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Wal-Mart Offers Cautious Outlook Despite Gain in Net

By [KAREN TALLEY](#) And [ANN ZIMMERMAN](#)

[Wal-Mart Stores Inc.](#) Treasurer Charles Holley said he expects a particularly competitive holiday season for retailers as customers continue to worry about their finances and rising unemployment.

Still, he said, the retailer's discounts on everything from turkeys to Xbox 360 videogame consoles is driving increased traffic to the store ahead of Black Friday, the day after Thanksgiving and the official start to the holiday shopping season.

Wal-Mart's recent move to sell 10 hotly anticipated books and DVDs on its Web site resulted in "record hits" to Walmart.com, he said in a news conference after the world's biggest retailer by sales released results for its fiscal third quarter. He said the company doesn't expect to lose money on those sales.

While Wal-Mart reported a 3.2% gain in earnings for its fiscal third quarter, its guarded holiday outlook reflected that of other major retailers.

"We recognize that some customers may be more cautious in their holiday spending," Wal-Mart U.S. chief [Eduardo Castro-Wright](#) said in a conference call.

Wal-Mart projected same-store sales will be flat to down 1% for the current quarter. Such sales, those at locations open at least a year, rose 2.4% in last year's fourth quarter.

The company, based in Bentonville, Ark., forecast fourth-quarter profit of \$1.08 to \$1.12 a share. Analysts surveyed by FactSet Research had forecast \$1.12 on average.

[Kohl's Corp.](#) also offered tempered expectations Thursday, with its forecast below what analysts were expecting.

[Nordstrom Inc.](#) is scheduled to report results after the close of regular trading Thursday and other retailers are due to report in the following days.

Investors are likely to ask, "Can Wal-Mart meet or beat its guidance given its aggressive pricing strategy for the holidays," said Brian Sozzi, a retail analyst at Wall Street Strategies.

Wal-Mart has fared better than nondiscount retailers in the economic slump. Signs of economic revival could boost spending and diminish Wal-Mart's price advantage. But consumer sentiment is unlikely to rise sharply until the unemployment rate—which was 10.2% last month—drops.

With the holiday season approaching, Wal-Mart's advertising costs rose at a faster pace than sales in the third quarter as the company stepped up purchases across all media.

Wal-Mart reported third-quarter profit of \$3.24 billion, or 84 cents a share, up from \$3.14 billion, or 80 cents a share, a year earlier. In August the company projected earning 78 cents to 82 cents a share in the third quarter.

President and Chief Executive [Mike Duke](#) attributed the profit growth to improved productivity and inventory management. Wal-Mart is gaining market share "all over the world," he said in a recorded call Thursday.

Net sales increased 1.1% to \$98.67 billion and rose 3.8% excluding currency-exchange effects. Analysts surveyed by Thomson Reuters predicted \$99.88 billion.

Mr. Holley, the treasurer, attributed the sluggish sales growth to deflation in food and electronics prices.

U.S. customer traffic rose 1.5% on a comparable-store basis while the average purchase fell. Mr. Castro-Wright cited deflation for the drop in average purchases. Prices fell "well beyond what we expected" for electronics and across many food categories, he said. It was the first time that total grocery prices declined from a year earlier, he said. The company expects deflation to slow in the first quarter, in part because comparisons will be easier from the previous year.

The company increased its earnings target for the year, to \$3.57 to \$3.61 a share from August's forecast of \$3.50–\$3.60.

Third-quarter operating margin for Wal-Mart's U.S. stores fell 0.31 percentage point from the second quarter. The drop could suggest that Wal-Mart's productivity efforts, including better distribution and leaner inventories, may be slowing, said Mr. Sozzi, of Wall Street Strategies.

Excluding fuel, U.S. same-store sales fell 0.4%.

Gross margin rose to 25.2% from 24.6%.

International profit dropped 5.3% despite a 1.6% increase in sales.

Earnings rose 6.9% at U.S. Wal-Mart stores and 5.6% at Sam's Club locations.

—Joan E. Solsman and Kevin Kingsbury contributed to this article.

Corrections & Amplifications

Wal-Mart's U.S. same-store sales fell 0.4% in the third quarter, and the retailer forecast fourth-quarter profit from continuing operations of \$1.08 to \$1.12 a share. An earlier version of this article incorrectly said the same-store sales fell 0.1% and that the profit range was \$1.08 to \$1.23 a share.

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