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Wal-Mart says 2Q profit up 17 pct, raises outlook

By ANNE D'INNOCENZIO (AP Business Writer)

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NEW YORK - Wal-Mart Stores Inc. raised its full-year earnings forecast Thursday after second-quarter profit rose more than expected, helped by tight inventory controls and a renewed focus on low prices that is attracting financially squeezed shoppers around the world.

But the world's largest retailer predicted slower sales growth at its established stores in the United States for the current quarter, as rising prices make it more difficult to stretch their paycheck to the next payday.

Meanwhile, upscale department store chain Nordstrom Inc. and mid-level retailer Kohl's Inc. struggled, reporting double-digit percentage declines in earnings as shoppers cut back on apparel. Nordstrom reduced its full-year profit forecast, while Kohl's upgraded its full-year outlook to reflect - like Wal-Mart - stricter inventory control that boosted profit margins.

"Wal-Mart's customer is reflective of society in general," said the company's President and Chief Executive Lee Scott during a pre-recorded conference call Thursday. "While some of them live paycheck to paycheck, our customers represent broad income segments and they are all challenged today. When energy and oil prices go up on top of inflation and health care and core food items, there is a great deal of pressure on the customer."

The Bentonville, Arkansas-based retailer said it earned \$3.45 billion in the quarter ended July 31, up 17 percent from \$2.95 billion a year earlier. Profit from continuing operations rose 9.3 percent to \$3.39 billion, while net sales gained 10 percent to \$101.6 billion.

For the quarter, the discounter posted same-store sales growth of 4.5 percent, excluding fuel sales, compared to a 1.9 percent increase a year earlier. Same-store sales, or sales at stores opened at least a year, are considered a key indicator of a retailer's health.

"We have improved customer traffic and ticket and overall sales growth in our markets," Scott said in a statement. "While inflation and higher fuel costs are pressuring suppliers, retailers and customers worldwide, we're confident that Wal-Mart is well positioned for this economy."

The company now expects to earn \$3.43 to \$3.50 per share for the year, up from a full-year forecast issued in February of \$3.30 to \$3.43 per share. Wal-Mart also said its profits for the current quarter should be from 73 cents to 76 cents per share. Analysts expect 76 cents.

Wal-Mart's Chief Financial Officer Tom Schoewe attributed the better second-quarter profits to tighter inventory controls, which led to fewer markdowns on merchandise. The company also noted that it met its goal of having inventory grow at half the rate of its sales growth.

But the company emphasized Thursday that the economy remains difficult.

"We still see sales volatility around paycheck cycles," Schoewe said, referring to the pullback in spending in the days before the paycheck arrives and the spike after payday when shoppers have the cash to buy.

Wal-Mart predicts same-store sales growth to slow to 1 percent to 2 percent for the third quarter, a sharp decline from the 4.5 percent it saw in the second quarter.

Like other retailers, Wal-Mart is also confronting inflationary pressures from fuel, food and labor that are raising the costs of goods. Schoewe told The Associated Press that over the past few months the company has received a number of requests from suppliers to push higher prices through. While he said Wal-Mart has tried to resist the increases, Schoewe acknowledged that the company is having to raise prices on some holiday goods.

Wal-Mart and other low-price operators are performing better than department stores and apparel chains as consumers, aiming to save money for gas and food, focus their buying on necessities and shop at outlets that offer a breadth of merchandise.

Nordstrom's second-quarter profit dropped 21 percent, while total sales fell 4.3 percent. Meanwhile, Kohl's second-quarter profit fell more than 12 percent despite a 3.8 percent increase in total sales.

Wal-Mart has also been helped by overhauling its strategy - refocusing on lower prices, improving the mix of merchandise offered, cleaning up its stores and providing friendlier and faster customer service.

With such changes, Wal-Mart reiterated that it is taking market share away from its competitors. The company has said that it expects to keep its new customers even when the economy improves. Its shares have responded as well, now trading about \$57 each - near the high end of its 52-week range, while shares of department store rivals have been in the doldrums.

Second-quarter sales at Wal-Mart were driven particularly by the international division, whose sales rose 19.3 percent to \$25.3 billion. But Scott said during the call that the global economy is becoming "difficult" and that economic woes are "showing up in developing countries."

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