

Investors fear Walmart's woes go far beyond wider market

Shares plummet as executives reveal cost of bringing business up to date

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At Walmart's New York investor day this week, the top executives of the world's largest retailer all sat in a row of directors chairs, exuding confidence.

Across town at the New York Stock Exchange, however, Walmart's shares were in the midst of steepest plunge in the company's shares in 15 years as chief executive Doug McMillon and his team revealed how hard its spending on staff and ecommerce would hit profits.

Those costs are now expected to cut an estimated 6-12 per cent from its earnings per share for the fiscal year starting next February.

The 10 per cent nose dive dragged many of its rivals — Target, Dollar General and Kroger — down with it, and prompted grocer Albertsons to delay the listing it had planned to price on

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Wednesday night. Investors were left asking whether Walmart's predicament revealed broader concerns over the state of the US consumer.

Many analysts argue that the answer is no: it is, for the most part, all about Walmart. The Bentonville, Arkansas-based company had been "overearning" over the past few years, they argued. By not paying staff enough or giving them enough training, it gave them little motivation to create an attractive store environment, at a time when rivals were becoming far more innovative.

On top of that, Walmart has been slow to expand in to ecommerce, allowing Amazon to dominate this fast-growing and strategically critical segment of the retail market.

"What surprised the market is that it is taking longer and costing more than anticipated," said Robert Drbul, an analyst at Nomura.

"Walmart has to make these investments. McMillon came to the realisation that these are the right steps to remain

relevant. It is what we called a large reset button."

Mr McMillon himself agreed that the shake-up said more about his company than the broader market, adding that the market reaction said more about investor short-termism.

"The alternative is not to invest," he told Bloomberg Television. "We're so big it would take forever for the business to be in jeopardy, so we need to grab the steering wheel now."

Mr McMillon is doing what his predecessors — with the exception of founder Sam Walton — failed to do, according to analysts at Sterne Agee.

The lack of changes earlier "has led to Walmart going from a leader to a follower in retail". They cited Kroger and Costco as taking nearly a decade to win back investor confidence completely during their turnarounds.

Walmart will spend \$1.5bn in its next fiscal year to invest in training and raise starting wages for its employees from \$9-\$10 an hour. It is spending \$1.1bn on ecommerce over the same period. It wants to blend its bricks-and-mortar and online operations so that customers can jump between the stores and different digital platforms to shop in the way that suits them best.

It will now have to prove that these investments will generate lasting improvements in long-term margins and total profits. Walmart now expects it to take a full three years for the benefit to profits to come through. Analysts expect earnings per share to come in between \$4.40 and \$4.70 this year, but it will take until the year to February 2019 to top that, Walmart said. It is expecting annual sales growth of 3-4 per cent over the same three-year period.

Deutsche analyst Paul Trussell called the staff investment "catch up" and said that the sales growth targets were challenging.

While Wednesday's investor day focused on domestic US challenges, Walmart also faces strategic questions overseas. Its Asda stores in the UK have been pummelled as it battles the German discounters Aldi and Lidl. Sales from Asda stores open at least a year fell 4.7 per cent in the 11 weeks to June 30. *Additional reporting by Andrea Felstead*

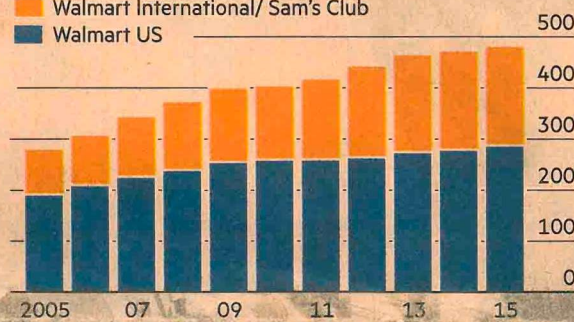
Lean times



Walmart

Revenues (\$bn)

Walmart International/ Sam's Club
Walmart US



Amazon widens its lead

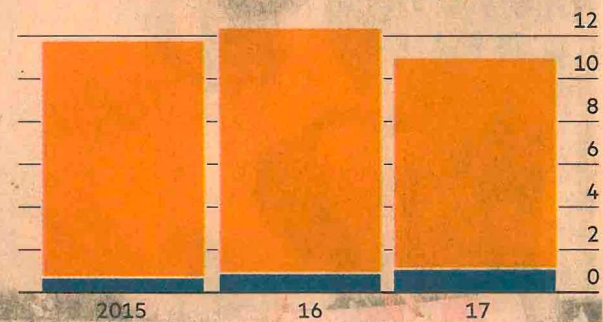
Market cap (\$bn)



Sources: Thomson Reuters Datastream; companies Photo: Reuters

Capital investment (\$bn)

Ecommerce & digital
Physical



US general and food retailers

Like for like sales growth, Q2 2015 (annual % change)

