Wal-Mart Stores, Inc. WMT [NYSE] | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
52.65 USD	60.00 USD	48.00 USD	75.00 USD	Low	Wide	B	AA	Discount Stores

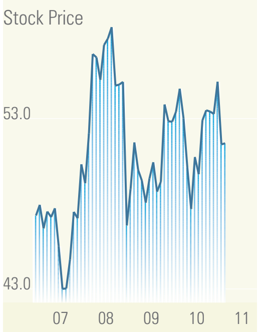
Wal-Mart U.S. 4Q Sales Soft but Issues Correctable, International Still Strong; Shares Undervalued

by R.J. Hottovy, CFA
Director
Analysts covering this company do not own its stock.

Pricing data through April 04, 2011.
Rating updated as of April 04, 2011.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Stock Price



Analyst Note Feb. 22, 2011

Fourth-quarter sales for Wal-Mart U.S. failed to live up to management's and our earlier expectations, but the company still delivered positive earnings growth through continued top-line momentum in international markets as well as cost controls and other chainwide efficiencies. Despite the soft U.S. sales, our long-term assumptions remain largely intact, and there is no change to our fair value estimate. We find Wal-Mart's current share price attractive at about 12 times our preliminary forward fiscal-year earnings per share forecast, an enterprise value/EBITDA of just over 6 times, and a free cash flow yield of 5.5%.

Efforts to correct certain pricing and merchandising issues in the United States may take longer than we initially forecast, and competition from dollar store chains remains fierce, but we're confident that management's four-point plan to improve the performance of existing stores will eventually result in a reversal of negative U.S. same-store-sales trends (which have declined for seven consecutive quarters, including a 1.8% drop during the fourth quarter). Each aspect of management's plan--including everyday low price leadership, broader assortments, additional store-remodeling activity, and increased multichannel options--strikes us as achievable goals to reconnect with U.S. consumers, especially considering Wal-Mart's tremendous size and scale advantages. We'd also add smaller, urban store formats to the list of potential sales drivers over the medium term. Over a longer horizon, we believe inflationary sales growth rates in the U.S. are attainable, and we disagree with market assumptions suggesting that negative sales trends will continue into perpetuity.

We continue to believe Wal-Mart could be one of the more significant international growth stories in retailing today, evidenced by 9% growth during the quarter and strong contributions from growth markets such as Brazil, China, and Mexico. We expect this segment to average almost 10% revenue growth annually, given Wal-Mart's footholds in several rapidly developing economies.

At first glance, management's 2011 guidance--including square footage growth of 3%-4% and earnings per share of $4.35-$4.50 (representing 7%-11% growth year over year, excluding one-time items)--looks reasonable. We plan to adjust our model for modestly lower near-term sales expectations in the U.S., but also lower capital expenditures than we had anticipated ($13.5 billion-$14.5 billion versus earlier forecasts around $16 billion). These changes will effectively cancel each other out, leaving our fair value estimate intact.

Thesis Oct. 12, 2010

Wal-Mart Stores, with its $400 billion-plus in annual revenue, dominates the U.S. retail landscape and is growing quickly internationally. Unmatched scale relative to most vendors leads to favorable terms on everything from the products on its shelves to store leases and distribution agreements. These competitive advantages generate positive economic returns and a wide economic moat, a rarity in retail. While Wal-Mart has benefited more than most peers from consumers trading down, we see continued opportunity as the economic recovery is poised to be mild, in our opinion, and international growth remains in its early stages.

Wal-Mart U.S. (63% of revenue) is maturing but well entrenched. At about 10% and 20% of total retail and grocery sales in the United States, respectively, according to figures from the U.S. Census Bureau, Wal-Mart U.S. is an integral part of consumers' budgets. Given income pressures (weak wage growth and high unemployment), we expect this favorable position to persist. Wal-Mart primarily serves less-affluent consumers, but the recession has put more people in that bucket, and many are drawn to this firm's low-cost leadership.

In general, management flexes its bargaining muscle not to increase profitability, but to lower prices. This strategy

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Close Competitors	Currency(Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Wal-Mart Stores, Inc.	USD	183,812	421,849	25,542	16,389
Target Corporation	USD	34,695	67,390	5,252	2,920
Costco Wholesale Corporation	USD	32,402	82,019	2,300	1,398
Safeway Inc.	USD	8,627	41,050	1,159	590

Morningstar data as of April 04, 2011.

ensures a steady, recurring stream of customers for its goods, making Wal-Mart synonymous with inexpensive and keeping constant pressure on competitors. Sam's Club (12% of revenue) has a similar reputation but on a per-unit basis, as most of its goods are sold in bulk. In addition, these retailers are known for their wide variety, allowing management to quickly shift the product mix to meet demand. For example, by changing floor space allocation, both of these retailers can benefit from low-income consumers' growing preference for consumable staples instead of discretionary items.

There's less uncertainty surrounding Wal-Mart's valuation than most firms', but we're watching a few issues closely. Foremost is Wal-Mart's huge employee base of just over 2 million, which leaves the firm susceptible to wage and health-care cost trends, discrimination lawsuits, and unionization, which could exacerbate these concerns. Wal-Mart has done a good job handling these issues in the past and we expect wage growth to be weak for several years, but with that many employees, the risks can be difficult to predict.

International expansion also presents uncertainty. Shopping patterns vary according to local custom and affluence, meaning Wal-Mart must try to leverage its best practices while meeting local needs. As an example, Wal-Mart took nearly a $1 billion loss on the disposal of its German operations in 2007 when results didn't meet expectations. Currency can also negatively affect results, as a strong dollar has demonstrated in recent years. Still, international (24% of revenue) will be the company's primary growth driver. We expect this segment to average nearly 9% revenue growth annually and generate more than one third of overall revenue within the next 10 years, compared with just above inflationary growth domestically (combining Wal-Mart U.S. and Sam's Club). The firm has had a tendency to acquire local retail chains and then implement best practices, a trend we expect to continue.

Valuation, Growth and Profitability

Our fair value estimate is $60 per share, which implies forward price/earnings of 15 times, enterprise value/EBITDA of 7.8 times, and a free cash flow yield of 4.2%. International drives the top line in our discounted cash-flow model with revenue growth of about 10% annually over the next five years, driven by 8% square footage growth and 2% revenue growth per square foot. In the Sam's Club segment, we forecast 4% average annual top-line expansion through fiscal 2015, driven primarily by 2.5% annual same-store sales growth. We expect growth at Wal-Mart U.S. to approximate 3% annually (compared with 6.3% over the past five years), with 2% of the growth coming from additional square footage growth opportunities through increased urban market penetration and new store formats. Slower top-line growth at Wal-Mart U.S. reflects less store expansion than the recent past and a maturing store base. We forecast operating profit to average 5.9% of revenue over the next five years, driven by 7.5% at Wal-Mart U.S., 5.3% at international, and 3.6% at Sam's Club. We expect some margin pressure at the U.S. business offset by positive operating leverage in the international segment as the firm gains scale in other regions. Still, international should remain less profitable than the U.S. due to insufficient scale for many years. Through 2015, we expect return on invested capital to average 14% compared with our 8.7% cost of capital assumption, providing support for our opinion that Wal-Mart has an economic moat.

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Risk

Besides risks associated with a large employee base and international expansion, global economic trends could alter Wal-Mart's intrinsic value. We believe the economic recovery for consumers will be relatively mild, an environment where Wal-Mart can thrive. However, if consumers recover substantially more quickly than we expect, we would have to revisit our assumptions as customers could trade up en masse.

Bulls Say

- As the largest player in nearly all parts of its value chain, Wal-Mart's primary limiting factor in performance is end customers--consumers--not vendors.
- Wal-Mart's reputation as a general retailer allows it to more easily shift product mix to meet consumer demand compared with focused retailers. For example, with people eating more meals at home and spending less on discretionary entertainment, Wal-Mart can dedicate more floor space to groceries.
- As Wal-Mart gains traction in several high-growth markets such as Mexico, China, and Brazil, the international segment will become an increasingly critical component of our valuation assumptions. Should the acquisition of South African-based Massmart be consummated, it would give Wal-Mart an important foothold in a rapidly developing South African economy and open the door for even greater African expansion opportunities.
- Smaller-format urban store tests--ranging anywhere between 20,000 and 40,000 square feet per location--may be a way to reinvigorate slumping U.S. sales by increasing the frequency of customer visits.

Bears Say

- A large number of discrimination lawsuits and the potential for material health-care reform could lead to higher labor costs to support Wal-Mart's roughly 2 million employees.
- Deflation in large categories, especially grocery, could have a negative impact on Wal-Mart if it is unable to continually wring efficiency out of operations and force lower selling prices from suppliers.
- A quicker-than-expected economic recovery could allow consumers to trade up to higher-priced retailers.
- International expansion can be perilous in any business, especially those that are consumer-facing, as local customs are especially important.
- Expansion through acquisition, particularly on the scale necessary for Wal-Mart to grow, can lead to the destruction of shareholder capital if the firm overpays or is rejected by local consumers.

Financial Overview

Financial Health: Wal-Mart is in great financial health. Debt/capital is about 0.37, EBITDA covers interest 17 times, and its Cash Flow Cushion (cash on the balance sheet and future cash flow divided by debt and debtlike commitments) is about 2 times. With leverageable assets on its balance sheet and steady operations, this firm could support substantial incremental debt for a large acquisition or to recapitalize its balance sheet, but this seems unlikely. We give Wal-Mart an issuer credit rating of AA.

Company Overview

Profile: Wal-Mart is the largest retailer in the United States and is gaining ground internationally. The firm is divided into three segments: Wal-Mart U.S. (63% of revenue, 3,800 stores), international (24%, 4,200), and Sam's Club (12%, 600). Wal-Mart U.S. revenue consists primarily of grocery (49% of revenue), entertainment goods (13%), and hardlines (12%). The firm's various store

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formats are known for providing a variety of consumer needs at low prices, the result of squeezing efficiency out of operations and passing on these gains to customers.

Management: Michael Duke, 59, became president and CEO in 2009. He was previously the firm's vice chairman and head of the international division. Duke received about $12 million of compensation in fiscal 2009, consisting primarily of stock and bonus. This amount will probably increase closer to the total compensation received by current chairman of the executive committee and former CEO H. Lee Scott Jr., who received about $30 million in compensation in 2009. These amounts appear reasonable, given the size of the firm. Compensation policy is well disclosed, driven mostly by variable performance items such as return on investment, pretax profits, U.S. comparable-store sales, and international revenue growth. The board consists of 15 directors, 10 of whom are independent. They are elected annually, have impressive experience in a variety of backgrounds, and earn about $160,000 in equity and $60,000 in retainers each year. Share ownership by Duke ($90 million), Scott ($200 million), and chairman of the board S. Robson Walton ($85 billion--includes all family ownership) is sufficient to keep their interests in line with shareholders'. Walton Enterprises is the largest shareholder with 45% of shares outstanding and consists of several Walton family members, including S. Robson Walton and Jim C. Walton, who is also on the board.

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Nov. 29, 2010

Wal-Mart to Acquire Controlling Stake in South African Retailer; Shares Still Look Attractive

Wal-Mart announced Monday that it plans to acquire a 51% stake in South African retailer Massmart Holdings for about ZAR 148 per share, valuing the transaction at around ZAR 17 billion (about $2 billion). The transaction was pared down from Wal-Mart's original plan to buy all of Massmart for about $4.25 billion, but we believe a controlling stake is sufficient to give the company a foothold in a rapidly developing South African economy and open the door for even greater African expansion. Additionally, with Wal-Mart taking just a 51% stake, Massmart will continue to trade on the JSE Limited, providing local shareholders

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Analyst Notes (continued)

with a way to partake in the growth of the consolidated entity.

The transaction will not affect our fair value estimate, but we remain confident that Massmart--the largest wholesaler of basic foods in Africa and third-largest distributor of consumer goods overall--can be an immediate contributor to Wal-Mart's international operations. Massmart has increased its top line about 11% annually the past three years (including ZAR 47.5 billion in fiscal 2010) and delivered EBITDA margins of about 5%, and we expect these metrics to gradually improve as Wal-Mart implements its best practices. The acquisition should keep Wal-Mart's international operations, which currently represent about one fourth of the firm's total revenue, on pace to deliver high-single-digit revenue growth over the next decade. We also believe the Massmart acquisition could be the first of several acquisitions in other international growth markets, including possible targets in Japan, Russia, Chile, and Argentina. Wal-Mart's takeover price, which represents 13 times Massmart's fiscal 2010 EBITDA, is expensive compared with other recent transactions in the retail industry, but strikes us as reasonable, given the compelling growth prospects. We find Wal-Mart's current share price attractive at less than 13 times our forward fiscal-year earnings per share forecast, an enterprise value/EBITDA multiple of 6.5 times, and a free cash flow yield of 4.8%.

Nov. 16, 2010

Tepid 3Q Sales From Wal-Mart U.S., but Holiday Indications Promising; Shares Modestly Undervalued

Wal-Mart's third-quarter results had a familiar feel, as tepid U.S. results were partly offset by continued strength in higher-growth international markets. However, we remain confident that efforts to restock a wider variety of brands and store configurations emphasizing new products in a number of traffic-driving categories will gain traction over the next few quarters in the United States, resulting in a reversal of negative same-store sales trends. Moreover, we see few signs of a slowdown in Wal-Mart's international operations, evidenced by strong sales trends across key growth markets such as Brazil, Mexico, China, and Japan. We remain confident in our full-year estimates, including square footage growth of 4%, total revenue growth of around 4%, and modest operating margin expansion, all consistent with management's outlook. There is no change to our fair value estimate, and we find Wal-Mart's current share price attractive at less than 13 times our forward fiscal-year earnings per share forecast, an enterprise value/EBITDA of 6.6 times, and a free cash flow yield of 4.8%.

Despite a comparable-sales decline of 1.3% in the U.S. during the quarter (bringing year-to-date comparable-store sales to a 1.5% decline), we found a number of reasons to believe management's assertion that it will return to positive territory during the fourth quarter. Traffic, while still down slightly on a year-over-year basis, has steadily improved on a sequential basis over the past several quarters. A well-positioned holiday assortment featuring strategic discounts in traffic-driving toy and electronics categories should continue this trend over the next few weeks. Assuming our traffic assumptions play out in the fourth quarter and early 2011, we expect improved profitability through expense leverage stemming from a streamlined cost structure, tighter inventory controls, and other efficiency measures. We still believe full-year consolidated operating margins around 6% are achievable for 2010, but will depend on the firm's ability to drive holiday traffic without resorting to excessive discounting (a

Analyst Notes (continued)

highly probable event, in our view, given Wal-Mart's aggressive marketing plans). Based on year-to-date results, a one-time $0.05 per share tax benefit in the third quarter, and ongoing share repurchases, management's full-year earnings per share outlook of $4.08-$4.12 (up from $3.95-$4.05) appears realistic.

Oct. 14, 2010

U.S. Turnaround, International Growth Highlight Wal-Mart's Investor Day; Shares Still Look Cheap

We have greater conviction in our fair value estimate following Wal-Mart's annual investor day, which validated several key tenets of our investment thesis. We remain encouraged about the firm's promising growth prospects overseas, but also find ourselves more optimistic about Wal-Mart's potential to gain domestic market share with new smaller-format stores, increased store-remodeling activity, and a mix shift toward more fresh food products. Near-term guidance, including square footage growth expectations of 3%-4%, total revenue growth of 4%-6%, and positive comparable-store sales growth at Wal-Mart U.S. locations during the fourth quarter, is consistent with our expectations. Next year's outlook, which calls for 3%-4% square footage growth, 4%-6% top-line growth, and modest selling, general, and administrative expense leverage, also appears realistic to us, especially if plans to reinvigorate the U.S. business bear fruit. Trading at 12 times forward earnings, enterprise value/EBITDA of 7 times, and a cash flow yield of 4.8%, Wal-Mart's shares look attractive to us at current valuations.

We remain convinced that the international business will become an increasingly important contributor to the overall business in the next few years, with growth coming from rapidly expanding markets where Wal-Mart already has a foothold (China, Mexico, and Brazil) as well as acquisitions in other emerging markets (including the proposed acquisition of South African retailer Massmart, as well as targets in Japan, Russia, Chile, and Argentina). The firm has had relative success acquiring local retail chains and implementing best practices, a trend we expect to continue in the near future. Given management's overseas development plans, we remain comfortable with our 10% revenue growth forecast for Wal-Mart international over the next five years.

Details about turning around Wal-Mart's U.S. business and recapturing lost market share were the highlight of the analyst day for us. In particular, we're intrigued by plans to accelerate small-format (less than 30,000 square feet) and medium-format (30,000-60,000 square feet) locations over the next few years, primarily in urban markets. With a focus on fresh produce, food, and dairy products, coupled with Wal-Mart's unparalleled economies of scale and pricing power, we are intrigued by the market share potential of these locations, as they should attract a sizable new urban audience and lure back customers lost to dollar stores if executed successfully (though we doubt dollar stores will roll over without a fight). A few other U.S. initiatives look interesting to us as well, including an online grocery pilot program and in-store pickup for online purchases. On the warehouse club front, we're optimistic that new product additions (including fresh foods and in-demand consumer electronics such Apple's iPad) and the traffic lift on remodeled stores will help keep comparable-store sales growth in the low single digits in fiscal 2012.

Wal-Mart Stores, Inc. WMT

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
421,849	183,812	Discount Stores	Consumer Defensive

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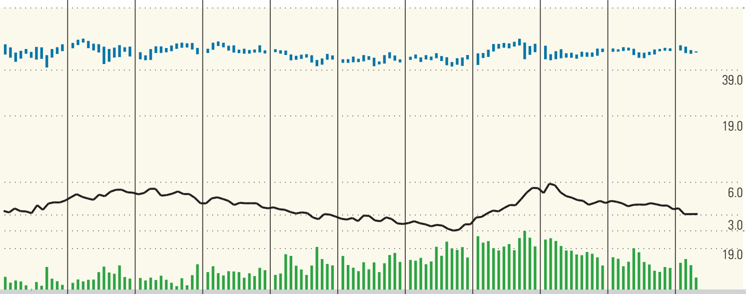
★★★★	52.65	60.00	Low	Wide	B

per share prices in USD

58.75	63.94	60.20	61.31	54.60	52.15	51.44	63.85	57.51	56.27	57.90	Annual Price High
41.50	43.72	46.27	51.08	42.31	42.31	42.09	43.11	46.25	47.77	50.97	Low
											Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500

52 week High/Low
57.90 - 47.77

10 Year High/Low
63.94 - 41.50

Bear-Market Rank
10 (10=worst)

Trading Volume Million

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	YTD	Stock Performance
8.9	-11.7	5.7	0.6	-10.3	0.1	4.8	19.9	-2.7	3.2	-1.7	Total Return %
21.9	11.7	-20.7	-8.4	-13.3	-13.5	1.3	58.4	-26.1	-9.6	-7.7	+/- Market
-2.9	3.4	-4.1	-4.9	-3.2	-2.4	1.5	12.1	-3.1	-8.1	1.2	+/- Industry
0.5	0.6	0.7	1.0	1.3	1.5	1.9	1.7	2.0	2.2	2.4	Dividend Yield %
256505	222949	229589	223686	194851	192479	190349	219898	203654	192098	183812	Market Cap USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
219812	246525	258681	287989	315654	348650	378799	405607	408214	421849	421849	Revenue USD Mil
22.0	22.2	23.2	23.7	23.8	24.2	24.4	24.5	25.4	25.3	25.3	Gross Margin %
12077	13644	15025	17091	18530	20497	21996	22798	23950	25542	25542	Oper Income USD Mil
5.5	5.5	5.8	5.9	5.9	5.9	5.8	5.6	5.9	6.1	6.1	Operating Margin %
6671	8039	9054	10267	11231	11284	12731	13400	14335	16389	16389	Net Income USD Mil
1.49	1.81	2.07	2.41	2.68	2.71	3.13	3.39	3.70	4.47	4.47	Earnings Per Share USD
0.28	0.30	0.36	0.52	0.60	0.67	0.88	0.95	1.09	1.21	1.21	Dividends USD
4481	4446	4373	4266	4188	4168	4072	3951	3877	3670	3670	Shares Mil
7.69	8.62	9.74	10.60	11.99	14.10	15.75	16.71	17.77	18.40	19.63	Book Value Per Share USD
10260	12532	15996	15044	17633	20164	20354	23147	26249	23643	23643	Oper Cash Flow USD Mil
-8383	-9355	-10308	-12893	-14563	-15666	-14937	-11499	-12184	-12699	-12699	Cap Spending USD Mil
1877	3177	5688	2151	3070	4498	5417	11648	14065	10944	10944	Free Cash Flow USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
8.3	9.0	9.1	9.1	8.7	7.8	8.1	8.2	8.6	9.3	9.3	Return on Assets %
20.1	21.6	21.8	22.1	21.9	19.7	20.2	20.6	21.1	23.5	23.5	Return on Equity %
3.0	3.3	3.5	3.6	3.6	3.2	3.4	3.3	3.5	3.9	3.9	Net Margin %
2.72	2.77	2.59	2.56	2.44	2.41	2.41	2.48	2.44	2.40	2.40	Asset Turnover
2.4	2.4	2.4	2.4	2.6	2.5	2.5	2.5	2.4	2.6	2.6	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	01-11	Financial Health
964	-2134	-2997	-4397	-5002	-5166	-10869	-6441	-7230	-6591	-6591	Working Capital USD Mil
15687	16607	17102	20087	26429	27222	29799	31349	33231	40692	40692	Long-Term Debt USD Mil
35102	39337	43623	49396	53171	61573	64608	65285	70749	68542	68542	Total Equity USD Mil
0.53	0.50	0.46	0.48	0.57	0.50	0.52	0.53	0.51	0.64	0.67	Debt/Equity

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	TTM	Valuation
39.8	29.2	26.9	23.0	18.2	16.5	15.4	16.4	15.5	12.8	12.6	Price/Earnings
—	—	—	—	—	—	—	—	—	0.7	0.8	P/E vs. Market
1.2	0.9	0.9	0.8	0.6	0.6	0.5	0.6	0.5	0.5	0.5	Price/Sales
7.5	5.9	5.4	5.0	3.9	3.3	3.0	3.4	3.0	2.9	2.7	Price/Book
26.5	19.1	15.8	14.5	12.5	9.8	10.0	10.6	8.3	7.7	8.2	Price/Cash Flow

Growth Rates Compound Annual

Grade: C	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	3.3	3.6	6.0	8.2
Operating Income %	6.7	5.1	6.6	10.4
Earnings/Share %	12.4	9.8	9.3	11.6
Dividends %	11.0	11.2	15.1	17.6
Book Value/Share %	4.3	6.5	8.8	10.8
Stock Total Return %	-2.8	1.0	4.4	1.6
+/- Industry	-4.6	-0.6	0.2	-0.8
+/- Market	-15.9	1.9	4.0	0.9

Profitability Analysis

Grade: C	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	23.5	21.0	17.1	22.5
Return on Assets %	9.3	8.4	6.6	8.5
Fixed Asset Turns	4.0	4.1	4.1	7.3
Inventory Turns	9.1	8.6	7.7	14.4
Revenue/Employee USD K	200.9	196.1 *	—	936.8
Gross Margin %	25.3	24.8	24.5	40.2
Operating Margin %	6.1	5.8	5.6	14.7
Net Margin %	3.9	3.5	3.0	10.0
Free Cash Flow/Rev %	2.6	2.3	3.6	0.1
R&D/Rev %	—	—	—	9.8

Financial Position

Grade: A	01-10 USD Mil	01-11 USD Mil
Cash	7907	7395
Inventories	33160	36318
Receivables	4144	5089
Current Assets	48331	51893
Fixed Assets	102307	107878
Intangibles	16126	16763
Total Assets	170706	180663
Payables	31816	33714
Short-Term Debt	4573	5686
Current Liabilities	55561	58484
Long-Term Debt	33231	40692
Total Liabilities	99957	112121
Total Equity	70749	68542

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	12.6	15.3	15.8	16.8
Forward P/E	10.8	—	—	13.6
Price/Cash Flow	8.2	9.3	8.2	8.9
Price/Free Cash Flow	17.7	29.9	14.2	18.5
Dividend Yield %	2.4	—	1.9	1.7
Price/Book	2.7	3.1	2.8	2.3
Price/Sales	0.5	0.5	0.5	1.4
PEG Ratio	1.0	—	—	1.8

*3Yr Avg data is displayed in place of 5Yr Avg

Quarterly Results

Revenue USD Mil	Apr 10	Jul 10	Oct 10	Jan 11
Most Recent Period	99848.0103726.0101952.0116360.0			
Prior Year Period	94242.0100910.0		99411.0113651.0	

Rev Growth %	Apr 10	Jul 10	Oct 10	Jan 11
Most Recent Period	6.0	2.8	2.6	2.4
Prior Year Period	-1.1	-1.7	0.8	4.2

Earnings Per Share USD	Apr 10	Jul 10	Oct 10	Jan 11
Most Recent Period	0.88	0.97	0.95	1.70
Prior Year Period	0.77	0.88	0.84	1.21

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Wal-Mart Stores, Inc	183812	421849	12.6	23.5
Target Corporation	34695	67390	12.5	18.9
Costco Wholesale Cor	32402	82019	23.6	12.6

Major Fund Holders

	% of shares
Fidelity Spartan 500 Index Inv	0.21
Fidelity Growth Company	0.09
BlackRock Global Allocation Instl	0.08

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies

Competitive Analysis → **Economic Moat™ Rating** → Company Valuation → **Fair Value Estimate** → Uncertainty Assessment → ★★★★★

Competitive Analysis
Analyst conducts company and industry research:

- Management interviews
- Conference calls
- Trade-show visits
- Competitor, supplier, distributor, and customer interviews

Economic Moat™ Rating
The depth of the firm's competitive advantage is rated:

- None
- Narrow
- Wide

Company Valuation
Analyst considers company financial statements and competitive position to forecast future cash flows.

Assumptions are input into a discounted cash-flow model.

Fair Value Estimate
DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.

Uncertainty Assessment
An uncertainty assessment establishes the margin of safety required for the stock rating.

★★★★★
★
★★
★★★
★★★★
★★★★★

The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

We evaluate the commitment to shareholders demonstrated by each firm's board and management team by assessing transparency, shareholder friendliness, incentives, and ownership. We aim to identify firms that provide investors with insufficient or potentially misleading financial information, seek to limit the power of minority shareholders, allow management to abuse its position, or which have management incentives that are not aligned with the interests of long-term shareholders. The grades are assigned on an absolute scale--not relative to peers--and can be interpreted as follows: A means "Excellent," B means "Good," C means "Fair," D means "Poor," and F means "Very Poor."