

WAL MART STORES INC

FORM 10-Q (Quarterly Report)

Filed 12/12/96 for the Period Ending 10/31/96

Address	702 SOUTHWEST 8TH ST BENTONVILLE, AR 72716
Telephone	5012734000
CIK	0000104169
Symbol	WMT
SIC Code	5331 - Variety Stores
Industry	Retail (Department & Discount)
Sector	Services
Fiscal Year	01/31

WAL MART STORES INC

FORM 10-Q (Quarterly Report)

Filed 12/12/1996 For Period Ending 10/31/1996

Address	702 SOUTHWEST 8TH ST BENTONVILLE, Arkansas 72716
Telephone	501-273-4000
CIK	0000104169
Industry	Retail (Department & Discount)
Sector	Services
Fiscal Year	01/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended October 31, 1996.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission file number 1-6991

WAL-MART STORES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

71-0415188
(I.R.S. Employer
Identification No.)

702 S.W. Eighth Street
Bentonville, Arkansas
(Address of principal executive offices)

72716

(501) 273-4000

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Applicable Only to Issuers Involved in Bankruptcy Proceedings During the Preceding Five Years

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by the court.

Yes No

Applicable Only to Corporate Issuers

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date.

Common Stock, \$.10 Par Value -- 2,293,855,353 shares as of October 31, 1996.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in millions)

	October 31, 1996	January 31, 1996
ASSETS	(Unaudited)	(*Note)
Cash and cash equivalents	\$ 76	\$ 83
Receivables	1,171	853
Inventories	19,044	15,989
Other current assets	733	406
Total current assets	21,024	17,331
Property, plant and equipment	22,744	20,850
Less accumulated depreciation	4,598	3,752
Net property, plant and equipment	18,146	17,098
Property under capital leases	2,663	2,476
Less accumulated amortization	760	680
Net property under capital leases	1,903	1,796
Other assets and deferred charges	1,134	1,316
Total assets	\$42,207	\$37,541
LIABILITIES AND SHAREHOLDERS' EQUITY		
Commercial paper	\$ 1,112	\$ 2,458
Accounts payable	9,367	6,442
Other current liabilities	3,698	2,554
Total current liabilities	14,177	11,454
Long-term debt	7,884	8,508
Long-term obligations under capital leases	2,223	2,092
Deferred income taxes and other	1,542	731
Common stock and capital in excess of par value	775	774
Retained earnings	15,992	14,394
Foreign currency translation adjustment	(386)	(412)
Total shareholders' equity	16,381	14,756
Total liabilities and shareholders' equity	\$42,207	\$37,541

[FN]

<F1> See accompanying notes to condensed consolidated financial statements.

<F2> *Note: The balance sheet at January 31, 1996, has been taken from the audited financial statements at that date and condensed.

WAL-MART STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Amounts in millions except per share data)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	1996	1995	1996	1995
Net sales	\$25,644	\$22,913	\$74,003	\$66,077
Other income - net	433	268	920	763
	26,077	23,181	74,923	66,840
Costs and expenses:				
Cost of sales	20,450	18,176	58,891	52,467
Operating, selling and general and administrative expenses	4,329	3,801	12,269	10,871
Interest costs:				
Debt	158	182	490	502
Capital leases	54	49	160	141
	24,991	22,208	71,810	63,981
Income before income taxes	1,086	973	3,113	2,859
Provision for income taxes	402	361	1,152	1,061
Net income	\$ 684	\$ 612	\$ 1,961	\$ 1,798
Net income per share	\$.30	\$.27	\$.86	\$.78
Dividends per share	\$.0525	\$.05	\$.1575	\$.15

Beginning of the year shareholders' equity	\$14,756	\$12,726	\$14,756	\$12,726
Return for the period on beginning of the year shareholders' equity	4.64%	4.81%	13.29%	14.13%
Average number of common shares outstanding	2,294	2,296	2,293	2,296

[FN]

<F1> See accompanying notes to condensed consolidated financial statements.

WAL-MART STORES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in millions)

	Nine Months Ended 1996	October 31, 1995
Cash flows from operating activities:		
Net income	\$ 1,961	\$ 1,798
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,061	938
Increase in inventories	(3,036)	(4,141)
Increase in accounts payable	3,014	2,496
Noncash items and other	(37)	(547)
Net cash provided by operating activities	2,963	544
Cash flows from investing activities:		
Net capital additions	(2,217)	(2,832)
Proceeds from sale of photo finishing plants	464	-
Other investing activities	271	154
Net cash used in investing activities	(1,482)	(2,678)
Cash flows from financing activities:		
(Decrease)increase in commercial paper	(1,346)	1,886
Proceeds from issuance of long-term debt	-	822
Net proceeds from formation of real estate investment trust (REIT)	632	-
Payment of long-term debt	(371)	(131)
Dividends paid	(361)	(344)
Other financing activities	(42)	(131)
Net cash (used in) provided by financing activities	(1,488)	2,102
Net decrease in cash and cash equivalents	(7)	(32)
Cash and cash equivalents at beginning of year	83	45
Cash and cash equivalents at end of period	\$ 76	\$ 13
Supplemental Disclosure of Cash Flow Information:		
Income tax paid	\$ 1,278	\$ 1,285
Interest paid	669	644
Capital lease obligations incurred	213	137

[FN]

<F1> See accompanying notes to condensed consolidated financial statements.

WAL-MART STORES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A. BASIS OF PRESENTATION

The condensed consolidated balance sheet as of October 31, 1996, and the related condensed consolidated statements of income and cash flows for the periods ended October 31, 1996 and 1995 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily

indicative of results for a full year.

The financial statements and notes are presented in accordance with the rules and regulations of the Securities and Exchange Commission and do not contain certain information included in the Company's annual report. Therefore, the interim statements should be read with the annual report.

NOTE B. INVENTORIES

Inventories are valued at the lower of cost or market value, using the last-in, first-out (LIFO) method for substantially all inventories. Quarterly inventory determinations under LIFO are partially based on assumptions as to inventory levels at the end of the fiscal year, sales and the rate of inflation for the year. If the first-in, first-out (FIFO) method of accounting had been used by the Company, inventories at October 31, 1996, would have been \$321 million higher than reported, an increase in the LIFO reserve of \$10 million from January 31, 1996. If the FIFO method had been used at October 31, 1995, inventories would have been \$364 million higher than reported, an increase in the LIFO reserve of \$13 million from January 31, 1995.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Increased sales for the nine month period ending October 31, 1996, were attributable to an increase in comparable sales in the Wal-Mart stores and Supercenters of 5%, an increase in Sam's Clubs' comparable sales of 2%, and to the Company's expansion activities. Domestic expansion for the nine month period included 40 new Wal-Mart stores, nine new Supercenters, eight new Sam's Clubs (four were closed), along with the conversion of 87 Wal-Mart stores to Supercenters, and the relocation or expansion of 13 Wal-Mart stores. International expansion included the addition of one Supercenter in Argentina, four Wal-Mart stores in Canada, two units in China and 13 Mexican units. International sales accounted for 5% of total sales in fiscal 1997 compared with 4% in fiscal 1996. Sam's Clubs sales as a percentage of total sales fell from 21% in fiscal 1996 to 19% in fiscal 1997.

At October 31, 1996, the Company had 1,948 Wal-Mart stores, 335 Supercenters, and 437 Sam's Clubs in the United States, along with four units in Argentina, five units in Brazil, 135 Wal-Mart stores in Canada, two units in China, 139 units in Mexico and 11 units in Puerto Rico. This compares with 1,965 Wal-Mart stores, 234 Supercenters and 432 Sam's Clubs in the United States, along with one unit in Argentina, two units in Brazil, 129 Wal-Mart stores in Canada, 120 units in Mexico, and 11 units in Puerto Rico at the same time last year.

The Company's gross profit as a percentage of sales was 20.25% in the third quarter of fiscal 1997, down from 20.67% in the third quarter of fiscal 1996, and down from 20.60% for the first nine months in fiscal 1996 to 20.42% in fiscal 1997. During the quarter, the Company made a strategic decision to reduce the merchandise assortment in selected categories that resulted in one-time markdowns. Before these markdowns, the gross profit percentage was relatively flat with the prior year's periods.

Operating, selling, general, and administrative expenses increased as a percentage of sales from 16.59% during the third quarter of fiscal 1996 to 16.88% during the third quarter of fiscal 1997, and increased from 16.45% for the nine month period ended October 31, 1995, to 16.58% for the nine month period ended October 31, 1996. The increase is primarily due to insurance reserve adjustments in the prior year's periods.

Other income increased as a percentage of sales from 1.17% during the third quarter of fiscal 1996 to 1.69% during the third quarter of fiscal 1997, and increased from 1.15% during the nine month period ended October 31, 1995, to 1.24% for the nine month period ended October 31, 1996. This increase is attributable principally to a gain recognized on the sale of the photo finishing plants and accompanying distribution network.

In the first quarter of fiscal 1997, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." The statement requires entities to review long-lived assets and certain intangible assets in certain circumstances, and if the value of the assets is impaired, an impairment loss shall be recognized. Due to the Company's previous accounting policies, this pronouncement had no effect on the Company's financial position or results of operations.

The Company also adopted SFAS No. 123 "Accounting for Stock-Based Compensation" in the first quarter of fiscal 1997. The statement relates to the measurement of compensation of stock options issued to employees. The statement gives entities a choice of recognizing related compensation expense by adopting a new fair value method determination or continuing to measure compensation using the former standard. If the former standard for measurement is elected, SFAS No. 123 requires supplemental disclosure to show the effects of using the new measurement criteria. The Company elected to continue to use the measurement prescribed by the former standard, and accordingly, the pronouncement had no effect on the Company's financial position or results of operations. The Company will present the supplemental disclosure in the fiscal 1997 annual report.

Interest expense decreased \$19 million in the third quarter of fiscal 1997 and increased \$7 million in the nine month period ended October 31, 1996, when compared with the same periods in fiscal 1996. As a percentage of sales, interest expense is down for both the quarter and nine month period ended October 31, 1996. Interest expense is trending downward primarily due to lower short term borrowings.

Liquidity and Capital Resources

Cash flows provided by operating activities were \$2,963 million during the first nine months of fiscal 1997 compared with \$544 million in the first nine months of fiscal 1996. The increase is primarily due to a greater emphasis on inventory management that resulted in lowering unit inventory levels and improving payables to inventory ratios. The increased operating cash flow provided an excess of \$385 million after investing \$2,217 million in capital assets and paying dividends of \$361 million.

During the third quarter, the Company received proceeds of \$464 million from the sale of its six photo finishing plants and accompanying distribution network. The Company also entered into long-term photo finishing services and supply agreements with the purchaser. A significant portion of the proceeds were allocated to long-term service and supply agreements and will be recognized in income in future periods.

Also, during the quarter, the Company acquired certain stock of a real estate investment trust (REIT) and third party investors acquired the balance of the REIT's stock. Net proceeds received by the Company from this transaction were \$632 million.

Cash flow provided by operations and the Company's ability to obtain short term financing should be adequate to fund the Company's expansion program and to provide for other cash needs. Also, the Company may issue debt securities aggregating \$751 million under shelf registration statements previously filed with the Securities and Exchange Commission.

At October 31, 1996, the Company had total assets of \$42,207 million compared with \$37,541 million at January 31, 1996. Working capital at October 31, 1996, was \$6,847 million up \$970 million from January 31, 1996. The ratio of current assets to current liabilities was 1.5 to 1.0 at October 31, 1996, and January 31, 1996, and was 1.4 to 1.0 at October 31, 1995.

PART II. OTHER INFORMATION

Item 5. Other Information

The Private Securities Litigation Reform Act of 1995 ("the Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. All statements, other than statements of historical facts, which address activities, events or developments that the Company expects or anticipates will or may occur in the future, including such things as future capital expenditures (including the amount and nature thereof), expansion and other development trends of industry segments in which the Company is active, business strategy, expansion and growth of the Company's business and operations and other such matters are forward-looking statements. To take advantage of the safe harbor provided by the Act, Wal-Mart is identifying certain factors that could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by or on behalf of the Company. Many of these factors have previously been identified in filings or statements made by or on behalf of the Company.

All phases of The Company's operations are subject to influences outside its control. Any one, or a combination, of these factors could materially affect the results of the Company's operations. These factors include: competitive pressures, inflation, consumer debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, political instability, interest rate fluctuations and other capital market conditions. Forward-looking statements made by or on behalf of the Company are based on a knowledge of its business and the environment in which it operates, but because of the factors listed above, actual results may differ from those in the forward-looking statements. Consequently, all of the forward-looking statements made are qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business or operations.

Item 6. Exhibits and Reports on Form 8-K

(a) The following document is filed as an exhibit to this Form 10-Q:

Exhibit 27 - Financial Data Schedule

(b) There were no reports on Form 8-K filed for the quarter ended October 31, 1996.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WAL-MART STORES, INC.

Date: December 10, 1996

/s/David D. Glass _____
David D. Glass
President and
Chief Executive Officer

Date: December 10, 1996

/s/John B. Menzer _____
John B. Menzer
Executive Vice President
and Chief Financial Officer

ARTICLE 5

PERIOD TYPE	9 MOS
FISCAL YEAR END	JAN 31 1997
PERIOD END	OCT 31 1996
CASH	76
SECURITIES	0
RECEIVABLES	1,171
ALLOWANCES	0
INVENTORY	19,044
CURRENT ASSETS	21,024
PP&E	22,744
DEPRECIATION	4,598
TOTAL ASSETS	42,207
CURRENT LIABILITIES	14,177
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	230
OTHER SE	16,151
TOTAL LIABILITY AND EQUITY	42,207
SALES	74,003
TOTAL REVENUES	74,923
CGS	58,891
TOTAL COSTS	71,810
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	650
INCOME PRETAX	3,113
INCOME TAX	1,152
INCOME CONTINUING	1,961
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	1,961
EPS PRIMARY	.86
EPS DILUTED	.86

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