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Weinswig's Deep Dive: Food Stamps

 Equity

WMT, Dollar Stores, and Clubs to Gain from Growth in Food Stamps

- **Our Take** — Food stamp usage is on the rise in the U.S. Food stamp participation rose to 12.9% in February 2010, up from an average of 11.0% in FY09. One in eight Americans are on food stamps, and another 23.5 million (7.6% of pop.) could be eligible. We estimate that rising food stamp usage could add up to +100 bps to food retailers comps in 2010, and we believe WMT is best-positioned to benefit as it embarks on a more aggressive rollback campaign in 2010.
- **Food Stamps Show a High Correlation to Unemployment** — Low-income consumers at the bottom of the Consumer Hourglass will likely remain challenged by high unemployment and the return of inflationary pressures in 2010. Since 1992, the correlation between the unemployment rate of consumers with less than a HS diploma and food stamp participation has been ~73%. In addition to high unemployment, a more aggressive push by states to get residents to sign up for food stamps and new proposals that would increase program eligibility could drive food stamp participation rates higher in 2010.
- **Rising Food Stamp Usage a Positive for Food-at-Home Spending** — In 2009, food stamp benefits accounted for 8.6% of food-at-home sales, vs. 5.8% in 2008 and an average of 4.5% historically. According to the USDA's Economic Research Service, every dollar of food stamps translates into \$1.84 of economic activity and an increase of ~32% in food-at-home spending. A family of four could receive up to \$668/month in benefits (or ~\$8,000/year) that must be spent on food. Benefits paid under the food stamp program will likely total over \$60B in 2010, and we believe this could contribute up to +100 bps to food retailer comps.
- **WMT Dominates Food Stamp Redemptions** — WMT has the largest share of food stamp redemptions, with 33.6% share in 2008, according to our estimates and the latest available food stamp market share data. KR (7.8%), SWY (3.9%), and SVU (3.6%) follow WMT in our coverage. With more food stamp benefits up for grabs in 2010, WMT is stepping up its price investments at precisely the right time to benefit. In addition to WMT, the dollar stores and clubs are under-penetrated in food stamp redemptions relative to their market share in food, and we expect these retailers to gain significant share of food stamp redemptions.
- **Food Stamps Provide Upside to Our 2010 EPS Estimate** — In 2010, we estimate that increased food stamp redemptions at WMT could drive incremental sales of \$1,885 million, based on WMT's 33.6% share of food stamp redemptions, and incremental EPS of \$0.08. We see additional upside to our forecasts if WMT's stepped up rollback campaign drives increased share of food stamp redemptions. As a result, we believe that our current 2010 EPS estimate of \$4.04 could ultimately prove conservative. We reiterate our Buy rating and \$65 target price.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Roadmap to Our Deep Dive on Food Stamps

Food Stamp Participation on the Rise in 2010

1. **One in Eight Americans are on Food Stamps.** The number of Americans currently receiving food stamp benefits grew to 39.7 million in February 2010, representing 12.9% of the total population. In FY09 (year ended September 30, 2009), food stamp participation rose 18.7% YOY on top of a 7.3% increase in FY08, propelled by the decline in the economy and rising unemployment, especially among less affluent consumers.
2. **Food Stamp Participation Shows a High Correlation to Unemployment.** Since 1992, the correlation between the unemployment rate of consumers with less than a high school diploma and the percent of the population on food stamps has been ~73%. Unemployment remains high for less affluent consumers (see Figure 7), which should help push food stamp participation higher in 2010.
3. **State and Local Governments Pushing Residents to Apply.** The rise in food stamp participants in 2010 will also be fueled by more aggressive state and local governments encouraging their residents to apply for the program. With many state budgets stretched, food stamps are an efficient and cost effective way for governments to stimulate economic activity in their localities, as every dollar of food stamps generates ~\$1.84 of economic activity.
4. **Another 7.6% of Americans Could be Eligible for Food Stamps.** We estimate that 63.2 million Americans, or ~20.5% of the population, are currently living on incomes that are at or below 130% of the poverty level (the income cut-off for food stamp eligibility). Of this total, there are 39.7 million people receiving food stamp benefits, and we believe another 23.5 million are potentially eligible for food stamps.
5. **Food Stamp Participation and Benefits Forecast.** Food stamp participation is projected to grow to an average of 40.5 million people in FY10, according to the USDA, up ~20% YOY from an average of 33.7 million in FY09. In FY11, the USDA is currently projecting a 6.9% rise in food stamp participation to 43.3 million. If the average monthly benefit per person remains the same, total benefits paid under the program will total \$60.5B in FY10 and \$64.7B in FY11.

Food Stamps Benefit Food-at-Home Spending

1. **Every \$1 of Food Stamps Stimulates \$1.84 of Economic Activity.** Food stamps allow participating households to increase both their food and non-food spending, as money that households had previously allocated for food is replaced by food stamps and can be used for discretionary spending. The resulting increase in demand for both food and non-food products stimulates production, jobs, and the economy.
2. **Food-at-Home Spending Increases by ~32% for Every Dollar of Food Stamps.** According to the USDA's Economic Research Service, every dollar of food stamps translates into an increase of 17 to 47% in food-at-home spending. The expected rise in benefits paid under the food stamp program will be a tailwind for food-at-home spending in 2010.

Based on our estimates for food stamp benefits in 2010 and the midpoint (32%) of the 17-47% range, we believe that the food stamp program could contribute +31 bps of growth to food-at-home spending this year and up to +100 bps to comps for the food retailers in our coverage universe as improved price competitiveness appeals to the food stamp consumer and leads to outsized gains in share of food stamp redemptions.

- Food Stamps Rise as a Percentage of Food-at-Home Sales.** In 2009, food stamp benefits accounted for 8.6% of food-at-home sales, vs. 5.8% in 2008. Historically, food stamps have averaged 4.5% of food-at-home sales. The increase in food-at-home spending comes from constrained households spending more to meet their food budgets, unconstrained households spending more on food, and the shift of some food spending from restaurants to food retailers.
- Supermarkets and Hypermarkets Redeem ~85% of All Food Stamp Benefits.** The supermarkets have the largest share of food stamp redemptions at 47.4%, followed closely by hypermarkets with a 37.2% share. In our coverage universe, WMT has the largest share of food stamp redemptions (33.6%), according to our estimates, followed by KR (7.8%), SWY (3.9%), and SVU (3.6%).
- Which Food Retailers Benefit the Most?** While the increase in food-at-home spending should benefit all food retailers, we believe that WMT, the dollar stores, and the clubs have the most to gain. We believe that WMT's aggressive rollback program and a more compelling price message will improve WMT's mindshare with food stamp customers and leave it best-positioned to win a greater share of food stamps in 2010. The dollar stores are a low-cost and convenient destination for food stamp participants and are gaining better access to national brands in food and consumable categories. Lastly, the clubs are among the newest retailers to accept food stamps and food stamps represent an incremental sales growth opportunity.
- WMT Stands to Gain the Most from Rising Food Stamp Usage.** In 2010, we estimate that increased food stamp redemptions at WMT could drive incremental sales of \$1,885 million, based on WMT's 33.6% share of food stamp redemptions, and result in incremental earnings per share of \$0.08.

Details on the U.S. Food Stamp Program

- A National Program Run by State and Local Governments.** The Food Stamp Act of 1964 created a permanent food stamp program in the U.S. The Food Stamp Program (FSP) is funded primarily by the federal government but is administered at the state level. The federal government is responsible for funding the food stamp program and for authorizing the acceptance of food stamps by retailers. States are responsible for eligibility testing and EBT issuance.

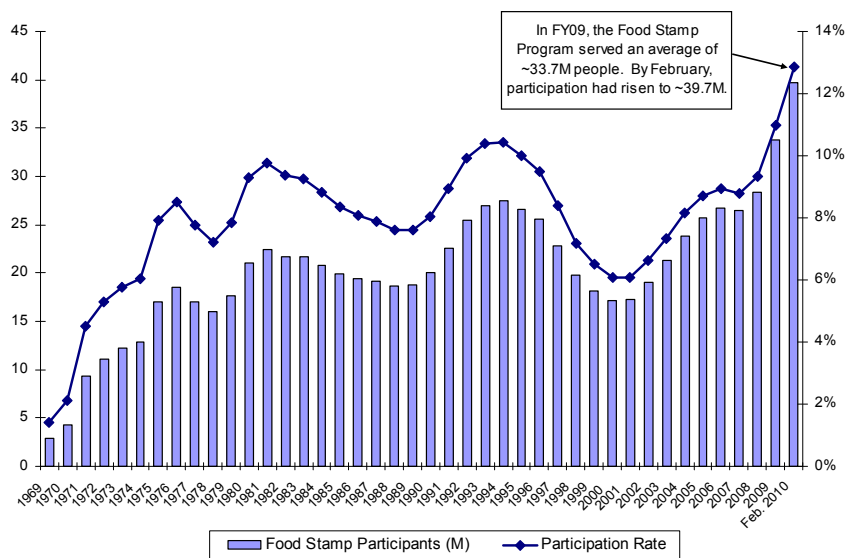
2. **Eligibility Requirements.** Households that would like to begin receiving food stamp benefits must meet three basic eligibility tests: 1) the resource test (typically must have less than \$2,000 in countable resources); 2) the income test (must have gross income below 130% of the poverty line and net income below 100% of the poverty line); and 3) the employment test (typically must be working, although this test has been suspended until September 30, 2010).
3. **Benefits Determination.** Households receive food stamp benefits based on their monthly income and household size. To determine the amount of benefits (called an allotment), the household's net monthly income is multiplied by 0.3, and the product is subtracted from the maximum allotment for the household size. The net income is multiplied by 0.3 because households on food stamps are expected to spend 30% of their monthly income on food.
4. **Duration of Benefits.** Qualified households, including those with dependents, disabled adults, and the elderly, can continue receiving food stamps indefinitely as long as they continue to meet the eligibility requirements. Adults without dependents can only receive benefits for three months in a 36-month period if they aren't working and are not disabled. However, this requirement has been waived until September 30, 2010, allowing ~14,000 participants to continue receiving food stamp benefits.
5. **Characteristics of Food Stamp Participants.** A study of the Food Stamp Program by the USDA for FY08 found that the typical household had a gross income of only \$701 per month, and 87% of households on the program had incomes at or below the poverty line. In addition, the average household possessed only ~\$25 in countable resources, and 73% had no countable resources at all!
6. **Eligible Food Products.** Food stamp participants can use their benefits to purchase the majority of food items found at a food retailer with only a few exceptions, including alcohol, tobacco, hot foods, and non-food items. In addition, food stamp benefits cannot be redeemed at restaurants or food service establishments.
7. **Development of the Electronic Benefit Transfer (EBT) System.** EBT was first introduced for the food stamp program in 1984 in Reading, PA, and in 1996, the Personal Responsibility and Work Opportunity Reconciliation Act mandated that all states must implement EBT systems by October 2002. By June 2004, all states had transitioned from food stamp coupons to EBT. EBT replaced the paper food stamp system, which was inefficient and costly. Under the EBT system, a plastic card, similar to a bank card, is issued and a personal identification number (PIN) is assigned. When participants want to use their benefits, they can use the EBT card like a debit card to pay for their food. The card will authorize the transfer of their benefits from a federal account to a retailer's account to pay for the products.

Food Stamp Participation on the Rise in 2010

One in Eight Americans are on Food Stamps

Food stamp participation reached an all-time high in February. The number of Americans receiving food stamp benefits grew to 39.7 million in February 2010 (the latest available data), and 12.9% of the American population are on food stamps. For comparison, the average participation for all of FY09 (year ended September 30, 2009) was just 33.7 million and 11.0% of the population. Food stamp participation rose 18.7% YOY in FY09, which was its fastest annual rate of increase since 1980, as the decline in the economy and rising unemployment, especially among less affluent consumers, forced more families to turn to food stamps to meet their monthly food needs.

Figure 1. Average Participation in the Food Stamp Program (1969-February 2010)



Note: Last data point is February 2010.

Source: FNS, USDA, CIRA

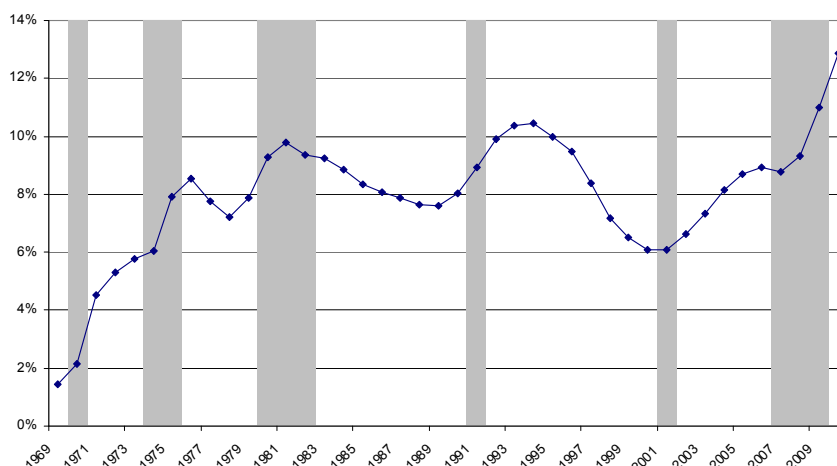
Figure 2. Food Stamp Program Participation Statistics

Fiscal Year	Avg. Participants (M)	Participation Rate	Growth (YOY)
2000	17.2	6.1%	-5.4%
2001	17.3	6.1%	0.7%
2002	19.1	6.6%	10.3%
2003	21.3	7.3%	11.3%
2004	23.9	8.1%	12.2%
2005	25.7	8.7%	7.8%
2006	26.7	8.9%	3.7%
2007	26.5	8.8%	-0.8%
2008	28.4	9.3%	7.3%
2009	33.7	11.0%	18.7%

Note: The participation rate reflects the number of food stamp participants divided by the total population.

Source: FNS, USDA, Citi Investment Research and Analysis

Figure 3. Food Stamp Participation Rate with Recession Shading



Source: Haver Analytics, FNS, USDA, CIRA

Food Stamp Usage Should Continue to Grow as Consumers at the Bottom of the Hourglass Remain Pressured

Consistent with our Consumer Hourglass Theory, we expect the number of people participating in the food stamp program to grow as less affluent consumers remain financially distressed. The bottom 50% of consumers (as ranked by AGI) made less than \$32,900 in 2007, according to the IRS' latest available tax return data. Importantly, these consumers accounted for only 12.3% of total adjusted gross income. *We believe this figure is even lower today.* Unemployment for these consumers remains high, and the return of inflationary pressures in 2010, especially rising gas, energy, and food prices, could negatively impact their resources and savings. As these consumers are forced to draw down their savings, we expect more of them to become eligible for food stamps.

- **Unemployment.** In March, the unemployment rate for consumers with less than a high school diploma was 14.5% and the unemployment rate for consumers with a high school diploma but no college was 10.8%, higher than the overall unemployment rate of 9.7%. *Underemployment was 16.9%.*
- **Inflation.** CIRA's Economics Team expects inflation of 1.8% in 2010 and core inflation of 0.9%.
- **Gas Prices.** The average price of a gallon of gas increased ~39% YOY in April, and CIRA's Economics Team expects the price per barrel of oil to rise to \$85.40 by year end.

Figure 4. Income Taxes Paid by AGI Percentiles (2007 Tax Year)

Percentiles Ranked by AGI	AGI Threshold on Percentiles	Percentage of Federal Personal Income Tax Paid	Percentage Share of Gross Income
Top 1%	\$410,096	40.4%	22.8%
Top 5%	\$160,041	60.6%	37.4%
Top 10%	\$113,018	71.2%	48.1%
Top 25%	\$66,532	86.6%	68.7%
Top 50%	\$32,879	97.1%	87.7%
Bottom 50%	< \$32,879	2.9%	12.3%

Source: IRS: Statistics of Income Division; CIRA Economics Team

Figure 5. The Bottom 20% of Income Earners Account for 8.9% of Spending

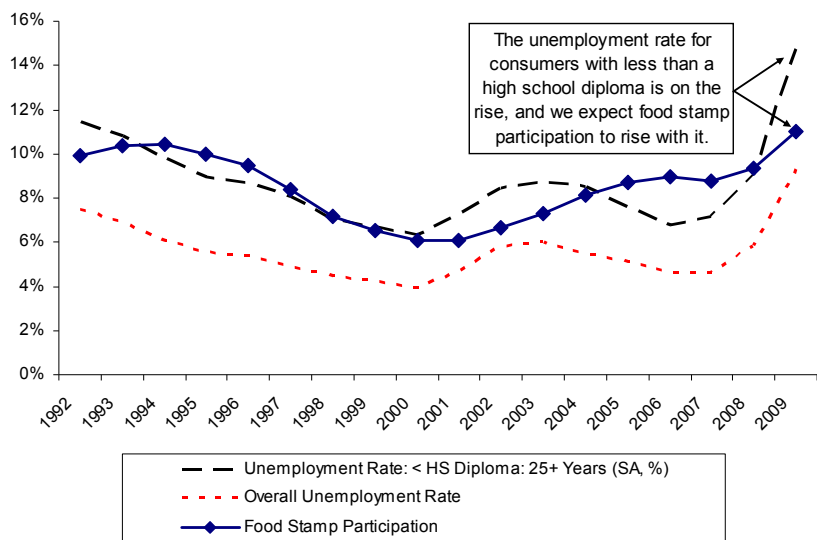
Consumer Spending by Level of Income - 2008	
Quintiles of Income	Percent of Total Expenditures
Top 20% of Income Earners	38.4%
20-40%	23.2%
40-60%	16.9%
60-80%	12.6%
Bottom 20% of Income Earners	8.9%

Source: Consumer Expenditure Survey for 2008, CIRA Economics Team

Food Stamp Participation Shows a High Correlation to the Unemployment Rate

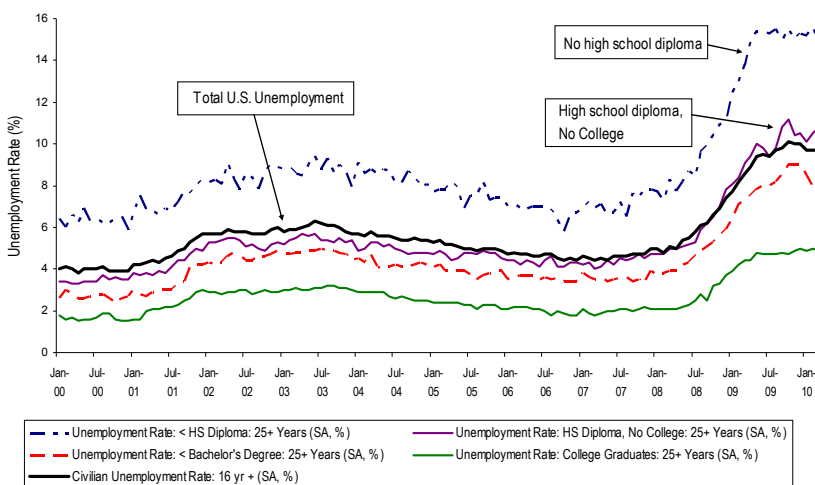
Since 1992, the correlation between the unemployment rate of consumers with less than a high school diploma and the percent of the population on food stamps has been ~73%. Unemployment remains high for less affluent consumers, which should help push food stamp participation higher in 2010.

Figure 6. Unemployment vs. Percentage of Population on Food Stamps



Source: Bureau of Labor Statistics, U.S. Census Bureau, USDA, Citi Investment Research and Analysis

Figure 7. Unemployment by Level of Education (2000-2010)



Source: Bureau of Labor Statistics, Citi Investment Research and Analysis

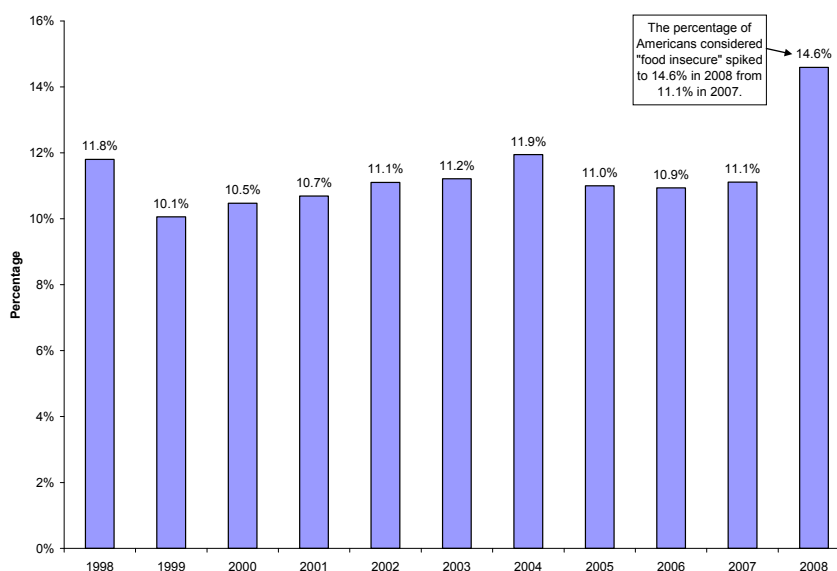
Food Insecurity: A Leading Indicator of Food Stamp Usage

Food insecurity is a leading indicator for participation in the Food Stamp Program. The percentage of Americans considered “food insecure” rose to 14.6% in 2008, up from 11.1% in 2007 and is at its highest level in over 10 years. Food insecurity is defined as inadequate or unsure access to enough food for active, healthy living. Households can be classified as food insecure for three reasons: 1) if they are unable to afford balanced meals, 2) they cut the size of their meals because they do not have enough money to buy food, or 3) they have members of the household who go hungry because there is not enough food to go around. The consumers who are most likely to be food insecure include those below the poverty line, single women with children, African Americans, and Hispanics. We have included additional details on Food Insecurity in the Appendix.

An October 2009 report¹ by the USDA’s Economic Research Service found that food security deteriorates in the six months prior to going on food stamps, and then improves shortly after the household begins receiving food stamp benefits. While food insecurity data for 2009 is not yet available, we believe it is reasonable to assume that food insecurity remains on the rise, and we expect this to lead to greater food stamp participation as more households turn to the food stamp program for help in meeting their food needs.

¹ Nord, Mark, and Anne Maria Golla. *Does SNAP Decrease Food Insecurity? Untangling the Self-Selection Effect*. Economic Research Report No. 85, U.S. Dept. of Agriculture, Economic Research Service. Oct. 2009.

Figure 8. Percentage of Americans Considered Food Insecure



Source: U.S. Census Bureau, USDA's Economic Research Service, CIRA

State and Local Governments Pushing Residents to Apply

The rise in food stamp participants in 2010 will also be fueled by more aggressive state and local governments encouraging their residents to apply for the program. Food stamps are an efficient and cost effective way for governments to stimulate economic activity in their localities, as every dollar of food stamps generates ~\$1.84 of economic activity. Many states have eased application procedures over the past two years and several have launched marketing campaigns targeted at families who don't know they're eligible for food stamps. In addition, the transition to EBT cards and away from physical food stamps in 2004 helped remove some of the stigma associated with the food stamp program and has encouraged more families to sign up.

Missouri Has the Highest Food Stamp Participation Rate

Missouri has the highest food stamp participation rate in the U.S. at 17.3% as of December 2009. DG has the highest percentage of its stores in Missouri (3.9%), followed by Walmart U.S. (3.3%) and SVU (3.1%).

DG has 29.6% of its stores in the ten states with the highest food stamp participation rates. FDO has 23.7% of its stores in the top ten states, and KR has 21.8% of its stores in the top ten states.

Figure 9. Top 10 States by Food Stamp Participation Rate and Retailer Store Exposure

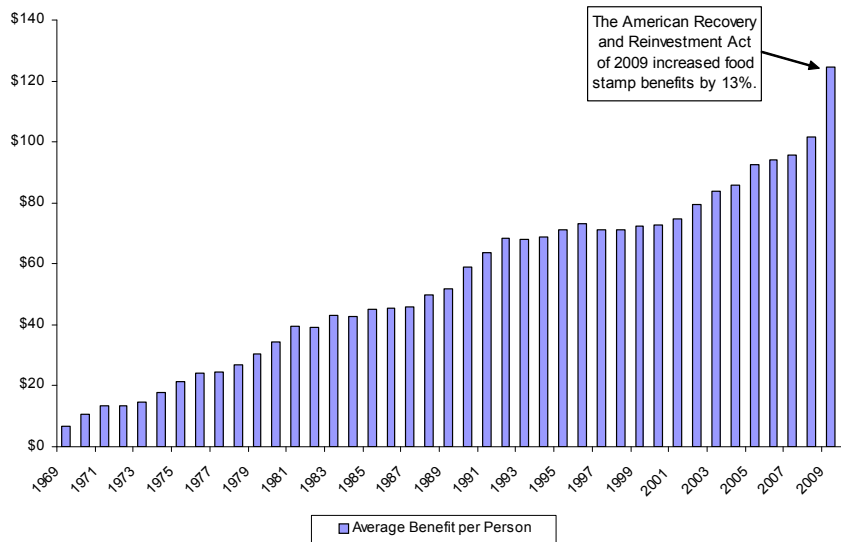
State	FSP Participants	% Pop.	BJ	COST	DG	FDO	KR	SWY	SVU	TGT	WMT U.S.	Sam's Club
1 Missouri	888,432	17.3%	0.0%	1.2%	3.9%	1.4%	0.8%	0.0%	3.1%	2.1%	3.3%	2.8%
2 Mississippi	573,545	17.1%	0.0%	0.0%	3.3%	1.8%	1.3%	0.0%	0.1%	0.4%	1.8%	1.2%
3 Tennessee	1,205,219	17.0%	0.0%	1.0%	5.3%	3.1%	4.9%	0.0%	0.3%	1.9%	3.2%	2.8%
4 West Virginia	364,573	16.8%	0.0%	0.0%	1.9%	1.8%	1.9%	0.0%	0.0%	0.4%	1.0%	0.9%
5 Kentucky	764,669	16.3%	0.0%	0.2%	3.9%	2.9%	4.4%	0.0%	0.1%	0.8%	2.5%	1.4%
6 Louisiana	817,671	16.1%	0.0%	0.0%	4.1%	3.5%	0.4%	0.0%	0.7%	0.9%	2.5%	2.1%
7 Maine	224,068	15.3%	1.1%	0.0%	0.0%	0.8%	0.0%	0.0%	1.5%	0.3%	0.6%	0.5%
8 Oregon	680,982	15.2%	0.0%	3.0%	0.0%	0.0%	2.2%	6.8%	3.5%	1.1%	0.8%	0.0%
9 South Carolina	778,371	15.1%	0.0%	1.0%	4.1%	3.1%	0.4%	0.0%	0.1%	1.1%	2.1%	1.6%
10 Michigan	1,696,692	14.5%	0.0%	2.7%	2.9%	5.3%	5.5%	0.0%	0.0%	3.5%	2.4%	4.5%
Total	7,994,222	16.1%	1.1%	9.2%	29.6%	23.7%	21.8%	6.8%	9.4%	12.3%	20.3%	17.6%

Source: Haver Analytics, FNS, USDA, Company Reports, Citi Investment Research and Analysis

2009 Federal Stimulus Bill Increased Food Stamp Benefits

In 2009, the average monthly benefit per person was \$124.45, up +22.6% from \$101.52 in 2008, and the average monthly benefit per household was \$275.52, up +21.6% from \$226.57 in 2008. The American Recovery and Reinvestment Act (effective April 2009) increased food stamp benefits by 13.6% for all FSP participants. The Act allocated ~\$20B to increase food stamp benefits for all program participants over a period of five years.

Figure 10. Average Food Stamp Benefits per Person (1969-2009)



Source: FNS, USDA, CIRA

Another 7.6% of Americans Could be Eligible for the Food Stamp Program

We estimate that 63.2 million Americans, or ~20.5% of the population, are currently living on incomes that are at or below 130% of the poverty level (the income cut-off for food stamp eligibility). For a single adult under age 65, the federal poverty line for 2009 is \$11,161 and for a family of four with two children, the federal poverty line is \$21,756 (see the section entitled "Federal Poverty Levels" in the Appendix). Of this total, there are 39.7 million people (62.8% of those eligible) receiving food stamp benefits. Based on the gross income test for food stamp eligibility, we believe that another 23.5 million Americans, representing 7.6% of the population, are eligible for food stamps, although this number is likely slightly lower as households must typically meet net income and resource tests as well. We detail the eligibility requirements for the food stamp program later in the report.

Food Stamp Participation & Benefits Forecast

Food stamp participation is projected to grow to an average of 40.5 million people in FY10, according to the USDA, up 20.1% YOY. In FY11, the USDA is currently projecting a 6.9% rise in food stamp participation to 43.3 million. If the average monthly benefit per person remains the same, total benefits paid under the program will total \$60.5B in FY10 and \$64.7B in FY11.

Figure 11. Food Stamp Participation and Benefits Forecast

Fiscal Year	Avg. Participants (thou)	Growth Rate	Benefit/Person (\$/month)	Total Benefits (\$M)
2008	28,409	7.3%	\$101.52	\$34,608
2009	33,722	18.7%	\$124.45	\$50,360
2010E	40,500	20.1%	\$124.45	\$60,483
2011E	43,300	6.9%	\$124.45	\$64,664

*Avg. participation for FY10 and FY11 are USDA estimates. The benefit per person is assumed constant.

Note: Fiscal Year is the year-ending September 30.

Source: FNS, USDA, CIRA Estimates

Food Stamps Benefit Food-at-Home Spending

Every \$1 of Food Stamps Stimulates \$1.84 of Economic Activity

A report² by the USDA's Economic Research Service found that every \$5 in new food stamp benefits generates \$9.20 of total economic activity in local communities. This translates into ~\$1.84 of economic benefit for every \$1 of food stamps. Food stamps allow participating households to increase both their food and non-food spending, as money households had previously allocated for food is replaced by food stamps and can be used for discretionary spending. The resulting increase in demand for both food and non-food items stimulates production and jobs in those industries. Since program benefits are paid by the federal government, state and local agencies have been encouraging residents to sign up for the program as it is an attractive way for states and localities to drive economic growth.

Food-at-Home Spending Increases by ~32% for Every Dollar of Food Stamps

The food stamp program increases food-at-home spending by providing households in need with the means to buy food. Food stamps can have the following impact on the spending of recipients:

1. **Food-Constrained Households.** Food-constrained households are not able to afford enough food for their household. Food stamp benefits result in incremental food spending as these households are now able to meet their food budgets.
2. **Food-Unconstrained Households.** Food-unconstrained households are able to meet their monthly food budgets but may spend a disproportionate amount of their income to do so. Food stamp benefits increase the monthly funds available to food-unconstrained households but may not result in increased food-at-home spending as these families can already meet their monthly food needs.
3. **Shift to Food-at-Home from Food-Away-from-Home.** For both constrained and unconstrained households, food stamp benefits likely shift some food spending from restaurants to food retailers, since food stamp benefits cannot be used at restaurants.

In a report³ by the USDA's Economic Research Service entitled "Effects of Food Assistance and Nutrition Programs on Nutrition and Health," a survey of several studies on the impact of the food stamp program on food-at-home spending found that every dollar of food stamp benefits should yield \$0.17 to \$0.47 of food-at-home spending. The increase in food-at-home spending comes from constrained households spending more to meet their food budgets, unconstrained households spending more on food, and food stamp recipients shifting some food spending from restaurants to food retailers.

² Hanson, Kenneth and Elise Golan. *Effects of Changes in Food Stamp Expenditures Across the U.S. Economy*. Food Assistance and Nutrition Research Report No. 26-6, USDA, Economic Research Service. Aug. 2002.

³ Fox, Mary Kay, Hamilton, William and Biing-Hwan, Lin, *Effects of Food Assistance and Nutrition Programs on Nutrition and Health: Volume 4, Executive Summary of the Literature Review*, No. 33871, Food Assistance and Nutrition Research Reports, USDA, Economic Research Service. 2004.

Food Stamps Could Contribute +31 bps of Growth to Food-at-Home Spending

The expected rise in benefits paid under the food stamp program will be a tailwind for food-at-home spending in 2010 – a positive for all food retailers. In Figure 12, we estimate the impact of the growing food stamp program on food-at-home spending. We chose to use the mid-point of the 17 to 47% range cited above for our analysis. As a result, we believe that the increase in food stamp benefits in 2010 should drive food-at-home spending to increase \$19.4B (or +31 bps), and comps for the food retailers in our coverage universe to increase by up to +100 bps as improved price competitiveness leads to outsized share gains in food stamp redemptions, as the food stamp consumer remains value-driven.

Figure 12. Impact of Food Stamp Benefits on Food-at-Home Spending

Year	Food-at-Home Spending	Food Stamp Benefits	Assume FSP increases Food-at-Home Spending by 32%	
			Increase in Food-at-Home Spending from FSP	Contribution to Growth in Food-at-Home Spending (bps)
2007	574,137	31,081	9,946.0	N/A
2008	593,071	37,197	11,902.9	34
2009	582,300	54,875	17,559.9	95
2010E	N/A	60,483	19,354.5	31

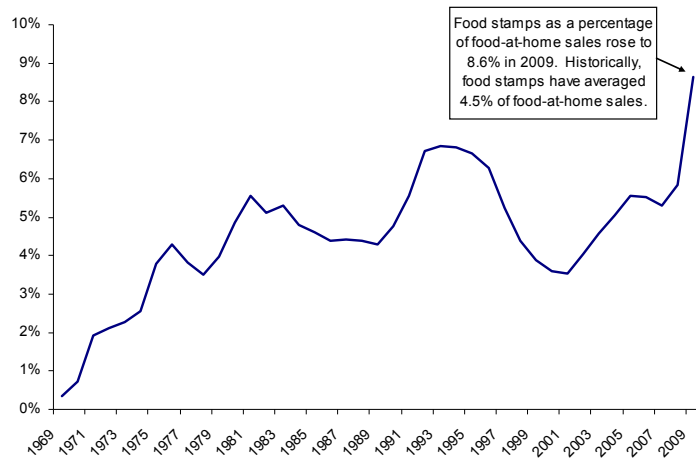
Note: Food stamp benefits are calendarized (except estimates) to match Food-at-Home Spending data.

Source: USDA's Economic Research Service, FNS, USDA, Citi Investment Research and Analysis

Food Stamps Rise as a Percentage of Food-at-Home Sales

Food stamps have been rising as a percentage of overall food-at-home sales since 2007, driven primarily by increased participation in the program as well as higher benefits provided by the federal stimulus bill in 2009. Last year, food stamp benefits accounted for 8.6% of food-at-home sales, vs. 5.8% in 2008. Historically, food stamps have averaged 4.5% of food-at-home sales. The percentage of food-at-home spending coming from food stamps will likely rise again in 2010 as the number of participants grow and benefits remain high due to the stimulus.

Figure 13. Food Stamp Benefits as a Percentage of Food-at-Home Sales



Source: USDA's Economic Research Service, FNS, USDA, Citi Investment Research and Analysis

Supermarkets and Hypermarkets Redeem ~85% of All Food Stamp Benefits

The supermarkets have the largest share of food stamp redemptions at 47.4%, followed closely by hypermarkets with a 37.2% share. We are not surprised with these results as many of these retailers have accepted food stamps for over 10 years and are top-of-mind for food stamp participants. In our coverage universe, WMT has the largest share of food stamp redemptions (33.6%), according to our estimates, followed by KR (7.8%), SWY (3.9%), and SVU (3.6%). While the dollar stores (DG: 2003, FDO: late-2006) and wholesale clubs (2009) are newer entrants to the food stamp program, we believe that they have a significant opportunity to gain share of food stamp redemptions as they increase their appeal with food stamp customers and become stronger players in the food retail market. Even the drugstores accept food stamps, although it represents a very small percentage of their business.

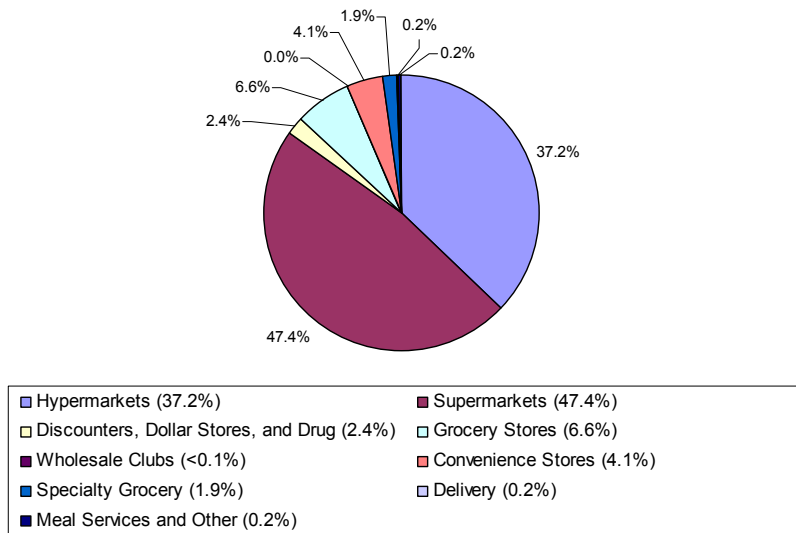
Figure 14. Share of Food Stamp Sales (2008)

Retailer	Channel	Share of Food Stamp Sales	Percent of Sales
1 BJ's Wholesale Club	Wholesale Clubs	0.0%	0.0%
2 Costco	Wholesale Clubs	0.0%	0.0%
3 Dollar General	Dollar & Discount Stores	0.9%	2.9%
4 Family Dollar	Dollar & Discount Stores	0.7%	3.3%
5 Kroger	Supermarkets/Grocery Stores	7.8%	3.5%
6 Safeway	Supermarkets/Grocery Stores	3.9%	3.0%
7 Sam's Club	Wholesale Clubs	0.0%	0.0%
8 Supervalu	Supermarkets/Grocery Stores	3.6%	3.5%
9 Target		3.2%	1.8%
Discount Stores	Discounters, Dollar Stores, and Drug	0.2%	N/A
SuperTarget	Hypermarkets	3.1%	N/A
10 Walmart U.S. Division		33.6%	4.5%
Discount Stores	Discounters, Dollar Stores, and Drug	0.1%	N/A
Supercenters	Hypermarkets	33.5%	N/A

Note: 2008 is the latest available data. The percent of sales data for WMT represents its U.S. division only.

Source: USDA, FNS, Company Reports, CIRA Estimates

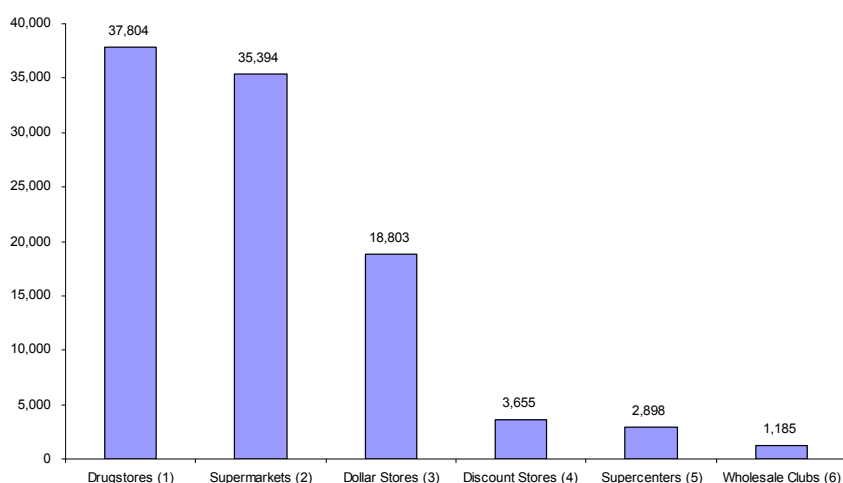
Figure 15. Redemptions of Food Stamps by Type of Retailer (FY2008)



Note: The categories above are consolidated from the detailed list provided by the USDA.

Source: FNS, USDA, CIRA

Figure 16. Number of Retailers by Type



1. NACDS Industry Profile Guide 2009 (2008 data)
 2. Food Marketing Institute (2008 data)
 3. Excludes independents (2008 data)
 4. Includes Target, Walmart, and Kmart discount stores (2008 data)
 5. Includes SuperTarget, Walmart Supercenters, and Big Kmart supercenters (2008 data)
 6. Includes BJ's Wholesale Club, Costco, and Sam's Club (2008 data)
-

Which Food Retailers Benefit the Most?

While the increase in food-at-home spending should benefit all food retailers, we believe that WMT, the dollar stores, and the clubs have the most to gain. WMT has a dominant share of food stamp redemptions, and we believe that increased price investments in 2010 will resonate well with WMT's value-oriented consumer. The dollar stores are a low-cost and convenient destination for food stamp participants and are gaining better access to national brands in food and consumable categories. Lastly, the clubs are among the newest retailers to accept food stamps and increases in food stamp redemptions in the club channel represent incremental YOY sales growth.

#1: WMT - Increased Price Investments will Appeal to the Value-Oriented Consumer

We estimate that between its U.S. supercenters and discount stores, WMT has a 33.6% share of food stamp redemptions. The growth in food stamp redemptions in 2009 likely contributed ~\$5.9B in incremental sales to WMT's U.S. division (total food stamp benefits paid in 2009 were \$54.9B, vs. \$37.2B in 2008). In 2010, we estimate that increased food stamp redemptions at WMT could drive incremental sales of \$1,885 million and result in incremental earnings per share of \$0.08. *Importantly, these estimates do not assume that WMT gains share of food stamp redemptions.* However, we believe WMT's stepped-up rollback program in 2010 could result in increased share of food stamp redemptions, and we would view our estimates as conservative in that case. In 2011, we estimate that food stamps could drive incremental sales of \$1,406 million and incremental earnings per share of \$0.06.

Figure 17. EPS Impact of Incremental Food Stamp Redemptions for WMT

WMT's Share of Food Stamp Redemptions	2008	2009	2010E	2011E
Total Food Stamp Benefits	37,197	54,875	60,483	64,664
WMT's Share of Food Stamp Redemptions	33.6%	33.6%	33.6%	33.6%
Food Stamp Redemptions at WMT	12,505	18,448	20,333	21,739
<i>Incremental Redemptions YOY</i>		5,943	1,885	1,406
Incremental Earnings Analysis			2010E	2011E
Incremental Redemptions YOY			1,885.3	1,405.8
Operating Profit on Redemptions			468.3	349.2
Net Income on Redemptions			306.8	228.7
EPS Impact			\$0.08	\$0.06
CIRA 2010 EPS Estimate for WMT			\$4.04	\$4.49

Note: Assumes constant share of food stamp redemptions in 2009-2010 and no incremental SG&A expense. Our analysis also excludes food stamp redemptions at Sam's Club, which we do not view as material. Source: FNS, USDA, Company Data, CIRA Estimates

#2: Dollar Stores – The Low-Cost and Convenient Food Destination

The dollar stores are well-positioned to gain share of food stamp redemptions in light of their compelling value proposition (low prices + convenience), recent improvements in merchandising, and better access to brands position. Food stamp participants are also typically the dollar store's bread-and-butter customer, and we believe that dollar stores are top-of-mind with this consumer.

In addition, the dollar stores are making a bigger push into food retail. In 2008, Dollar General remerchandized consumables, including increasing shelf height to 78" from 66" and increasing its offering of food and beverages. Family Dollar is similarly focused on improving its merchandising of food and consumables by enhancing its assortment planning capabilities, which will allow it to tailor assortments within stores (micro-cluster) and within markets (macro-cluster). In addition to these changes, we believe both Dollar General and Family Dollar are getting better access to brands as manufacturers look for new outlets to sell their products.

We believe that these changes position the dollar stores well to gain share of food stamp benefits. Dollar General began accepting food stamps in 2003, followed by Family Dollar in late-2006. In order for the dollar stores to carry food stamps, they needed to add coolers to their stores so that they could carry dairy products in addition to their offering of dry grocery. The EBT rollout served as a complement to the cooler rollout for both Dollar General and Family Dollar. Given Dollar General's lead on coolers and therefore EBT, we believe DG has greater mindshare with food stamp customers.

#3: Clubs - Food Stamps are a ~\$5B+ Opportunity for the Clubs

The clubs have acted to take advantage of the increase in food stamp usage. In March 2009, Sam's Club became the first club to accept food stamps. BJ's began accepting food stamps in April. COST began accepting food stamps in two New York City clubs in June 2009 before expanding the program nationally in October. The acceptance of food stamps has contributed to sales increases at the clubs. We believe the clubs are an attractive option for food stamp participants because they can stretch their EBT dollars further. We believe that the clubs could capture up to ~\$5.3B, or an 8.7% share, of the food stamp market over time, based on the clubs' market share in food. This would represent 4.4% of club channel sales, which is potentially significant.

Figure 18. Potential Share of Food Stamp Spend

Food Stamp Share Potential for Clubs	
Food Stamp Benefits - 2010E (\$M)	\$60,482.7
Club Market Share of Food	8.8%
Potential Food Stamp Spend at Clubs	\$5,330.9
Percentage of 2010E Club Sales	4.4%
BJ's Wholesale Club	
- Club Industry Market Share	9.1%
- Estimated Food Stamp Sales	\$486.9
Costco	
- Club Industry Market Share	52.6%
- Estimated Food Stamp Sales	\$2,802.9
Sam's Club	
- Club Industry Market Share	38.3%
- Estimated Food Stamp Sales	\$2,041.0

Source: USDA's Economic Research Service, Company Data, CIRA

Details on the U.S. Food Stamp Program

The Food Stamp Act of 1964 created a permanent food stamp program in the U.S. The Food Stamp Program (FSP) is funded primarily by the federal government but is administered at the state level. The Food Stamp Act of 1977 set the primary set of rules and regulations that govern the program today, although there have been several amendments since the 1977 act. Electronic Benefit Transfer (EBT) was first introduced in 1984 and was later mandated under the program in October 2002. By June 2004, all states had transitioned from food stamp coupons to EBT. The transition to EBT helped remove the stigma surrounding the food stamp program and encouraged increased participation. In 2008, the name of the food stamp program was changed to the Supplemental Nutrition Assistance Program, which reduced the stigma associated with the old program and reflected an increased focus on improving nutrition. For fiscal 2009 (ended September 30, 2009), the food stamp program had ~33.7 million participants and average monthly benefits of \$124 per participant. In the sections below, we discuss the details of the Food Stamp Program. We have also included a detailed timeline of the program in the Appendix.

A National Program Administered by State and Local Governments

The Food Stamp Act of 1964 created a federal food stamp program but designated responsibility for administration and operation of the program to the states. In 1974, all states were required to offer the food stamp program to their citizens. Today, the federal government is responsible for funding the program and authorizing the acceptance of food stamps by retailers and wholesalers. States are responsible for certification and issuance. Administration costs are shared equally by the federal and state governments. In 2008, total administrative costs were \$6.2 billion, up 7.8% from \$5.7 billion in 2007.

- **Federal Government Responsibilities.** The federal government is responsible for setting general eligibility requirements and benefit levels, as well as authorizing retailers and wholesalers to accept food stamps. Benefit costs are funded by the federal government, and it shares the administration costs of the program with the states.
- **State and Local Government Responsibilities.** State and local agencies are responsible for setting eligibility requirements (in accordance with guidelines set by the federal government), certifying the eligibility of applicant households, and issuing EBT cards. States manage their own application forms, administer eligibility interviews with households, and determine the level of benefits for each eligible household (again, in accordance with guidelines from the federal government). States also retain certain powers regarding eligibility. For example, states can develop employment programs that would allow able-bodied adults to meet the requirements of the employment test.

Eligibility Requirements

Households that would like to begin receiving food stamp benefits must meet three basic eligibility tests: 1) the resource test; 2) the income test; and 3) the employment test (temporarily suspended until September 10, 2010). In addition, all household members must provide a social security number. The following figure summarizes the eligibility requirements for the food stamp program (although some exceptions, like categorical eligibility, apply).

Figure 19. Eligibility Requirements for the Food Stamp Program

Eligibility Test	Requirements
1. Resource Test	< \$2,000 in countable resources; < \$3,000 if HH member is elderly or disabled
2. Gross Income Test	< 130% of poverty level
3. Net Income Test	< 100% of poverty level
4. Employment Test	able-bodied adults without dependents must be working or participating in an employment program (requirement suspended until 9/2010)
5. Social Security Number	required for all household members
Exceptions	Requirements
Categorical Eligibility	Households are exempt from meeting the above tests if all members receive TANF, SSI, or GA

Note: The figure above does not include all exceptions to the eligibility requirements.

Source: FNS, USDA, Citi Investment Research and Analysis

Requirement #1: Resources

Households may have only \$2,000 in countable resources to be eligible for the food stamp program. If one person is age 60 or older or is disabled, the household may have up to \$3,000 in countable resources. Countable resources include cash, bank accounts, financial assets, and investment accounts. Certain resources are not counted, including a home and lot, the resources of people who receive Supplemental Security Income (SSI), the resources of people who receive Temporary Assistance for Needy Families (TANF), and most retirement/pension plans.

- **Vehicles.** Vehicles are not counted if they are: 1) used for income-producing purposes; 2) annually producing income consistent with their fair market value; 3) needed for long distance travel for work (other than the daily commute); 4) used as the home; 5) needed to transport a physically disabled household member; 6) needed to carry most of the household's fuel or water; and 7) if there is less than \$1,500 in equity in the vehicle.
 - For all other vehicles, the fair market value over \$4,650 or the equity value, whichever is more, is counted.

- **USDA Proposal.** The USDA has proposed raising the asset limit for households to \$10,000 beginning on October 1, 2011. While the request must be approved by Congress as part of the U.S.'s annual budget, it could significantly increase the number of persons eligible for the food stamp program by an estimated 230,000, according to the USDA.

Requirement #2: Income

Households must meet two income tests, the gross income test and the net income test, to be eligible for the food stamp program. Households where all members are receiving SSI, TANF, or general assistance are exempt from meeting the income test, and households with an elderly person or a person who is receiving certain types of disability payments only have to meet the net income test.

- **Gross Income Test.** A household's gross monthly income cannot exceed 130% of the poverty level. Gross income is defined as a household's total, non-excluded income before any deductions have been made.
- **Net Income Test.** A household's net monthly income cannot exceed 100% of the poverty level. Net income is defined as gross income minus the following allowable deductions:
 - A 20% deduction from earned income;
 - A standard deduction of \$141 for households with 1 to 3 people and \$153 for a household size of 4 or more (higher for some larger households);
 - A dependent care deduction when needed for work, training, or education;
 - Medical expenses for elderly or disabled members that are more than \$35 for the month, if they are not paid by insurance or someone else;
 - Legally owed child support;
 - Excess shelter costs, including heat, gas, electricity, water, basic telephone service, rent, mortgage, and taxes on the home, if these costs are more than half of the household's income after the other deductions;
 - Some states also allow homeless households a set amount of \$143 for shelter costs.

Figure 20. Gross and Net Income Limits under the Food Stamp Program (FY2010)

Household Size	Gross Monthly Income (130% of poverty)	Net Monthly Income (100% of poverty)	Gross Annual Income (130% of poverty)	Net Annual Income (100% of poverty)
1	\$1,174	\$903	\$14,088	\$10,836
2	1,579	1,215	18,948	14,580
3	1,984	1,526	23,808	18,312
4	2,389	1,838	28,668	22,056
5	2,794	2,150	33,528	25,800
6	3,200	2,461	38,400	29,532
7	3,605	2,773	43,260	33,276
8	4,010	3,085	48,120	37,020
Each additional member:	406	312	4,872	3,744

Source: FNS, USDA, Citi Investment Research and Analysis

Requirement #3: Employment

In general, able-bodied adults without dependents between the ages of 18 and 50 (or 16 and 60 as determined by the local benefits office) can only receive food stamp benefits for a period of three months in a 36-month period if they do not work or participate in an employment training program. However, the American Recovery and Reinvestment Act eliminated this time limit for the period from April 1, 2009 through September 30, 2010, unless a state can provide a job or qualifying work activity, like a job training program.

Categorical Eligibility

Certain households could be eligible to receive food stamp benefits without having to meet the above requirements. Under the Food Stamp Program, the federal government has exempted households from the above tests if all members of the household are receiving Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), or General Assistance (GA). Some states also confer categorical eligibility on households where at least one member receives TANF, SSI, or GA benefits and the state determines that the entire household benefits from this assistance.

Benefits Determination

Households receive food stamp benefits based on their monthly income and household size. The amount of benefits that a household receives is called an allotment. To determine the allotment, the household's net monthly income is multiplied by 0.3, and the product is subtracted from the maximum allotment for the household size (see Figure 21). The net income is multiplied by 0.3 as households on food stamps are expected to spend 30% of their monthly income on food.

- Sample Benefits Calculation.** For a household of four with net monthly income of \$1,154 (as determined by the net income test), the monthly allotment of food stamp benefits would be \$321. The allotment is calculated by first multiplying the net monthly income of \$1,154 by 0.3, which equals \$347 (always round up). Then, subtract the result (\$347) from the maximum allotment for a household of four (\$668 per Figure 21). The food stamp allotment for this household would be \$321 (\$668-\$347).

Figure 21. Maximum Benefits Allotment under the Food Stamp Program

Household Size	Maximum Monthly Allotment	Maximum Annual Allotment
1	\$200	\$2,400
2	367	4,404
3	526	6,312
4	668	8,016
5	793	9,516
6	952	11,424
7	1,052	12,624
8	1,202	14,424
Each additional member:	150	1,800

Source: FNS, USDA, Citi Investment Research and Analysis

“Thrifty Food Plan” is the Basis for Benefits Determination

The USDA's Thrifty Food Plan (TFP) serves as a national standard for a nutritious diet at a minimal cost and is used as the basis for determining the maximum allotment of benefits under of the food stamp program. The TFP was revised in 2006 to reflect current dietary recommendations, food consumption patterns, food composition data, and food prices. The TFP basket includes grains, vegetables, fruits, dairy products, meat, beans, and other foods. Food quantities (and ultimately the cost of the basket) are determined by a person's age and gender and are grouped into 15 different market baskets based on these variables. The TFP only serves as a rough guide in determining food stamp benefits. Benefits are paid based only on household size and ignore the impact of age and gender on nutritional needs. The TFP is one of four official food plans maintained by the USDA, and we have included further details on these plans in the Appendix.

Duration of Benefits

Qualified households, including those with dependents, disabled adults, and the elderly, can continue receiving food stamps indefinitely as long as they continue to meet the eligibility requirements. Households must recertify periodically (typically annually or semi-annually) to confirm that they are still eligible. Adults without dependents can only receive benefits for three months in a 36-month period if they aren't working and are not disabled.

- **Able-Bodied Adults Without Dependents (ABAWDs).** ABAWDs between the ages of 18 and 50 (or 16 and 60 as determined by the local benefits office) can only receive food stamp benefits for a period of *three months in a 36-month period* if they do not work or participate in an employment training program. If an ABAWD is working and continues to meet the resource and income eligibility requirements, the person can continue to receive food stamp benefits.

However, the American Recovery and Reinvestment Act eliminated this time limit for the period from April 1, 2009 through September 30, 2010. The USDA estimates that this provision allows 14,000 participants to continue receiving their benefits.

- **Adults with Dependents, Disabled Adults, and the Elderly.** Adults with dependents, disabled adults, and the elderly must only meet the resource and income eligibility requirements to receive food stamps.

Characteristics of Food Stamp Participants

A study⁴ conducted by the FNS/USDA of the Food Stamp Program for fiscal year 2008 found the following general demographic and economic characteristics of program participants. The data from FY2008 represents the latest available program data.

- **Household Composition.** Nearly half (49%) of FSP recipients were children and 9% were age 60 or older. Working-age women represented 28% of recipients, while working-age men represented 14%.
- **Household Size.** The average household size was 2.2 persons. Households with children were relatively large, averaging 3.3 members. Households with elderly participants were smaller, with an average of 1.3 members.
- **Wages and Earnings.** More than 29% of households had earnings in 2008, and these earnings were the primary source of income. Approximately 40% of all participants lived in a household with earnings.
- **Gross Income and Monthly Funds.** The typical FSP household had gross income of \$701 per month. FSP benefits contributed 24% to these household's total monthly funds (gross income plus FSP benefits).
- **Welfare Assistance.** The majority of FSP households did not receive cash welfare benefits. Less than 11% of received Temporary Assistance for Needy Families (TANF) benefits and ~5% received State General Assistance (GA) benefits.
- **Income Relative to Poverty Line.** Households with incomes at or below the poverty line represented 87% of food stamp households. Nearly 16% had no cash income of any kind.
- **Resources and Savings.** The average FSP household possessed only ~\$25 in countable resources (including countable vehicles, the value of bank accounts, and other savings). Nearly three-fourths (73%) had no countable resources.
- **FSP Benefits.** The average household received a monthly food stamp benefit of \$222, with ~33% receiving the maximum benefit for their family size and less than 7% receiving the minimum benefit of \$10.

⁴ U.S. Department of Agriculture, Food and Nutrition Service, Office of Research and Analysis, Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2008, by Kari Wolkwitz and Carole Trippe. Project Officer, Jenny Genser. Alexandria, VA: 2009.

Eligible Food Products

Food stamp participants can use their benefits to purchase the majority of food items found at a food retailer, with some exceptions as noted below. Non-food items are not eligible for purchase. In addition, food stamp benefits cannot be redeemed at restaurants or food service establishments. We have included a list of eligible and non-eligible items below.

Food stamp benefits can be used to buy the following products:

- Foods for the household to eat, such as breads and cereals, fruits and vegetables, meats, fish, poultry, and dairy products; and
- Seeds and plants that produce food for the household to eat.

Food stamp benefits cannot be used to buy the following products:

- Beer, wine, liquor, cigarettes, and tobacco;
- Any non-food items, such as pet food, soaps, paper products, and household supplies;
- Vitamins, supplements, and medicines;
- Food that will be eaten in the store; and
- Hot foods.

Development of the Electronic Benefit Transfer (EBT) System

Electronic Benefit Transfer (EBT) for the food stamp program was first introduced in 1984 in Reading, PA. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 mandated that all states must implement EBT systems by October 2002, and by June 2004, all states had transitioned from food stamp coupons to EBT. EBT replaced the paper food stamp system, which was inefficient and costly. EBT is now used in all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam.

Under the EBT system, food stamp recipients apply for their benefits in the usual way, by filling out a form at their local food stamp office. Once eligibility and level of benefits have been determined, an account is established in the participant's name, and food stamp benefits are deposited electronically into the account each month. A plastic card, similar to a bank card, is issued and a personal identification number (PIN) is assigned or chosen by the participant. When participants want to use their benefits, they can use the EBT card like a debit card to pay for their food. The card will authorize the transfer of their government benefits from a federal account to the retailer's account to pay for products received.

History of the Food Stamp Program

Figure 22. Timeline of the U.S. Food Stamp Program

Timeline of the U.S. Food Stamp Program		
Year	Event	Relevant Legislation
1933	The Federal Surplus Relief Corporation (FSRC) was formed to dispense surplus food production to needy	
1935	The FSRC was changed to the Food Surplus Commodities Corporation, which focused on encouraging domestic consumption of surplus food supplies.	Agricultural Adjustment Act
1939	The federal government began an experimental food stamp program in Rochester, NY in May. Under the program, participants could buy orange-colored food stamps instead of purchasing food directly. For every dollar of orange food stamps purchased, participants received \$0.50 in blue food stamps, which could be used to buy designated surplus foods.	
1943	The food stamp program was discontinued in March due to shrinking participation and high administrative costs.	
1959	A two-year food stamp program was authorized to be used at the discretion of the federal government. The program was valid through January 31, 1962.	Extension of the Agricultural Trade Development and Assistance Act of 1954
1961	In January, President Kennedy issued an Executive Order to expand food distribution and initiate food stamp pilot programs in eight areas.	
1964	The Food Stamp Act created a permanent food stamp program. Households would be responsible for purchasing a percentage of the value of their food stamps based on normal food expenditures. Normal food expenditures were determined using the USDA's Thrifty Food Plan. The Act also stated that states would be responsible for determining eligibility requirements for participants, and it excluded alcoholic beverages and imported foods from the list of eligible food items.	Food Stamp Act of 1964
1969	The USDA Food and Nutrition Service was created to coordinate adult and child food programs.	
1971	The Act established uniform national standards of eligibility and work requirements, required allotments to be equivalent to the cost of a nutritionally adequate diet, and limited the required food stamp purchase for households to 30% of net income. The food stamp program was also expanded to Guam, Puerto Rico, and the	Amendments to the Food Stamp Act of 1964
1973	The federal government required states to expand their food stamp programs to each political subdivision within the state by June 30, 1974.	Agriculture and Consumer Protection Act of 1973
1977	The Act eliminated the requirement that households purchase a percentage of the value of food stamps they received. Instead, food stamp allotments would be determined based on the difference between the maximum allotment and 30% of the household's net income (requiring no payment by the household). In addition, the Act mandated that a household's income after deductions must fall below the poverty line to be eligible for food stamps. It also detailed certain income that was to be excluded from the household income calculation, added a standard deduction for the purpose of determining net income, and reduced the number of available deductions to	Food Stamp Act of 1977
1979	The purchase requirement eliminated by the 1977 Act was implemented as of January 1, 1979. This greatly improved access to the food stamp program.	
1979	Special deductions were granted to households for medical expenses that were used to care for an elderly or disabled household member, and expenses related to dependent care were now deductible when these expenses were necessary for a household member's employment or education.	Food Stamp Act Amendments of 1979
1980	The Consumer Price Index (CPI-U) would now be used to adjust the benefits paid under the food stamp program.	Amendments to the Food Stamp Act of 1979
1981	The gross income eligibility test is set at 130% of the poverty line for all households, except those with elderly or disabled members, and the earned income deduction for working households is lowered from 20% to 18%.	Omnibus Budget Reconciliation Act of 1981
1982	Households with no elderly or disabled members are required to meet both the 100% of poverty net income test and the 130% of poverty gross income test to be eligible for food stamps.	Omnibus Budget Reconciliation Act of 1982
1984	The first Electronic Benefits Transfer (EBT) program began in Reading, PA.	
1985	The Act raised the resource limit from \$1,500 to \$2,000 for households with no elderly members and extended the \$3,000 asset limit from households with elderly members to one-person households.	Food Security Act of 1985
1988	The Act authorized pilot projects to test the use of EBT as an alternative means of delivering food stamp benefits.	Food Prevention Act of 1988
1990	EBT was established as an alternative means to issue benefits under the food stamp program. The Act also increased food stamp benefits by applying a multiplication factor to Thrifty Food Plan costs.	Mickey Leland Memorial Domestic Hunger Relief Act
1996	The Act proposed the use of EBT cards in lieu of coupons for the food stamp program and provided that states must implement EBT systems before October 1, 2002. It also required that annual adjustments to the maximum allotment reflect the actual change in the cost of the Thrifty Food Plan, rather than 103% of the change. Lastly, it placed a time limit on the receipt of food stamps of three out of 36 months for able-bodied adults without dependents (ABAWDs) who were not working at least 20 hours a week or participating in a work program.	Personal Responsibility and Work Opportunity Reconciliation Act
2000	The Food Stamp Act of 1977 was amended to provide for a national standard of interoperability and portability applicable to EBT transactions and required that systems provide for the electronic issuance, use, and redemption of food stamps. States were to transition to EBT no later than October 1, 2002.	Electronic Benefit Transfer Interoperability and Portability Act of 2000
2002	The fixed standard deduction was replaced by a deduction that varies according to household size and is adjusted annually for cost-of-living increases. In addition, the resource limit for households with a disabled member was raised to \$3,000 from \$2,000, consistent with the limit for households with an elderly member.	Farm Security and Rural Investment Act of 2002
2004	All states had introduced EBT in place of food stamp coupons by June 2004.	
2008	This Act changed the name of the Food Stamp Program to the Supplemental Nutrition Assistance Program (SNAP), effective October 1, 2008. It also improved access to nutritional information and education for food stamp participants, simplified reporting standards, and reduced administrative costs.	Food, Conservation, and Energy Act of 2008
2009	The Act increased food stamp benefits by 13% (or ~\$20B) and temporarily eliminated the time limit for able-bodied adults without dependents (ABAWDs) to receive benefits if not working. It is effective April 1, 2009	American Recovery and Reinvestment Act of 2009

Source: FNS, USDA, Library of Congress, Citi Investment Research and Analysis

Annual Food Stamp Data (1969-2009)

Figure 23. The U.S. Food Stamp Program Participation and Costs (1969-2009)

Supplemental Nutrition Assistance Program Participation and Costs					
(Data as of March 3, 2010)					
Fiscal Year	Average Participation	Average Benefit Per Person ¹	Total Benefits	All Other Costs ²	Total Costs
	--Thousands--	--Dollars--	-----Millions of Dollars-----		
1969	2,878	6.63	228.8	21.7	250.5
1970	4,340	10.55	549.7	27.2	576.9
1971	9,368	13.55	1,522.7	53.2	1,575.9
1972	11,109	13.48	1,797.3	69.4	1,866.7
1973	12,166	14.60	2,131.4	76.0	2,207.4
1974	12,862	17.61	2,718.3	119.2	2,837.5
1975	17,064	21.40	4,385.5	233.2	4,618.7
1976	18,549	23.93	5,326.5	359.0	5,685.5
1977	17,077	24.71	5,067.0	394.0	5,461.0
1978	16,001	26.77	5,139.2	380.5	5,519.7
1979	17,653	30.59	6,480.2	459.6	6,939.8
1980	21,082	34.47	8,720.9	485.6	9,206.5
1981	22,430	39.49	10,629.9	595.4	11,225.3
1982	21,717	39.17	10,208.3	628.4	10,836.7
1983	21,625	42.98	11,152.3	694.8	11,847.1
1984	20,854	42.74	10,696.1	822.6	11,518.7
1985	19,899	44.99	10,743.6	959.6	11,703.2
1986	19,429	45.49	10,605.2	1,033.2	11,638.4
1987	19,113	45.78	10,500.3	1,103.9	11,604.2
1988	18,645	49.83	11,149.1	1,167.7	12,316.8
1989	18,806	51.85	11,669.8	1,231.8	12,901.6
1990	20,049	58.96	14,142.8	1,304.5	15,447.3
1991	22,625	63.87	17,315.8	1,431.5	18,747.3
1992	25,407	68.57	20,905.7	1,556.6	22,462.3
1993	26,987	67.95	22,006.0	1,647.0	23,653.0
1994	27,474	69.00	22,748.6	1,744.8	24,493.4
1995	26,619	71.27	22,764.1	1,856.3	24,620.4
1996	25,543	73.21	22,440.1	1,890.8	24,330.9
1997	22,858	71.27	19,548.9	1,958.6	21,507.5
1998	19,791	71.12	16,890.5	2,097.8	18,988.3
1999	18,183	72.27	15,769.4	2,051.5	17,820.9
2000	17,194	72.62	14,983.3	2,070.7	17,054.0
2001	17,318	74.81	15,547.4	2,242.0	17,789.4
2002	19,096	79.67	18,256.2	2,380.9	20,637.1
2003	21,259	83.90	21,404.3	2,412.0	23,816.3
2004	23,858	85.99	24,618.9	2,480.2	27,099.1
2005	25,718	92.57	28,567.9	2,504.2	31,072.1
2006	26,672	94.32	30,187.3	2,724.6	32,911.9
2007	26,468	95.63	30,373.3	2,819.8	33,193.1
2008	28,409	101.52	34,608.4	3,048.7	37,657.1
2009	33,722	124.45	50,360.1	3,269.0	53,629.1

Source: FNS, USDA, CIRA

Monthly Food Stamp Data (10/06-2/10)

Figure 24. The U.S. Food Stamp Program Participation and Costs (10/06-2/10)

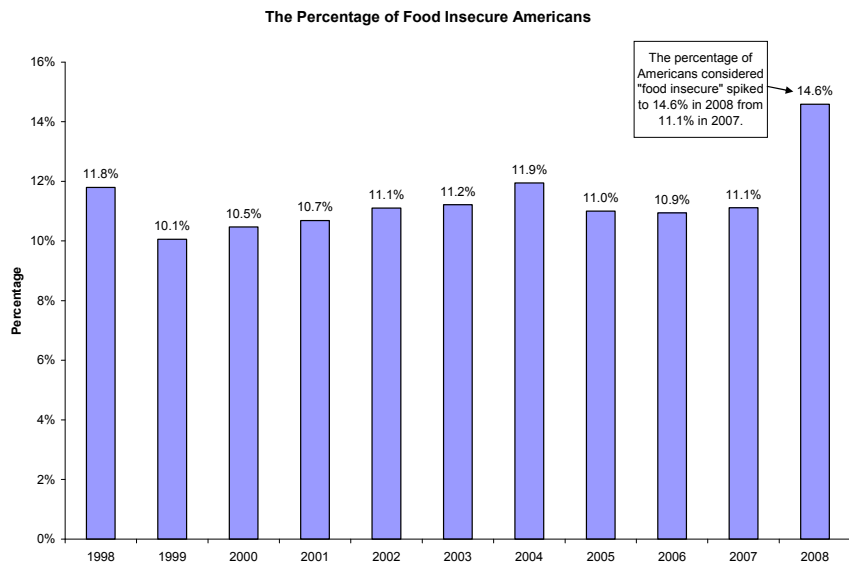
Supplemental Nutrition Assistance Program Participation and Costs					
(Data as of May 3, 2010)					
Fiscal	PARTICIPATION		BENEFIT	AVERAGE MONTHLY BENEFIT	
Year	Persons	Households	COSTS	Per Person	Per Household
Oct 2006	26,288,644	11,657,596	2,541,158,969	96.66	217.98
Nov 2006	26,295,881	11,652,193	2,523,772,503	95.68	216.59
Dec 2006	26,390,332	11,702,260	2,546,342,023	96.49	217.59
Jan 2007	26,367,366	11,736,069	2,509,281,764	95.17	213.81
Feb 2007	26,153,209	11,643,496	2,485,125,844	95.02	213.43
Mar 2007	26,376,386	11,759,208	2,519,248,231	95.51	214.24
Apr 2007	26,281,533	11,721,216	2,497,368,851	95.02	213.06
May 2007	26,409,288	11,801,089	2,518,967,072	95.38	213.45
Jun 2007	26,609,472	11,875,557	2,537,582,439	95.36	213.68
Jul 2007	26,617,626	11,888,007	2,540,760,407	95.45	213.72
Aug 2007	26,903,523	12,009,374	2,574,730,478	95.70	214.39
Sep 2007	26,929,496	12,029,068	2,578,932,497	95.77	214.39
Oct 2007	27,177,788	12,148,397	2,763,946,525	101.70	227.52
Nov 2007	27,327,713	12,208,960	2,766,370,199	101.23	226.59
Dec 2007	27,561,755	12,313,466	2,789,090,515	101.19	226.51
Jan 2008	27,761,510	12,432,801	2,778,842,340	100.10	223.51
Feb 2008	27,730,703	12,437,687	2,779,283,488	100.22	223.46
Mar 2008	27,956,463	12,547,987	2,814,003,256	100.66	224.26
Apr 2008	28,156,713	12,643,294	2,838,248,777	100.80	224.49
May 2008	28,435,823	12,764,293	2,871,358,394	100.98	224.95
Jun 2008	28,703,505	12,887,877	2,900,078,521	101.04	225.02
Jul 2008	29,059,724	13,054,634	2,957,149,326	101.76	226.52
Aug 2008	29,459,942	13,220,994	2,984,537,425	101.31	225.74
Sep 2008	31,586,923	14,087,387	3,365,488,472	106.55	238.90
Oct 2008	31,049,785	13,900,806	3,697,626,094	119.09	266.00
Nov 2008	31,097,245	13,963,069	3,561,219,464	114.52	255.05
Dec 2008	31,784,445	14,284,017	3,648,864,017	114.80	255.45
Jan 2009	32,204,843	14,499,683	3,633,187,003	112.81	250.57
Feb 2009	32,556,129	14,677,726	3,703,671,515	113.76	252.33
Mar 2009	33,156,680	14,982,144	3,776,010,414	113.88	252.03
Apr 2009	33,758,137	15,269,494	4,499,578,075	133.29	294.68
May 2009	34,409,488	15,578,688	4,596,448,415	133.58	295.05
Jun 2009	35,125,555	15,916,291	4,675,402,691	133.11	293.75
Jul 2009	35,851,179	16,259,734	4,779,749,597	133.32	293.96
Aug 2009	36,495,903	16,560,753	4,851,835,499	132.94	292.97
Sep 2009	37,178,127	16,892,857	4,936,554,378	132.78	292.23
Oct 2009	37,938,032	17,253,447	5,070,838,627	133.66	293.90
Nov 2009	38,183,668	17,516,643	5,106,908,841	133.75	291.55
Dec 2009	38,978,382	17,886,015	5,244,527,739	134.55	293.22
Jan 2010	39,430,724	18,117,791	5,254,245,639	133.25	290.00
Feb 2010	39,693,919	18,273,141	5,287,997,888	133.22	289.39

Source: FNS, USDA, CIRA

Food Insecurity

In a “food secure” household, all members have access at all times to enough food for an adequate, healthy life. In contrast, food insecurity is defined as a household-level economic and social condition of limited or uncertain access to adequate food. The U.S. Census Bureau measures food insecurity through an annual, nationally-representative household survey that asks a series of questions about conditions and behaviors that characterize households when they are having difficulty meeting basic food needs. Households are classified as food secure, low food security (food insecure without hunger), or very low food security (food insecure with hunger), based on the number of food insecure conditions reported. Of the food insecure households, approximately one-third had very low food security, while two-thirds had low food security.

Figure 25. Percentage of Americans Considered Food Insecure



Source: U.S. Census Bureau, USDA's Economic Research Service, CIRA

Federal Poverty Levels

Federal poverty levels are used to determine a household's eligibility for food stamps. In general, households must have a gross income below 130% of the federal poverty level and a net income below 100% of the federal poverty level. Poverty guidelines are established by the Office of Management and Budget and are updated annually by the Department of Health and Human Services.

Figure 26. Poverty Thresholds for 2009 by Size of Family and Number of Related Children Under 18 Years

Size of Family Unit	Related Children under 18 Years								
	None	One	Two	Three	Four	Five	Six	Seven	Eight or more
Single Person Household									
Under 65 years	\$11,161								
65 years and over	10,289								
Two Person Household									
Householder under 65 years	14,366	\$14,787							
Householder 65 years and over	12,968	14,731							
Three People	16,781	17,268	\$17,285						
Four People	22,128	22,490	21,756	\$21,832					
Five People	26,686	27,074	26,245	25,603	\$25,211				
Six People	30,693	30,815	30,180	29,571	28,666	\$28,130			
Seven People	35,316	35,537	34,777	34,247	33,260	32,108	\$30,845		
Eight People	39,498	39,847	39,130	38,501	37,610	36,478	35,300	\$35,000	
Nine People or more	47,514	47,744	47,109	46,576	45,701	44,497	43,408	43,138	\$41,476

Source: U.S. Census Bureau, Housing and Household Economic Statistics Division

Official USDA Food Plans

The USDA publishes the average cost of a basket of food for four different pricing tiers and 15 different age-gender groups. The basket represents food items that are considered necessary for a nutritious diet. The four pricing tiers represent levels of food cost and include: 1) Thrifty, 2) Low Cost, 3) Moderate Cost, and 4) Liberal, and the age-gender groups are used to discriminate between the nutritional needs of males and females and different age persons. We have included the latest food plan data from the USDA in Figure 27. Food stamp benefits are determined using the Thrifty Food Plan basket.

Figure 27. Official USDA Food Plans: Cost of Food-at-Home at Four Levels (U.S. Average Cost as of December 2009)

Age-Gender Groups	Weekly Cost				Monthly Cost			
	Thrifty Plan	Low-Cost Plan	Moderate Plan	Liberal Plan	Thrifty Plan	Low-Cost Plan	Moderate Plan	Liberal Plan
Individuals								
Child:								
1 year	\$19.80	\$26.30	\$30.20	\$36.40	\$86.00	\$114.20	\$130.80	\$157.70
2-3 years	21.50	26.90	32.70	39.70	93.00	116.50	141.60	172.00
4-5 years	22.20	28.10	34.80	42.40	96.10	122.00	150.80	183.80
6-8 years	28.30	38.30	47.30	55.70	122.80	166.10	205.10	241.50
9-11 years	32.50	42.60	55.00	64.20	140.90	184.60	238.30	278.10
Male:								
12-13 years	34.60	48.70	60.70	71.50	150.00	210.90	263.00	309.60
14-18 years	35.60	50.10	62.90	71.90	154.40	217.00	272.40	311.70
19-50 years	38.40	49.50	62.10	76.10	166.30	214.50	268.90	329.90
51-70 years	35.10	46.80	57.50	69.70	151.90	202.90	249.10	301.90
71+ years	35.30	46.30	57.70	71.00	153.10	200.80	249.90	307.50
Female:								
12-13 years	34.80	42.20	50.90	61.70	150.80	182.90	220.60	267.50
14-18 years	34.30	42.50	51.50	63.20	148.50	184.20	223.20	273.70
19-50 years	34.10	43.00	53.10	68.00	147.90	186.20	230.30	294.80
51-70 years	33.70	41.90	52.10	62.10	146.10	181.40	225.60	269.10
71+ years	33.30	41.50	51.70	62.30	144.20	179.80	224.00	269.90
Families								
Family of 2:								
19-50 years	\$79.80	\$101.70	\$126.70	\$158.60	\$345.60	\$440.80	\$549.10	\$687.30
51-70 years	75.70	97.60	120.50	145.00	327.80	422.70	522.10	628.10
Family of 4:								
Couple (19-50 years) and children:								
2-3 and 4-5 years	116.20	147.50	182.70	226.30	503.30	639.20	791.60	980.60
6-8 and 9-11 years	133.40	173.40	217.50	264.10	577.90	751.40	942.50	1144.40

Source: USDA's Center for Nutrition Policy and Promotion

Company Valuation and Risks

Wal-Mart Stores Inc

(WMT.N; US\$53.78; 1M)

Company description

Wal-Mart Stores, Inc. (WMT), based in Bentonville, Arkansas, opened its first discount store in 1962 and has grown to become the world's largest retailer with fiscal 2010 total sales topping \$400 billion. In addition to discount stores, WMT operates Supercenters, which first opened in 1988 and offer customers a combination of food and general merchandise. The membership-only warehouse club, Sam's Club, first opened in 1983, and the company opened its Neighborhood Market banner in 1998 as a supermarket format. In May 2003, WMT sold McLane Company, a wholesale distributor of consumer packaged goods, to Berkshire Hathaway Inc. The company's primary business is its Walmart discount stores and Supercenters, which sell merchandise in six primary categories, including 1) grocery, 2) health & wellness, 3) entertainment, electronics, and toys, 4) apparel, shoes, and jewelry, 5) home, and 6) seasonal and hardlines. In 2006, the company revolutionized the market for prescription drugs with its \$4 generic prescription drug program.

In 1992, WMT began its international operations through a joint venture in Mexico with Cifra S.A. de C.V. The company rapidly expanded its international footprint in the following years. After its withdrawal from Germany and South Korea in 2006, WMT's international segment now consists of wholly-owned operations in Argentina, Brazil, Canada, Puerto Rico, and the United Kingdom and majority-owned subsidiaries in Chile, Costa Rica, El Salvador, Guatemala, Honduras, Japan, Mexico, and Nicaragua. WMT operates in China through a combination of joint ventures and minority-owned subsidiaries, and the company entered the Indian retail market in 2Q09 through a joint venture with Bharti.

Investment strategy

We rate the shares of WMT Buy/Medium Risk (1M). We expect long-term same-store sales growth to be driven by WMT's strong value proposition and improved in-store execution through its Project Impact remodels. In addition, the company will be stepping up its price investments in food and consumable categories to drive market share gains from the supermarkets. With lower-income consumers still under financial stress, we believe that a stronger price message from WMT will resonate well with these consumers. From an earnings perspective, we expect growth to be driven by market share gains and the growth of WMT's international operations, including acquisitions in new markets. Improved inventory management, increased private label penetration, a keener merchandising program across the store, and increased global sourcing should also drive higher profitability.

Valuation

We have assigned Wal-Mart Stores a 1M (Buy, Medium Risk) rating. We are valuing Wal-Mart using a 16x target forward P/E multiple on our 2010 EPS estimate, which yields a 12-month target price of \$65.

In our P/E valuation analysis, our target multiple of 16x times our 2010 EPS estimate is below WMT's ten-year median of 18.8x but above its five-year median of 14.8x. Our target multiple reflects multiple expansion from current levels, driven by 1) market share gains, and 2) strong growth in WMT's International division, 3) margin benefits from increased private label penetration and global sourcing, and 4) opportunity to improve sales performance in apparel and home. However, we do award WMT a higher multiple as the economic environment remains challenging for WMT's core customer and the company has slowed square footage growth in its U.S. business.

Risks

We rate WMT Medium Risk based on political risks, stock liquidity, earnings stability, price volatility, and financial strength. Our risk rating also reflects industry and company specific risks.

Risks to the achievement of our target price include: 1) investors could prefer to own more discretionary retailers, which typically perform better following a recession; 2) WMT's size may hinder both sales and earnings growth in the future; 3) WMT's core customer is highly sensitive to macroeconomic pressures; 4) the earnings impact of foreign currency exchange rates could be greater or less than expected; and 5) the implementation of initiatives like Project Impact and the company's WIN-PLAY-SHOW merchandising strategy carry execution risk.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of all or any identified portion of this research report hereby certifies that, with respect to each issuer or security or any identified portion of the report with respect to an issuer or security that the research analyst covers in this research report, all of the views expressed in this research report accurately reflect their personal views about those issuer(s) or securities. The research analyst(s) also certify that no part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this research report.

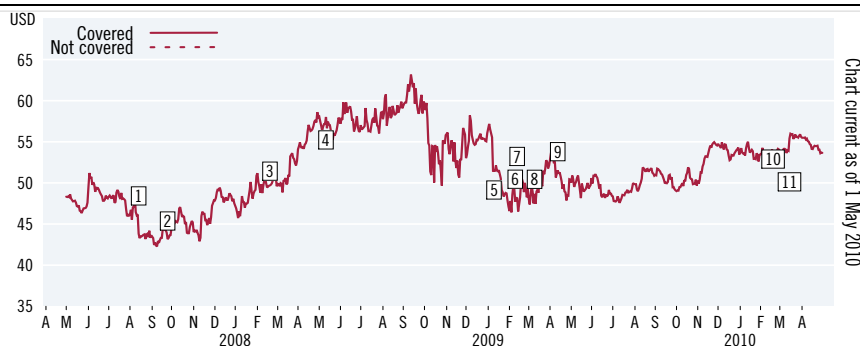
IMPORTANT DISCLOSURES

Wal-Mart Stores Inc (WMT)

Ratings and Target Price History

Fundamental Research

Analyst: Deborah L Weinswig



	Date	Rating	Target Price	Closing Price
1	14-Aug-07	1L	*\$51.00	43.82
2	25-Sep-07	1L	*\$53.00	43.16
3	20-Feb-08	1L	*\$57.00	49.70
4	11-May-08	1L	*\$67.00	57.18

	Date	Rating	Target Price	Closing Price
5	9-Jan-09	1L	*\$65.00	51.58
6	10-Feb-09	1L	*\$60.00	47.72
7	12-Feb-09	1L	*\$53.00	48.13
8	10-Mar-09	*2M	*\$48.00	48.67

	Date	Rating	Target Price	Closing Price
9	13-Apr-09	2M	*\$53.00	51.53
10	18-Feb-10	2M	*\$54.00	53.47
11	14-Mar-10	*1M	*\$65.00	53.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Mar 2010

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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