
Seattle, WA	16	0.3%
Warminster, PA	9.1	4.6%
Piscataway, NJ	8.4	0.6%
Average	6.5	2.1%
Saddle Brook, NJ	5.2	2.0%
Atlanta, GA	4.3	0.7%
Horsham, PA	4.2	5.2%
East Meadow, NY	3	4.2%
Massapequa, NY	1.7	2.8%

Kmart	Miles from WMT	WMT Is x% Cheaper
Horsham, PA	7.9	6.4%
Atlanta, GA	6.4	15.3%
Massapequa, NY	5.5	19.4%
Piscataway, NJ	5.4	14.5%
Average	5	14.7%
Saddle Brook, NJ	2.8	8.8%
East Meadow, NY	2.2	15.1%

Source: Bear, Stearns & Co. Inc.

In order to make sure that we didn't miss any relationships, we cut the data once again into consumables and discretionary products and examined the possibility of relationships between proximity of stores and price competitiveness by product category. We scrutinized the consumables category in particular as we believed that due to the similarity of the assortment, closer stores could mean more competitive prices. Customers are typically well-educated in prices of consumables such as cereal and toilet paper, and our best assumption was that they would shop for these products at the lowest-priced store given a choice of retailers within a few miles. However, as Exhibit 7 demonstrates, we found no discernible relationships between the proximity of a Wal-Mart store to the closest Target and the price differences in either consumables or discretionary items. Similarly, Kmart told the same story, with no notable relationship. Nevertheless, we note that almost all the stores were within ten miles and Target was price competitive while Kmart was not.

Perhaps there is no relationship between the proximity of stores and the price competitiveness of the market. However, it is possible that we did not collect enough data, or collect the data of the right products that would have illustrated a correlation. In addition, Target and Kmart are not the only competitors of Wal-Mart. Prices at other discounters, drugstores, supermarkets, and other retail formats may affect Wal-Mart's prices, especially if they are in the same shopping plaza. Therefore, while we believe Kmart and Target are the chief competitors on a national level, the local retail landscape most likely offers Wal-Mart a slew of other competitors. In addition, Wal-Mart is known for its "Dare to Compare — Save on Their Sales Price" promotions. We picked the representative items for each category at random, and most of them were not included in the "Dare to Compare" section. Perhaps a more telling indicator of price competitiveness would be the number of items that are under the "Dare to Compare, Save on Their Sales Price" promotion. Theoretically, the closer a Target

store to a Wal-Mart, the greater the likelihood that Wal-Mart would lower prices on all the merchandise on sale at Target for the week.

Exhibit 7. Proximity of Stores Versus Price Competitiveness in Consumables and Discretionary

Target	Miles from WMT	WMT Is x% Cheaper than Target	
		Consumables	Discretionary
Seattle, WA	16	0.4%	12.2%
Warminster, PA	9.1	2.3%	11.7%
Piscataway, NJ	8.4	0.7%	1.5%
Average	6.5	0.8%	10.1%
Saddle Brook, NJ	5.2	1.0%	5.9%
Atlanta, GA	4.3	0.7%	2.6%
Horsham, PA	4.2	3.0%	14.7%
East Meadow, NY	3	0.6%	13.4%
Massapequa, NY	1.7	0.7%	12.4%

Kmart	Miles from WMT	WMT Is x% Cheaper than Kmart	
		Consumables	Discretionary
Horsham, PA	7.9	7.4%	16.1%
Atlanta, GA	6.4	15.5%	9.4%
Massapequa, NY	5.5	28.9%	7.4%
Piscataway, NJ	5.4	22.0%	17.6%
Average	5	17.5%	10.1%
Saddle Brook, NJ	2.8	14.9%	7.7%
East Meadow, NY	2.2	29.0%	13.6%

Source: Bear, Stearns & Co. Inc.

Pricing Variability Between Stores

Exhibit 8. Store-by-Store Price Variance Within Companies

	Std Deviation of Price in \$	Std Dev as % of Avg Price	Median Std Dev as % of Avg Price	Total Observations
Wal-Mart	\$ 0.74	5.9%	4.3%	504
Kmart	\$ 1.64	10.4%	9.1%	352
Target	\$ 0.69	6.6%	4.5%	451

Source: Bear, Stearns & Co. Inc.

We also looked at pricing variability between stores in different markets within the same company. *We found that Wal-Mart adjusted prices locally, but was relatively consistent between markets compared to its two competitors.* As Exhibit 8 indicates, out of 504 prices we recorded for goods at Wal-Mart, we calculated an average standard deviation of 5.9% and a median standard deviation of 4.3% on products between the stores we visited. This implies that Wal-Mart adjusts prices (either due to nearby competitors or costs associated with that particular market), but as a result of its persistently low prices, it does not have much variability. We note that store managers have the authority to lower prices should a nearby competitor put a product on promotion. In comparison, out of 352 prices we recorded for goods at Kmart, the average standard deviation was 10.4% and the median standard deviation was 9.1% between the stores we visited. Kmart's prices are more inconsistent between markets and likely depend on which items are on sale for the week in each particular location. Target's pricing variation was similar to Wal-Mart and was fairly consistent across markets. Out of 451 prices we recorded, the average standard deviation was 6.6%

and the median standard deviation was 4.5% between Target stores for a similar basket of goods.

Pricing Variability Between Stores by Categories

Exhibit 9. Store Price Variability by Category

	Consumables Food	Consumables Bath & Hygiene	Consumables Miscellaneous	Electronics	Home, Bath, Bedding	Women's Apparel	Men's Apparel
Wal-Mart							
Average Price per Item	\$ 2.67	\$ 3.66	\$ 8.27	\$ 172.28	\$ 14.69	\$ 13.72	\$ 11.43
Std Dev Between Stores	\$ 0.18	\$ 0.23	\$ 0.26	\$ 1.58	\$ 0.93	\$ 1.42	\$ 0.81
Avg Std Dev as % of Price	6.8%	6.3%	3.2%	0.9%	6.3%	10.4%	7.1%
Median Std Dev as a % of Price	5.9%	6.4%	2.3%	0.0%	0.0%	12.7%	5.2%
Kmart							
Average Price per Item	\$ 3.63	\$ 4.69	\$ 10.69	\$ 107.27	\$ 17.74	\$ 13.78	\$ 12.50
Std Dev Between Stores	\$ 0.33	\$ 0.39	\$ 0.85	\$ 4.39	\$ 2.12	\$ 1.88	\$ 2.11
Avg Std Dev as % of Price	9.2%	8.3%	7.9%	4.1%	11.9%	13.6%	16.9%
Median Std Dev as a % of Price	8.6%	7.7%	9.0%	0.0%	15.4%	19.1%	16.0%
Target							
Average Price per Item	\$ 3.14	\$ 3.69	\$ 9.52	\$ 143.06	\$ 18.11	\$ 17.65	\$ 13.47
Std Dev Between Stores	\$ 0.22	\$ 0.47	\$ 0.47	\$ 0.95	\$ 0.84	\$ 1.16	\$ 1.14
Avg Std Dev as % of Price	7.0%	12.7%	5.0%	0.7%	4.7%	6.6%	8.5%
Median Std Dev as a % of Price	6.7%	8.9%	4.7%	0.0%	0.0%	7.2%	7.7%

Source: Bear, Stearns & Co. Inc.

Exhibit 9 highlights price variability between stores by category. The average price is defined as the simple average of all the average prices for each item within the category across all the stores within the same discounter. Wal-Mart has relatively steady variability between stores when broken down by category. Wal-Mart exhibits lower variability than its peers in all categories except women's apparel, which had a median standard deviation of 12.7%. We believe this is attributable to seasonality, clearance, and markdowns. In addition, we only surveyed three items in the women's apparel category due to the difficulty of finding similar products across retailers in a fashion-oriented department. Therefore, there is less validity in the statistical numbers in the women's apparel category, compared to other categories where we recorded a higher number of products. We did notice that the second-highest level of variability is 6.4% in bath & hygiene, which was Target's category with highest variability. We conclude that Target could be aggressively trying to match or beat Wal-Mart's prices in this category, but Wal-Mart quickly adjusts its already low prices to under those of Target by pennies. We note that the average price in this category is \$3.66 at Wal-Mart and \$3.69 at Target. We also noticed that the median price variation in the electronics section was 0% at Wal-Mart, Target, and Kmart, which means that prices were uniform between retailers for most electronics products that we recorded.

We believe that for electronics, there is a single national price point due to the availability of the products on-line. In addition, Wal-Mart, Target, and Kmart generally offer different assortments in electronics, carrying different brands or products with different features. Therefore, there is less likelihood of adjusting prices relative to the competition, resulting in stable, uniform prices across the store base. The median price variability of home, bath, and bedding products was also 0% at Wal-Mart and Target, which could be for similar reasons.

Tech Savviness and Close Watch Ensure Price Leadership

WAL-MART'S PRICE MONITORING METHODOLOGY

How does Wal-Mart manage to beat out its competitors on price on an ongoing basis in every market? The competitive landscape spans from grocery stores to other discounters, dollar stores, warehouse clubs, drugstores, and category killers such as home improvement retailers and toy stores. Besides studying competitors' circulars, Wal-Mart uses its renowned technology and robust systems to monitor prices in every market. As consumers generally retain the prices of certain items such as cereal, laundry detergent, and toothpaste, Wal-Mart closely monitors 2,000 such items for each store and its competitors. Department managers are responsible for keeping track of prices of items in their respective categories. For example, the food manager will check prices at grocery stores and discounters while the pharmacy manager will check prices at nearby drugstores. In any given market, Wal-Mart may monitor prices at 50 different stores when all the departments are aggregated.

Once Wal-Mart gathers the price data, the store inputs the information into Wal-Mart's network, allowing corporate to monitor prices nationwide. Therefore, buyers have complete visibility into the prices of these key items in each category. Should they see a competitor undercut Wal-Mart on any item, they can lower the price from headquarters on that item. In addition, the operations team can monitor what items from which competitors are being comped on a weekly basis. This ensures that store managers and department managers are checking prices on key items at every competitor on a regular basis. If a department manager misses a competitor one week, headquarters will take note and inform him or her of the error to ensure it is remedied.

"DARE TO COMPARE" SECTION SETS THE TONE OF THE STORE

In addition, Wal-Mart is in front of its customers with its low-price strategy. Every store has a "Dare to Compare — Save on Their Sale Price" section in the front of the store, which highlights to customers approximately 20 items on which Wal-Mart is beating a competitor's price. Typically, Wal-Mart will look at weekly circulars of competitors and pick select items that are on sale. Then, associates cut out the circulars and place them on the shelves to highlight Wal-Mart's prices versus the competitor's price on the circular. We've also seen associates actually shopping at a competitor and placing the receipts on the shelves at the "Dare to Compare" section, showcasing the competitor's prices for the products and the corresponding lower price at Wal-Mart. The section serves to proclaim a message about the pricing in the store for customers just as they walk in: that they are getting a deal regardless of what they decide to put in their shopping carts. If a customer comes in the store with a coupon from another store with a lower price, Wal-Mart will typically match that price for the customer. In addition, the store may choose to take a permanent reduction on the product unless the origin of the coupon is doubtful.

In conclusion, Wal-Mart has a firm grip on the competitive landscape nationwide, which makes it difficult for any retailer to beat it on price. With the pricing data of every market at its fingertips, Wal-Mart buyers have the flexibility to lower prices as soon as they see a competitor attempt to undercut them. No system is foolproof, and we have seen lower prices at Target or Kmart on occasion. Nevertheless, with Wal-Mart beating its competitors on most products, our pricing survey overwhelmingly supports the fact that Wal-Mart does its utmost to maintain price leadership.

Pricing Strategy — Target and Kmart

TARGET OVERVIEW

The BSC Pricing Survey confirmed that Wal-Mart is the lowest-cost provider of the retailers that we examined. While Target and Kmart occasionally beat Wal-Mart on prices, the majority of the price differences we measured gave Wal-Mart an edge over its competitors. That said, Target does a remarkable job of competing with Wal-Mart on like-for-like items, mainly in the area of consumables and non-discretionary items. We believe that Target's strategy of offering low prices on like products but differentiating itself through its unique and exclusive general merchandise offering has allowed it to gain market share in an increasingly competitive environment. In our store checks, we found Target stores decidedly cleaner, brighter, and generally more pleasant to shop at than a typical Wal-Mart store.

In total, we recorded more than 450 prices, 326 of which were compared to similar Wal-Mart products. The average difference in price between Target and Wal-Mart puts the average Target product \$1.00 above Wal-Mart. This measure is somewhat misleading, however, because it is influenced by discrepancies on more expensive items, or "outliers," such as electronics and bedroom linens. Looking at the median price difference between the two stores, we get a more accurate measure, and find the average individual item at a Target costs \$0.14 more than at Wal-Mart. Target drops many goods down to within pennies of the price of Wal-Mart, but only beat Wal-Mart on 70 items out of 326. Keep in mind that these 70 occurrences amounted to pennies saved on each item. Also, it is interesting to note that only 1% of apparel items we measured were less at Target than at Wal-Mart. This compares to 20% of overall items measured. We found that home, bath, bedding, women's apparel, and men's apparel were all categories where Target competes less on price and more on quality, with median differences of 6.1%, 6.0%, and 16.5%, respectively. Is Wal-Mart charging less because it is more efficient, or does Target know its consumers will pay more because of the improved shopping experience/brand perception? We theorize that Target is luring and retaining customers by offering very competitive prices on consumable products, and enticing customers to spend a little extra on its more fashionable and high-quality apparel offerings.

We also looked at pricing variability between individual stores within the Target corporation. We see that the median variability between prices at stores is 4.5%, not much different from Wal-Mart's 4.3%. This suggests that prices are fairly consistent from store to store, or at least as consistent as Wal-Mart's. We know that Wal-Mart gives some discretion to local managers over pricing, and the similar variability, as well as similar price levels, indicate that Target also adjust prices locally to competition. A further breakdown of the numbers reveals that variability at Target is highest on consumables and apparel. Median variability for food was 6.7%, bath and hygiene products was 8.9%, women's apparel was 7.2%, and men's apparel was 7.7%. Home, bath and bedding products, and electronics exhibited 0.0% median variability between stores. For the consumables categories, we believe Target competes fiercely with Wal-Mart in an effort to provide customers with savings on day-to-day and frequently purchased items. The apparel variability is largely due to seasonal, clearance, and markdown items, but we found, even with these markdowns and variability, that the apparel items still were rarely priced below Wal-Mart's. For

example, consider the items in men's apparel: Although we saw a large median difference in prices between Target stores of 7.7%, the apparel items were 16.5% more expensive at Target, and thus they rarely dropped below Wal-Mart's prices.

KMART OVERVIEW

If Wal-Mart's strategy is to simply offer EDLP, then Kmart's is to confuse shoppers through high-low pricing, in our view. This strategy is executed by offering a good price on one item to lure customers into the store, while gouging them on another, highly priced item. However, even Kmart's "low" prices are above Wal-Mart's everyday prices most of the time. Another tactic utilized by Kmart is the "two for \$x" pricing technique, which forces the consumer to do on-the-spot arithmetic to determine the unit price. In addition, Kmart likes to discount items, proclaiming "25% off" without revealing the actual reduced price, which again forces customers to rely on their arithmetic skills. In both cases, the calculations may not be difficult, but customers may not take the time to do them or realize that the individual prices are still above Wal-Mart's EDLP.

We recorded more than 350 prices and were able to compare 259 with similar products at Wal-Mart. Overall, Kmart was significantly and consistently higher priced than Wal-Mart. The average difference was \$2.23, the median average difference was \$1.01, and the standard deviation of the difference in price was \$4.58. Kmart does not seem to directly compete with Wal-Mart on price, but rather seems to be drawing traffic from consumers who either don't know about Wal-Mart's EDLP, or don't have access to a nearby Wal-Mart. Only 28 items out of our 259 surveyed beat Wal-Mart's prices, and the distribution over categories was too erratic to draw conclusions from regarding the strategy. However, comparing prices by category, we see that Kmart maintains much higher prices on consumables. Food and bath & hygiene products are 21.2% and 11.7% more, respectively, at Kmart than at Wal-Mart. The rest of Kmart's categories are priced from 5.7% to 9.4% higher.

Median variability between Kmart locations is much higher than at either Target or Wal-Mart, ranging from 7.7% for bath and hygiene to 19.1% for women's apparel. We believe this variability is a result of multiple factors, including proximity to competitors, the high-low strategy, and high levels of clearance items in apparel. Apparel and home, bath, and bedding offered the best buying opportunities, while the outrageous (in our opinion) prices for consumables had more in common with a convenience store than a Wal-Mart.

Methodology

This summer, we traveled around the country visiting Wal-Mart, Target, and Kmart stores in eight different markets in an attempt to prove whether Wal-Mart is in fact the “Everyday Low Price Leader” it claims to be. We compiled a list of approximately 50 products and recorded their prices in each store we visited. All in all, we recorded more than 1,300 prices.

The items we priced break down simply into either the consumables or discretionary category. For purposes of this experiment, we broke down consumables into three main categories: 1) food, which includes such staples as Heinz Ketchup, Cheerios, and Coca-Cola; 2) bath & hygiene, which includes soap, shampoo, toothpaste, and toilet paper; and 3) miscellaneous, which includes trash bags, Ziploc bags, Tide, Bounty paper towels, and Iams pet food. Discretionary was defined as follows: 1) electronics, which includes DVD players, DVDs (classic and new release), TV, HDTV, and CD walkmans; 2) home, bath, and bedding, which includes both branded and private-label sheets and bath towels; 3) women’s apparel, which includes short-sleeve cotton t-shirts, branded stretch denim, and private-label stretch denim; and 4) men’s apparel, which includes polo shirts, branded and private-label jeans, cargo shorts, athletic socks, underwear, and private-label dress and casual shirts. While these categories are somewhat subjective, we tried our best to select a representative sampling of goods in each category, and more importantly, a basket of goods that is readily available at each of the three discounters.

For the consumables, electronics, and miscellaneous items, we were able to price a specific brand and size for each item. For example, we were able to easily compare a 24-ounce bottle of Heinz ketchup and an eight-pack of Bounty paper towels. If an item was not available in one size, but was in another, we did not adjust the price proportionately (the only exception is a box of Cheerios, which we adjusted from 14 ounces to 15 ounces). However, we were not always able to compare the same item across all three stores, especially for items in the women’s apparel, men’s apparel, and home, bath, and bedding categories. Private label, by definition, means a product that is exclusive to a specific retailer. As such, one will not find Wal-Mart’s Faded Glory clothing brand in Target, nor will one find Isaac Mizrahi’s latest fashion creations in Kmart. However, given their sourcing prowess and economies of scale, the three discounters are able to secure similar product, under different labels. As such, we used specific fabric, style, and quality criteria to compare like-for-like private labels across the retailers. After several rounds of store visits, we selected the most like-for-like private labels and used those items in the final pricing analysis.

In total, we ended up pricing 585 items at Target and Kmart that were comparable to Wal-Mart (326 and 259, respectively). For a more descriptive list of products, please see Exhibits 10 and 11 below.

Exhibit 10. Consumable Products Included in Our Pricing Study

Consumables		
Food	Bath & Hygiene	Miscellaneous
Cheerios Special K Special K Low Carb SmartStart Jif Peanut Butter Planters Peanuts Heinz Ketchup Diet Coke - Cans Coke - 2L Bottle Dasani Poland Springs	Dove White Bath Soap Herbal Essence Shampoo Colgate Total Plus Whitening Charmin Single Rolls Charmin Double Rolls	Glad Trash Bags Ziploc Freezer Bags Dawn Ultra Dish Soap Clorox Liquid Tide Bounty Paper Towels Private Label Paper Towels Iams Lamb Meal and rice Iams Large Breed Adult

Source: Bear, Stearns & Co. Inc.

Exhibit 11. Discretionary Products Included in Our Pricing Study

Discretionary			
Electronics	Home, Bath, and Bedding	Women's Apparel	Men's Apparel
DVD - Classic DVD - New Release DVD Player 27" Flat Screen TV 52" Projection HDTV CD Walkman - Brand Name CD Walkman - Entry Level	Sheets 200 ct. Queen - Branded Sheets 200 ct. Queen - Private Label White Bath Towel - Branded White Bath Towel - Private Label Blender	Short Sleeve Cotton T-shirt 5-Pocket Stretch Jean - Branded 5-Pocket Stretch Jean - Private Label	Solid Polo Shirt 5-Pocket Jean - Branded 5-Pocket Jean - Private Label Cargo Shorts White Athletic Socks Underwear Private Label Dress Shirt Private Label Casual Shirt

Source: Bear, Stearns & Co. Inc.

Glossary of Statistical Terms

Exhibit 12. Store Price Statistics Versus Wal-Mart

Average Difference. The simple average of all price differences on comparable items (i.e., an item found both at the discounter and Wal-Mart).

Standard Deviation of Difference. The standard deviation of the differences in prices between the discounter and Wal-Mart.

Low. The least positive price difference between the discounter and Wal-Mart, i.e., the greatest bargain the discounter has to offer.

High. The greatest positive price difference between the discounter and Wal-Mart, i.e., the biggest rip-off at the discounter (better off shopping at Wal-Mart!).

Median Difference. The middle number in the range of pricing differences measured between the discounter and Wal-Mart. For small samples, a simple average difference can be strongly influenced by outliers, and so the median difference, which avoids this bias, is used as a better measure for the average price discrepancy.

Median Difference as a Percent of Median Price. The “median difference” divided by the “median price” of all goods at the discounter. The median price is the middle number on the range of prices at the discounter. In using the median price, we are able to match the numerator and denominator with “like terms” and, more importantly, determine how much cheaper the average good at Wal-Mart would be, in percentage terms, than at the given discounter. For example, Kmart’s “median difference as a percentage of median price” is 14.7%, meaning that Wal-Mart is 14.7% cheaper than Kmart, on average.

Total Observations. The total number of prices collected at a discounter that correspond to a comparable item priced at Wal-Mart. As such, “total observations” can also be thought of as “total comparable observations.”

Source: Bear, Stearns & Co. Inc.

Exhibit 13. Store Price Statistics by Category

Average Price Difference Between “the Discounter” and Wal-Mart. The simple average of all the price differences for comparable items in the category.

Standard Deviation. The standard deviation of the price differences for comparable items in the category.

Low. The least positive price difference in the category between the discounter and Wal-Mart, i.e., the greatest bargain the discounter has to offer.

High. The greatest positive price difference in the category between the discounter and Wal-Mart, i.e., the biggest overcharge at the discounter (better off shopping at Wal-Mart!).

Median (Median Difference). The middle number in the range of pricing differences for the category measured between the discounter and Wal-Mart. For small samples, a simple average difference can be strongly influenced by outliers, and so the median difference, which avoids this bias, is used as a better measure for the average price discrepancy.

Median Difference as a Percent of Average Item Price. The “median difference” divided by the “average item price” of all goods at the discounter. The average item price averages the prices of comparable items at the discounter across all markets surveyed, repeats for each item (Cheerios, Special K, etc.), and then takes the average of all these averages. By using the average item price instead of the median price, we give equal weighting to each unique item. So, in Target’s “consumables — bath & hygiene” category, a 0.5% number would indicate that Wal-Mart is only 0.5% cheaper than Target in that category.

Total Observations Compared to Wal-Mart. The total number of comparable item prices collected within the category.

Source: Bear, Stearns & Co. Inc.

Exhibit 14. Store-by-Store Price Variance Within Companies

Average Price. The simple average of all the average prices for each item within the category across all the stores within the same discounter.

Standard Deviation of Price in Dollars. The average of the standard deviations for each of the items within the category. The number shows how much the company varies prices of products from store to store.

Average Standard Deviation as a Percent of Price. “Standard deviation of price in dollars” divided by “average price.” This number shows the percent by which the prices vary within the same discounter.

Median Standard Deviation as a Percent of Price. The middle number in the range of “average standard deviation as a percent of price.” This number is more reflective of the percent change in pricing of items across the store base of a given discounter.

Source: Bear, Stearns & Co. Inc.

Descriptions of Stores

Below we highlight select stores that we visited during our pricing survey.

WAL-MART

Dunwoody, Georgia

This Wal-Mart store is located in an affluent suburb several miles outside of Atlanta. Wal-Mart's neighbors in this large development include Cost Plus World Market, Borders, Rhodes Furniture, DSW Shoesource, Petland, and Dollar Tree. Stocking levels for all products were strong and we did not see a single stock-out. A manager we spoke with mentioned the store is always busy and that traffic has been getting stronger for the past few months. Wal-Mart will convert this store to a Supercenter and expand it to more than 200,000 square feet.

Piscataway, New Jersey

This Wal-Mart discount store is located on an industrial boulevard in this small town, 35 miles outside of Manhattan. The store is eight miles from the nearest Target, but less than five miles from a Big Kmart. The Wal-Mart is within a larger development including other big-box retailers such as Old Navy and Lowe's. In addition, a small row of local shops is adjacent to the store. Shelves were crowded with merchandise in all categories, and the outer perimeter-aisle wound crookedly around sections and displays. Products on pallets in the center aisles were stacked so high that it was difficult to see the signage and to navigate the store. In addition, we noticed several stock-outs. Although the store was very busy, there were only five lanes open and lines were seven to eight people deep.

Massapequa, New York

We visited this store in the Sunrise Mall on a Thursday afternoon, and found the small parking lot in front of the Wal-Mart completely full. The setup of the store is very different from the average Wal-Mart store. Although the store is two floors, space is much more limited. Escalators and elevators occupy a very large area in the center of the store. Due to space constraints, displays and aisles were more compressed. In the women's section, four-ways were double stacked, and space was tight between apparel displays. Several Wal-Mart "Good Works" signs were displayed, featuring examples of "Giving," "Helping," and "Doing" in the community. The overall theme of the store seemed to be low prices, and the center aisle and end-cap displays revealed a strong push for summer seasonal products.

Saddle Brook, New Jersey

The Saddle Brook Wal-Mart sits at the back of a deep, but narrow, strip center property. Payless ShoeSource, Modell's Sporting Goods, and a 1 Dollar Zone are among the other retailers in the development. Due to the size of the store and a well-organized layout, we could see the opposite corner of the store from the entrance — a rarity in a Wal-Mart! Although the electronics section was a little messy because of carts and ladders obstructing the aisles, the rest of the store was tidy and well-stocked. The store also had clear, specific signage that was helpful to the shopping

experience. The back-to-school section, which had taken over the cola aisles, was experiencing heavy traffic, and the merchandise was well-stocked.

Horsham, Pennsylvania

This Wal-Mart is located in an older strip mall six miles from the nearest Target, five miles from Kmart, and three miles from the closest Wal-Mart. Other retailers in the development include Pets Plus, Dollar Tree, Eckerd, A. J. Wright, and an Acme Grocer. We visited the store on a Tuesday morning and the parking lot was half full in front of each store. The school supplies featured here were flying off the shelves. The store had average customer traffic, but was bustling with activity from the Wal-Mart employees, who were busy stocking, changing signs, and cleaning.

TARGET STORES

Sandy Springs, Georgia

As far as Targets go, this one was among our least favorite. The store was one of the first in the Atlanta area. Its décor and presentation were not up to par with other Targets and it looked as if it had not been updated in a decade. However, it is in a great location, close to many middle- and upper-class households.

Watchung, New Jersey

This Target was situated in a large big-box development that included Bed, Bath, and Beyond, Home Depot, Kohl's, Old Navy, and TJ Maxx, as well as residential properties and office parks. In the late morning hour, there were lots of cars in the parking lot and plenty of shoppers in the store. The interior was clean and featured a great layout for easy navigation and browsing. The simple, clear signage added to the shop-ability.

Copiague, New York

This Target was in a residential area and shared the property with a Blockbuster, a Home Depot, and a Red Lobster. Overall, it was a very average store. The store did not differentiate itself significantly from the nearby Kmart, except for the bright, clear signage. We noticed that lots of apparel items were on 30%-50% clearance. It was early afternoon, the parking lot was three-quarters full, and the store was enjoying heavy traffic.

Hackensack, New Jersey

This was one of our favorite stores, as it made good use of Target's appealing branding through signage and the red and white Target color scheme. The building was new and the entrance was on the corner of the rectangular store, providing a unique layout. The parking lot was 80% full when we visited in the early afternoon.

Abington, Pennsylvania

This Target is in a large new development outside of Philadelphia that features many smaller retailers and specialty shops. Everything was new and clean, even the parking lot. The interior was typical of a newly constructed Target. It had a

convenient layout and a good selection, and made good use of signage and color scheme.

KMART***Doraville, Georgia***

Going into most Kmart's, one can easily see why the retailer is struggling to compete in the Wal-Mart world. This Kmart epitomized the reputation the retailer has built for run-down stores and disenfranchised employees and customers. The property practically looked vacated; the building was old and poorly maintained inside and out, and weeds were growing all over the parking lot. Inside, there were very few associates or customers.

North Plainfield, New Jersey

This Kmart is on the same road as the Watchung Target three miles away, but has a completely different feel. The property is in an older, less upscale area of town, and the building and lot are in rough shape. Other retailers in the strip center were Pathmark, Payless ShoeSource, Dollar Power, and a liquor store. Although the store was clean and organized, it was small and dated, and we saw several stock-outs.

West Babylon, New York

This store was a step up from other Kmart stores we visited. The exterior was well-maintained and the interior looked renovated. In addition, the property is on a prime strip along with other retailers such as Old Navy and Marshall's, and it shares the property with an OfficeMax. The parking lot was one-third full in the late morning, which was more traffic than we had seen at any of the other locations, by far. The store was large, clean, and spacious, but dull. Kmart displayed signage reading "Kmart Quality — Always."

Elmood Park, New Jersey

This is a two-story Kmart with a gate surrounding the property and shopping carts scattered around the parking lot. The interior surprised us. Associates were vigorously cleaning the store and looked happy, the electronics section featured a nice selection of products, customer traffic was high, and the store was well-stocked. We were also excited to see new clear signage in the store, as well as signage from new marketing campaigns featuring WB TV stars and Thalia Sodi. Even though we saw a Sega Genesis sign in the electronics section (the product hasn't been sold in ten years), we left the store more optimistic about Kmart's prospects.

Feasterville, Pennsylvania

Another surprisingly shop-able Kmart. The limited selection of items was offset by a good layout, active associates, and decent presentation. This store was not remodeled, but appeared well-maintained, and we noticed the new WB and Thalia Sodi marketing displays. The quality of the Kmart stores we visited improved with time over the summer, and we wondered if it was simply coincidence or if Kmart is making more serious attempts to get back in the game with Wal-Mart and Target. Unfortunately, the parking lot and store were empty.

Exhibit 15. Wal-Mart Stores, Inc. — Annual Income Statement, 1992-2006E (\$ in millions, except per share data; fiscal year ends in January of the following year)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004E	2005E	2006E
Revenues:															
Net Sales	\$55,484	\$67,344	\$82,494	\$93,627	\$104,859	\$117,958	\$137,634	\$165,013	\$191,329	\$217,799	\$229,617	\$256,329	\$284,975	\$313,126	\$343,753
Other Income - Net	497	645	914	1,146	1,319	1,341	1,574	1,796	1,966	1,872	1,960	2,352	2,925	3,071	3,133
	\$55,981	\$67,989	\$83,408	\$94,773	\$106,178	\$119,299	\$139,208	\$166,809	\$193,295	\$219,671	\$231,577	\$258,681	\$287,900	\$316,197	\$346,886
<i>Growth Rate (YOY)</i>	26.39%	21.45%	22.68%	13.63%	12.03%	12.36%	16.69%	19.83%	15.88%	13.65%	5.42%	11.70%	11.30%	9.83%	9.71%
Cost of Goods Sold	44,175	53,444	65,586	74,505	83,510	93,438	108,725	129,664	150,255	171,562	178,299	198,747	220,326	241,686	264,797
Margin	78.91%	78.61%	78.63%	78.61%	78.65%	78.32%	78.10%	77.73%	77.73%	78.10%	76.99%	76.83%	76.53%	76.44%	76.34%
Gross Profit	11,806	14,545	17,822	20,268	22,668	25,861	30,483	37,145	43,040	48,109	53,278	59,934	67,574	74,511	82,090
Margin	21.09%	21.39%	21.37%	21.39%	21.35%	21.68%	21.90%	22.27%	22.27%	21.90%	23.01%	23.17%	23.47%	23.56%	23.66%
SG&A Expense	7,672	9,484	11,788	13,717	15,483	17,724	20,491	24,665	28,682	32,882	36,621	41,055	46,196	50,591	55,328
Margin	13.70%	13.95%	14.13%	14.47%	14.58%	14.86%	14.72%	14.79%	14.84%	14.97%	15.81%	15.87%	16.05%	16.00%	15.95%
EBITDA	4,134	5,061	6,034	6,551	7,185	8,137	9,992	12,480	14,358	15,227	16,657	18,879	21,378	23,920	26,762
Margin	7.38%	7.44%	7.23%	6.91%	6.77%	6.82%	7.18%	7.48%	7.43%	6.93%	7.19%	7.30%	7.43%	7.56%	7.71%
Depreciation and Amortization	649	849	1,070	1,304	1,463	1,634	1,872	2,375	2,868	3,290	3,362	3,852	4,338	4,750	5,130
Margin	1.16%	1.25%	1.28%	1.38%	1.38%	1.37%	1.34%	1.42%	1.48%	1.50%	1.45%	1.49%	1.51%	1.50%	1.48%
Operating Income (EBIT)	3,485	4,212	4,964	5,247	5,722	6,503	8,120	10,105	11,490	11,937	13,295	15,027	17,040	19,170	21,632
Margin	6.23%	6.20%	5.95%	5.54%	5.39%	5.45%	5.83%	6.06%	5.94%	5.43%	5.74%	5.81%	5.92%	6.06%	6.24%
Interest Expense:															
Debt	143	331	520	692	629	555	529	756	1,095.4	912	668	564	635	660	660
Capital Leases	180	186	186	196	216	229	268	265.52	278.6	274	259	270	272	328	328
Net Interest Expense	\$323	\$517	\$706	\$888	\$845	\$784	\$797	\$1,022	\$1,374	\$1,186	\$927	\$834	\$907	\$988	\$988
Income before Taxes, Minority Interest, and Cumulative Effect of Accounting Change, Net of Tax	3,162	3,695	4,258	4,359	4,877	5,719	7,323	9,083	10,116	10,751	12,368	14,193	16,133	18,182	20,644
Provision for Income Taxes	1,171	1,358	1,581	1,606	1,794	2,115	2,740	3,338	3,692	3,897	4,357	5,117	5,647	6,364	7,225
<i>Effective Tax Rate</i>	37.03%	36.75%	37.13%	36.84%	36.78%	36.98%	37.42%	36.75%	36.50%	36.25%	35.23%	36.05%	35.00%	35.00%	35.00%
Income Before Minority Interest	1,991	2,337	2,677	2,753	3,083	3,604	4,583	5,745	6,424	6,854	8,011	9,076	10,486	11,818	13,419
Minority Interest	(4)	4	(4)	13	27	78	153	170	129	183	193	213	228	240	240
Income Before Discontinued Operations	1,995	2,333	2,681	2,740	3,056	3,526	4,430	5,575	6,295	6,671	7,818	8,863	10,258	11,578	13,179
Income from Discontinued Operations	0	0	0	0	0	0	0	198	0	0	137	192	0	0	0
Net Income Before Extraordinary Items	1,995	2,333	2,681	2,740	3,056	3,526	4,430	5,377	6,295	6,671	7,955	9,055	10,258	11,578	13,179
Extraordinary Items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	1,995	2,333	2,681	2,740	3,056	3,526	4,430	5,377	6,295	6,671	7,955	9,055	10,258	11,578	13,179
Shares Outstanding - Diluted	4,580	4,598	4,580	4,598	4,592	4,533	4,485	4,474	4,484	4,481	4,446	4,373	4,280	4,248	4,250
EPS-Diluted, Before Discontinued Operations	\$0.44	\$0.51	\$0.59	\$0.60	\$0.67	\$0.78	\$0.99	\$1.25	\$1.40	\$1.49	\$1.76	\$2.03	\$2.40	\$2.73	\$3.10
Discontinued Operations	0	0	0	0	0	0	0	(\$0.04)	0	0	0	0	0	0	0
EPS-Diluted	\$0.44	\$0.51	\$0.59	\$0.60	\$0.67	\$0.78	\$0.99	\$1.20	\$1.40	\$1.49	\$1.79	\$2.07	\$2.40	\$2.73	\$3.10
Comp-Store Sales (% Change)	11.0%	6.0%	7.0%	4.0%	5.0%	6.0%	9.0%	8.0%	5.0%	5.8%	5.1%	4.1%	4.2%	4.0%	4.0%
Square Footage Growth (% Change)	20.4%	23.8%	19.3%	10.8%	10.5%	6.4%	8.8%	12.2%	7.9%	10.4%	8.7%	8.1%	7.4%	7.7%	7.6%
As a % of Revenues (Margin)															
Cost of Goods Sold	78.91%	78.61%	78.63%	78.61%	78.65%	78.32%	78.10%	77.73%	77.73%	78.10%	77.82%	76.83%	76.53%	76.44%	76.34%
Gross Margin	21.09%	21.39%	21.37%	21.39%	21.35%	21.68%	21.90%	22.27%	22.27%	21.90%	22.18%	23.17%	23.47%	23.56%	23.66%
Change in Basis Points	(37)	30	(3)	2	(4)	33	22	37	(0)	(37)	28	99	30	9	10
SG&A Expense (Excludes D&A)	13.70%	13.95%	14.13%	14.47%	14.58%	14.86%	14.72%	14.79%	14.84%	14.97%	15.27%	15.87%	16.05%	16.00%	15.95%
Change in Basis Points	(31)	24	18	34	11	27	(14)	7	5	13	30	61	17	(5)	(5)
EBITDA Margin	7.38%	7.44%	7.23%	6.91%	6.77%	6.82%	7.18%	7.48%	7.43%	6.93%	6.92%	7.30%	7.43%	7.56%	7.71%
Change in Basis Points	(6)	6	(21)	(32)	(15)	5	36	30	(5)	(50)	(1)	38	13	14	15
Depreciation and Amortization	1.16%	1.25%	1.28%	1.38%	1.38%	1.37%	1.34%	1.42%	1.48%	1.50%	1.38%	1.49%	1.51%	1.50%	1.48%
Total SG&A	14.86%	15.20%	15.42%	15.85%	15.96%	16.23%	16.06%	16.21%	16.32%	16.47%	16.65%	17.36%	17.55%	17.50%	17.43%
Change in Basis Points	(23)	33	22	43	11	27	(16)	15	11	14	18	71	19	(5)	(7)
Operating Margin (EBIT)	6.23%	6.20%	5.95%	5.54%	5.39%	5.45%	5.83%	6.06%	5.94%	5.43%	5.53%	5.81%	5.92%	6.06%	6.24%
Change in Basis Points	(14)	(3)	(24)	(42)	(15)	6	38	22	(11)	(51)	10	27	11	14	17
Interest Expense	0.58%	0.76%	0.85%	0.94%	0.80%	0.68%	0.57%	0.61%	0.71%	0.54%	0.37%	0.32%	0.32%	0.31%	0.28%
Pretax Income	5.65%	5.43%	5.11%	4.60%	4.59%	4.79%	5.26%	5.45%	5.23%	4.89%	5.16%	5.49%	5.60%	5.75%	5.95%
Net Margin	3.56%	3.43%	3.21%	2.89%	2.88%	2.96%	3.18%	3.22%	3.26%	3.04%	3.26%	3.50%	3.56%	3.66%	3.80%
Tax Rate	37.03%	36.75%	37.13%	36.84%	36.78%	36.98%	37.42%	36.75%	36.50%	36.25%	35.27%	36.05%	35.00%	35.00%	35.00%
Growth Rates (YOY)															
Net Sales	26.42%	21.38%	22.50%	13.50%	12.00%	12.49%	16.68%	19.89%	15.95%	13.84%	5.43%	11.63%	11.18%	9.88%	9.78%
Total Revenue	26.39%	21.45%	22.68%	13.63%	12.03%	12.36%	16.69%	19.83%	15.88%	13.65%	12.22%	11.70%	11.30%	9.83%	9.71%
Gross Profit	24.21%	23.20%	22.53%	13.72%	11.84%	14.03%	17.87%	21.85%	15.87%	11.78%	13.67%	12.49%	12.75%	10.27%	10.17%
SG&A Expense	23.57%	23.62%	24.29%	16.36%	12.87%	14.47%	15.61%	20.37%	16.28%	14.64%	14.45%	12.11%	12.52%	9.51%	9.36%
EBITDA	25.41%	22.42%	19.23%	8.57%	9.68%	13.25%	22.80%	24.90%	15.05%	6.06%	12.00%	13.34%	13.24%	11.89%	11.88%
Depreciation and Amortization	36.53%	30.82%	26.03%	21.87%	12.19%	11.69%	14.57%	26.87%	20.76%	14.71%	3.65%	14.57%	12.62%	9.50%	8.00%
Operating Income (EBIT)	23.54%	20.86%	17.85%	5.70%	9.05%	13.65%	24.87%	24.44%	13.71%	3.89%	14.30%	13.03%	13.40%	12.50%	12.84%
Interest Expense	21.43%	60.06%	36.56%	25.78%	-4.84%	-7.22%	1.66%	28.17%	34.51%	-13.68%	-22.09%	-10.03%	8.75%	8.93%	0.00%
Pretax Income	23.76%	16.86%	15.24%	2.37%	11.88%	17.26%	28.05%	24.03%	11.37%	6.28%	18.32%	14.76%	13.67%	12.70%	13.54%
Net Income	23.99%	16.94%	14.92%	2.20%	11.53%	15.38%	25.64%	21.39%	17.06%	5.98%	19.24%	13.83%	13.29%	12.87%	13.82%
Earnings per Share - Diluted	24.42%	16.48%	15.37%	1.80%	11.68%	16.88%	26.98%	21.69%	16.80%	6.05%	21.48%	15.73%	15.76%	13.72%	13.75%

Source: Company reports; Bear, Stearns & Co. Inc. estimates.

Exhibit 16. Wal-Mart Stores, Inc. — Quarterly Income Statement, 2002-2005E (\$ in millions, except per share data; fiscal year ends in January of the following year)

	1Q02	2Q02	3Q02	4Q02	2002	1Q03	2Q03	3Q03	4Q03	2003	1Q04	2Q04	3Q04E	4Q04E	2004E	1Q05E	2Q05E	3Q05E	4Q05E	2005E		
Revenues:																						
Net Sales	\$51,705	\$56,271	\$55,241	\$66,400	\$229,617	\$56,718	\$62,637	\$62,490	\$74,494	\$256,329	\$64,763	\$69,722	\$68,617	\$81,873	\$284,975	\$70,968	\$76,690	\$75,376	\$90,092	\$313,126		
Other Income - Net	421	510	524	505	1,960	506	595	555	696	2,352	680	744	666	835	2,925	714	781	699	877.0	3,071		
Growth Rate (YOY)	52.12%	56.78%	55.76%	66.90%	55.76%	66.90%	231.57%	57.224	63.232	63.035	75.190	258.681	65.443	70.466	69.283	82.708	287.900	71.682	77.471	76.076	90.969	316.197
Cost of Goods Sold	40,136	43,516	42,646	52,001	178,299	43,918	48,298	48,292	58,239	198,747	49,969	53,533	52,933	63,892	220,326	54,657	58,801	58,046	70,182	241,686		
Margin	77.00%	76.64%	76.47%	77.72%	76.95%	76.75%	76.38%	76.61%	77.46%	76.83%	76.35%	75.97%	76.40%	77.25%	76.53%	76.25%	75.90%	76.30%	77.15%	76.44%		
Gross Profit	11,990	13,265	13,119	14,904	53,278	13,306	14,934	14,743	16,951	59,934	15,474	16,933	16,351	18,161	67,574	17,024	18,671	18,030	20,786	74,511		
SG&A Expense	8,427	9,119	9,239	9,836	36,621	9,328	10,188	10,373	11,166	41,055	10,832	11,498	11,501	12,365	46,196	11,863	12,667	12,552	13,509	50,591		
Margin	16.17%	16.06%	16.57%	14.70%	15.81%	16.30%	16.11%	16.45%	14.85%	15.87%	16.55%	16.32%	16.60%	14.95%	16.05%	16.55%	16.35%	16.50%	14.85%	16.00%		
EBITDA	3,563	4,146	3,880	5,068	16,657	3,978	4,746	4,476	4,370	5,785	18,879	4,642	5,435	4,850	6,451	21,378	5,161	6,004	5,477	7,277	23,920	
Margin	6.84%	7.30%	6.96%	7.57%	7.19%	6.95%	6.93%	6.93%	7.69%	7.30%	7.09%	7.71%	7.00%	7.80%	7.43%	7.20%	7.75%	7.20%	8.00%	7.56%		
Depreciation and Amortization	774	795	832	961	3,362	888	954	971	1,039	3,852	1,037	1,031	1,100	1,170	4,338	1,100	1,130	1,200	1,300	4,750		
Margin	1.48%	1.40%	1.49%	1.44%	1.45%	1.55%	1.51%	1.54%	1.38%	1.49%	1.58%	1.46%	1.59%	1.41%	1.51%	1.53%	1.46%	1.60%	1.43%	1.50%		
Operating Income (EBIT)	\$2,789	\$3,351	\$3,048	\$4,107	\$13,295	\$3,090	\$3,792	\$3,399	\$4,746	\$15,027	\$3,605	\$4,404	\$3,750	\$5,281	\$17,040	\$4,061	\$4,874	\$4,257	\$5,977	\$19,170		
Margin	5.35%	5.90%	5.47%	6.14%	5.74%	5.40%	6.00%	5.39%	6.31%	5.81%	5.51%	6.25%	5.41%	6.39%	5.92%	5.67%	6.29%	5.60%	6.57%	6.06%		
Interest Expense:																						
Debt	\$187	\$161	\$169	\$151	\$668	\$137	\$149	\$142	\$136	\$564	\$143	\$172	\$160	\$160	\$635	\$165	\$165	\$165	\$165	\$660		
Capital Leases	65	63	61	70	259	75	66	64	65	270	65	67	70	70	272	82	82	82	82	328		
Net Interest Expense	252	224	230	221	927	212	215	206	201	834	208	239	230	230	907	247	247	247	247	988		
Income Before Taxes, Minority Interest, and Cumulative Effect of Accounting Change, Net of Tax	\$2,537	\$3,127	\$2,818	\$3,886	\$12,368	\$2,878	\$3,577	\$3,193	\$4,545	\$14,193	\$3,397	\$4,165	\$3,520	\$5,051	\$16,133	\$3,814	\$4,627	\$4,010	\$5,730	\$18,182		
Provision for Income Taxes	900	1,092	995	1,370	4,357	1,006	1,253	1,117	1,741	5,117	1,189	1,458	1,232	1,768	5,647	1,335	1,619	1,404	2,006	6,364		
Effective Tax Rate	35.47%	34.92%	35.31%	35.25%	35.23%	34.95%	35.03%	34.98%	38.31%	36.05%	35.00%	35.01%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%		
Income Before Minority Interest	1,637	2,035	1,823	2,516	8,011	1,872	2,324	2,076	2,804	9,076	2,208	2,707	2,288	3,283	10,486	2,479	3,008	2,607	3,725	11,818		
Minority Interest	41	45	43	64	193	42	41	48	82	213	42	56	50	80	228	50	50	50	90	240		
Income Before Discontinued Operations	1,596	1,990	1,780	2,452	7,818	1,830	2,283	2,028	2,722	8,863	2,166	2,651	2,238	3,203	10,258	2,429	2,958	2,557	3,635	11,578		
Income from Discontinued Operations	35	29	17	56	137	31	161	0	192	0	0	0	0	0	0	0	0	0	0	0		
Net Income Before Extraordinary Items	1,631	2,019	1,797	2,508	7,955	1,861	2,444	2,028	2,722	9,055	2,166	2,651	2,238	3,203	10,258	2,429	2,958	2,557	3,635	11,578		
Extraordinary Items	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0		
Net Income	\$1,631	\$2,019	\$1,797	\$2,508	\$7,955	\$1,861	\$2,444	\$2,028	\$2,722	\$9,055	\$2,166	\$2,651	\$2,238	\$3,203	\$10,258	\$2,429	\$2,958	\$2,557	\$3,635	\$11,578		
Shares Outstanding - Diluted	4,468	4,452	4,434	4,425	4,446	4,395	4,388	4,372	4,334	4,373	4,302	4,272	4,272	4,272	4,280	4,250	4,250	4,250	4,240	4,248		
EPS-Diluted, Before Discontinued Operations	\$0.36	\$0.45	\$0.40	\$0.56	\$1.76	\$0.41	\$0.52	\$0.46	\$0.63	\$2.03	\$0.50	\$0.62	\$0.52	\$0.75	\$2.40	\$0.57	\$0.70	\$0.60	\$0.86	\$2.73		
Discontinued Operations	\$0.01	\$0.01	\$0.00	\$0.01	\$0.03	\$0.01	\$0.04	\$0.00	\$0.00	\$0.04	0	0	0	0	0	0	0	0	0	0		
EPS-Diluted	\$0.37	\$0.45	\$0.41	\$0.57	\$1.79	\$0.42	\$0.56	\$0.46	\$0.63	\$2.07	\$0.50	\$0.62	\$0.52	\$0.75	\$2.40	\$0.57	\$0.70	\$0.60	\$0.86	\$2.73		
EPS-Post-Stock Option Expense					\$1.77				\$2.04					\$2.37					\$2.70			
COMPS	8.1%	6.4%	3.5%	2.7%	5.1%	2.2%	3.2%	6.1%	4.8%	4.1%	6.4%	4.1%	2.6%	3.8%	4.2%	4.0%	4.0%	4.0%	4.0%	4.0%		
Wal-Mart Division	8.6%	7.1%	4.2%	3.3%	5.7%	2.1%	3.1%	5.7%	4.4%	3.9%	5.9%	3.2%	2.5%	4.0%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%		
Sam's Club	5.7%	3.4%	0.4%	-0.4%	2.3%	2.2%	3.6%	8.0%	6.7%	5.3%	8.8%	8.8%	3.0%	5.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%		
As a % of Sales (margin)																						
Cost of Goods Sold	77.62%	77.33%	77.20%	78.31%	78.45%	77.43%	77.29%	77.29%	78.18%	77.54%	77.16%	76.78%	77.14%	78.04%	77.31%	77.02%	76.67%	77.01%	77.90%	77.18%		
Gross Margin	22.38%	22.67%	22.80%	21.69%	21.55%	22.57%	22.89%	22.71%	21.82%	22.46%	23.82%	23.22%	22.86%	21.96%	22.69%	22.98%	23.33%	22.99%	22.10%	22.82%		
Change in Bps	114	110	128	97	32	19	23	(9)	14	92	28	33	15	14	22	14	11	13	14	13		
Operating Expenses	17.80%	17.62%	18.23%	16.26%	16.78%	18.01%	17.79%	18.16%	16.38%	17.52%	18.33%	17.97%	18.36%	16.53%	17.73%	18.27%	17.99%	18.27%	16.44%	17.67%		
Change in Bps	85	78	95	65	18	22	17	(7)	12	73	31	18	21	15	21	(6)	2	(9)	(6)	(6)		
EBIT Margin	5.39%	5.96%	5.52%	6.19%	5.58%	5.45%	6.05%	5.44%	6.37%	5.86%	5.57%	6.32%	5.46%	6.45%	5.98%	5.72%	6.36%	5.65%	6.63%	6.12%		
Change in Bps	14	41	43	27	10	5	10	(8)	19	28	12	26	2	8	12	16	4	18	18	14		
As a % of Revenues (Margin)																						
Cost of Goods Sold	77.00%	76.64%	76.47%	77.72%	77.82%	76.75%	76.38%	76.61%	77.46%	76.83%	76.35%	75.97%	76.40%	77.25%	76.53%	76.25%	75.90%	76.30%	77.15%	76.44%		
Gross Margin	23.00%	23.36%	23.53%	22.28%	22.18%	23.25%	23.62%	23.39%	22.54%	23.17%	23.65%	24.03%	23.60%	22.75%	23.47%	23.75%	24.10%	23.70%	22.85%	23.56%		
Change in Bps	102	115	134	92	28	25	26	(14)	27	99	39	41	21	21	10	7	10	10	9	9		
SG&A Expense (Excludes D&A)	16.17%	16.06%	16.57%	14.70%	16.11%	16.30%	16.11%	16.46%	14.85%	15.87%	16.56%	16.32%	16.60%	14.95%	16.05%	16.55%	16.35%	16.50%	14.85%	16.00%		
Change in Bps	93	73	95	76	30	13	5	(11)	15	61	25	20	14	10	17	(0)	3	(10)	(10)	(5)		
EBITDA Margin	6.84%	7.30%	6.96%	7.57%	6.92%	6.95%	7.51%	6.93%	7.69%	7.30%	7.09%	7.71%	7.00%	7.80%	7.43%	7.20%	7.75%	7.20%	8.00%	7.56%		
Depreciation and Amortization	1.48%	1.40%	1.49%	1.44%	1.38%	1.55%	1.51%	1.54%	1.38%	1.49%	1.58%	1.46%	1.59%	1.41%	1.51%	1.53%	1.46%	1.60%	1.43%	1.50%		
Total SG&A	17.65%	17.46%	18.06%	16.65%	17.85%	18.00%	16.23%	17.36%	18.14%	17.78%	18.19%	16.36%	17.55%	18.08%	17.81%	18.10%	18.10%	16.28%	17.50%			
Change in Bps	87	75	93	65	18	20	16	(6)	9	71	28	16	19	13	19	(5)	3	(8)	(9)	(5)		
Operating Margin (EBIT)	5.35%	5.90%	5.47%	6.14%	5.53%	5.40%	6.00%	5.39%	6.31%	5.81%	5.51%	6.25%	5.41%	6.39%	5.92%	5.67%	6.29%	5.60%	6.57%	6.06%		
Change in Bps	15	40	42	27	10	5	10	(7)	17	27	11	25	2	7	11	16	4	18	19	14		
Interest Expense	0.48%	0.39%	0.41%	0.33%	0.37%	0.34%	0.33%	0.32%	0.27%	0.32%	0.34%	0.33%	0.28%	0.32%	0.34%	0.32%	0.34%	0.32%	0.27%	0.31%		
Pretax Income	4.87%	5.51%	5.05%	5.81%	5.16%	5.03%	5.66%	5.07%	6.04%	5.49%	5.19%	5.91%	5.08%	6.11%	5.60%	5.32%	5.97%	5.27%	6.30%	5.75%		
Net Margin	3.13%	3.56%	3.22%	3.26%	3.87%	3.20%	3.87%	3.23%	3.76%	3.31%	3.23%	3.76%	3.23%	3.87%	3.56%	3.39%	3.82%	3.60%	4.00%	3.66%		
Tax Rate	35.47%	34.92%	35.31%	35.25%	35.27%	34.95%	35.03%	34.98%	38.31%	36.05%	35.00%	35.01%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%		
Growth Rates (YOY)																						
Net Sales	7.60%	6.58%	4.75%	3.41%	12.27%	9.70%	11.31%	13.10%	12.19%	11.63%	14.18%	11.31%	9.82%	9.90%	11.18%							

Exhibit 17. Wal-Mart Stores, Inc. — Annual Balance Sheet, 1997-2004E (\$ in millions; fiscal year ends in January of the following year)

	4Q97	4Q98	4Q99	4Q00	4Q01	4Q02	4Q03	4Q04E
ASSETS								
Cash and cash equivalents	\$1,447	\$1,879	\$1,856	\$2,054	\$2,161	\$2,736	\$5,199	\$1,977
Receivables	976	1,118	1,341	1,768	2,000	1,569	1,254	1,379
Inventories	16,497	17,076	19,793	21,442	22,614	24,401	26,612	28,585
Prepaid expenses and other	432	1,059	1,366	1,291	1,471	837	1,176	1,176
Assets of discontinued operations						1,179	0	0
Total current assets	19,352	21,132	24,356	26,555	28,246	30,722	34,241	33,117
Net property, plant and equipment	21,469	23,674	32,839	37,617	42,556	48,170	55,201	62,863
Net property under capital lease	2,137	2,299	3,130	3,317	3,194	3,204	3,329	3,329
Goodwill and other acquired intangible assets	0	0	9,392	9,059	8,595	9,389	9,882	10,197
Other assets and deferred charges	2,426	2,891	632	1,582	860	2,594	2,259	2,259
Other assets of discontinued operations	0	0	0	0	0	729	0	0
Total assets	\$45,384	\$49,996	\$70,349	\$78,130	\$83,451	\$94,808	\$104,912	\$111,765
LIABILITIES & SHAREHOLDERS' EQUITY								
Commercial paper	\$0	\$0	\$3,323	\$2,286	\$743	\$1,079	\$3,267	\$3,500
Accounts payable	9,126	10,257	13,105	15,092	15,617	16,829	19,332	20,867
Accrued liabilities	3,628	4,998	6,161	6,355	7,174	8,857	10,342	11,000
Accrued income taxes	565	501	1,129	841	1,343	748	1,377	1,377
Current portion of long-term debt	1,039	900	1,964	4,234	2,257	4,536	2,904	2,813
Current portion of obligations under capital lease	102	106	121	141	148	176	196	196
Other current liabilities	0	0	0	0	0	0	0	0
Liabilities of discontinued operations	0	0	0	0	0	294	0	0
Total current liabilities	14,460	16,762	25,803	28,949	27,282	32,519	37,418	39,753
Long-term debt	7,191	6,908	13,672	12,501	15,687	16,819	17,458	17,645
Long-term obligations under capital leases	2,483	2,699	3,002	3,154	3,045	3,000	2,997	2,801
Deferred income taxes and other	809	716	759	1,043	1,128	1,637	1,932	1,932
Liabilities of discontinued operations	0	0	0	0	0	10	0	0
Minority interest	1,938	1,799	1,279	1,140	1,207	1,362	1,484	1,484
Total liabilities	26,881	28,884	44,515	46,787	48,349	55,347	61,289	63,615
Common stock and capital in excess of par value	809	880	1,160	1,858	1,929	2,394	2,566	2,566
Retained earnings	18,167	20,741	25,129	30,169	34,441	37,576	40,206	44,733
Other accumulated comprehensive income	(473)	(509)	(455)	(684)	(1,268)	(509)	851	851
Total shareholders' equity	18,503	21,112	25,834	31,343	35,102	39,461	43,623	48,150
Total liabilities & shareholders' equity	\$45,384	\$49,996	\$70,349	\$78,130	\$83,451	\$94,808	\$104,912	\$111,765

Source: Company reports; Bear, Stearns & Co. Inc. estimates.

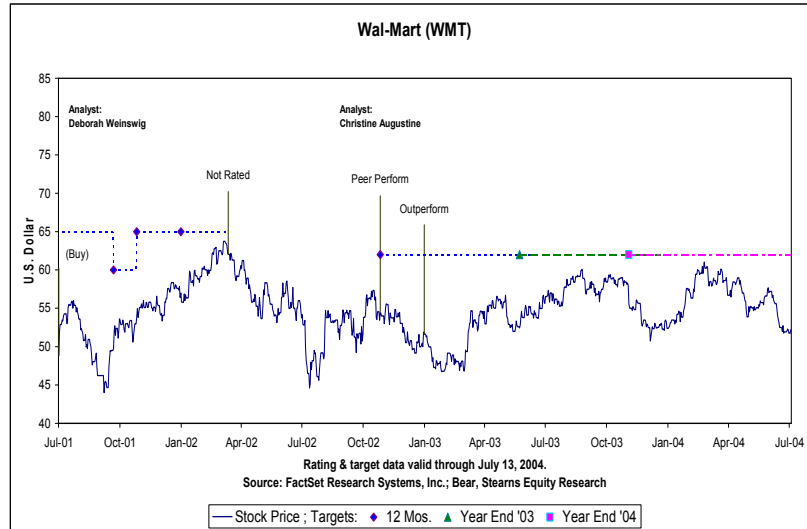
Exhibit 18. Wal-Mart Stores, Inc. — Annual Cash Flow Statement, 1997-2004E
(\$ in millions; fiscal year ends in January of the following year)

	1997	1998	1999	2000	2001	2002	2003	2004E
Cash flows from operating activities:								
Net income	\$3,526	\$4,430	\$5,377	\$6,295	\$6,671	\$7,818	\$8,861	\$10,258
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation and amortization	1,634	1,872	2,375	2,868	3,290	3,364	3,852	4,338
Cumulative effect of accounting change, net of tax	0	0	198	0	0	0	0	0
(Increase)/decrease in accounts receivable	(78)	(148)	(255)	(422)	(210)	(159)	373	(125)
Increase in inventories	(365)	(379)	(2,088)	(1,795)	(1,235)	(2,219)	(1,973)	(1,973)
Increase in accounts payable	1,048	1,108	1,849	2,061	368	1,697	2,803	1,535
Increase/(decrease) in accrued liabilities	1,329	1,259	1,015	11	1,125	1,218	1,800	658
Deferred income taxes	20	(640)	(138)	342	185	0	0	0
Noncash items and other	9	78	(139)	244	66	1,053	375	0
Net cash provided by operating activities	7,123	7,580	8,194	9,604	10,259	12,772	16,091	14,691
Net cash provided by discontinued operations						82	50	
Net cash provided by operating activities						12,854	16,141	
Cash flows from investing activities:								
Net capital additions	(2,636)	(3,734)	(6,183)	(8,042)	(8,383)	(9,245)	(10,308)	(12,000)
Investment in International	0	0	(10,419)	(627)	0	(749)	(38)	(315)
Acquisitions	(1,865)	(855)	0	0	0	0	0	0
Other investing activities	80	171	(244)	(45)	1,237	238	2,059	0
Net cash provided by investing activities	(4,421)	(4,418)	(16,846)	(8,714)	(7,146)	(9,756)	(8,287)	(12,315)
Net cash provided by discontinued operations						(83)	(25)	
Net cash provided by investing activities						(9,839)	(8,312)	
Cash flows from financing activities								
Increase/decrease in commercial paper	0	0	4,316	(2,022)	(1,533)	1,836	688	233
Proceeds from issuance of long-term debt	547	536	6,000	3,778	4,591	2,044	4,099	3,000
Dividends paid	(611)	(693)	(890)	(1,070)	(1,249)	(1,328)	(1,569)	(2,223)
Payment of long-term debt	(554)	(1,075)	(863)	(1,519)	(3,519)	(1,261)	(3,541)	(2,904)
Purchase of company stock	(1,569)	(1,202)	(101)	(193)	(1,214)	(3,232)	(5,182)	(3,508)
Proceeds from issuance of company stock	0	0	0	581	0	0	0	0
Payment of capital lease obligations	(94)	(101)	(133)	(173)	(167)	0	0	(196)
Other financing activities	143	(195)	224	176	113	(278)	(203)	0
Net cash used in financing activities	(2,138)	(2,730)	8,553	(442)	(2,978)	(2,219)	(5,708)	(5,598)
Effect of exchange rate changes on cash	0	0	76	(250)	(29)	(199)	320	0
Net change in cash and equivalents	\$564	\$432	(\$23)	\$198	\$106	\$597	\$2,441	(\$3,222)
Cash and cash equivalents at beginning of period	883	1,447	1,879	1,856	2,054	2,161	2,758	5,199
Cash and cash equivalents at end of period	1,447	1,879	1,856	2,054	2,160	2,758	5,199	1,977

Source: Company reports; Bear, Stearns & Co. Inc. estimates.

Addendum

Important Disclosures



BSC Recommendation History since July 11, 2001 for:

Wal-Mart (WMT) - U.S. Dollar

Date	Stock Price	Rating	Target
**Analyst: Deborah Weinswig			
01-Oct-01	49.50	BUY	60.00
05-Nov-01	52.97	BUY	65.00
10-Jan-02	56.40	BUY	65.00
22-Mar-02	62.20	NOT RATED	--
**Analyst: Christine Augustine			
05-Nov-02	53.45	PEER PERFORM	62.00
10-Jan-03	51.92	OUTPERFORM	62.00
02-Jun-03	52.61	OUTPERFORM	62.00
13-Nov-03	57.96	OUTPERFORM	62.00
20-Feb-04	59.43	OUTPERFORM	65.00

Addendum

Important Disclosures

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Ratings for Stocks (vs. analyst coverage)

Outperform (O) — Stock is projected to outperform analyst's industry coverage universe over the next 12 months.

Peer Perform (P) — Stock is projected to perform approximately in line with analyst's industry coverage universe over the next 12 months.

Underperform (U) — Stock is projected to underperform analyst's industry coverage universe over the next 12 months.

Ratings for Sectors (vs. regional broader market index)

Market Overweight (MO) — Expect the industry to perform better than the primary market index for the region over the next 12 months.

Market Weight (MW) — Expect the industry to perform approximately in line with the primary market index for the region over the next 12 months.

Market Underweight (MU) — Expect the industry to underperform the primary market index for the region over the next 12 months.

Bear, Stearns & Co. ratings distribution as of June 30, 2004

(% rated companies/% banking client in the last 12 months):

Outperform (Buy): 40.1%/20.2%

Peer Perform (Neutral): 46.5%/12.1%

Underperform (Sell): 13.4%/6.7%

For individual coverage industry data, please contact your account executive or visit www.bearstearns.com.

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Christine K. Augustine, Dana L. Telsey

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