

## FINANCIAL REPORTING

## Before you read

Which is the biggest retailer in your country?

## Reading

Read this article from the *Financial Times* and answer the questions.

FT

LEVEL OF DIFFICULTY ● ● ○

# Wal-Mart profits reach \$13bn

by Jonathan Birchall

Wal-Mart, the world's largest retailer, beat expectations after its US discount stores accounted for about 50 per cent of all US retail growth last year – while its full-year global sales passed \$400bn (€318bn) for the first time and profits hit \$13.4bn.

Mike Duke, Chief Executive, said the fourth quarter and full-year results showed that Wal-Mart had gained 'momentum' during the year in all of its markets, in spite of the tough economic environment. 'We are doing all the right things to continue our momentum and to widen the gap between the competition and us. We finished January strong, and February is off to a good start.'

The results again underlined the retailer's ability to generate cash in a recession and to use the money to invest in its business at a time when most of its rivals are cutting back. Wal-Mart has

been able to make acquisitions, concluding a \$2.6bn deal in January for a controlling share of D&S, the largest retailer in Chile.

It is continuing to invest in its stores with a big remodelling programme, called Project Impact, now underway in the US. With this programme, Wal-Mart expects to significantly boost the sales per square foot of its more than 3,000 supercentres and discount stores.

Total net sales at Wal-Mart USA rose 6 per cent on the last quarter to \$71.5bn, although higher than expected expenses, including healthcare costs, led to its operating income growing more slowly than sales, up 2.2 per cent to \$5.4bn.

Internationally, the strong dollar weighed on earnings, with the value of sales down 8.4 per cent from the last quarter to \$24.7bn

and operating income down 14.3 per cent at \$1.5bn. At constant currencies, international operating income would have been up 5.1 per cent and net sales up 9 per cent.

The retailer highlighted the performance of its Asda stores in the UK, which gained market share with increased customer traffic and average purchases made.

In Japan, Wal-Mart reported that comparable sales at its Seiyu stores fell 0.5 per cent from the last quarter, but were positive in November and December.

**1 Match the verbs with the nouns to make expressions from paragraphs 1 to 3.**

- |            |                 |
|------------|-----------------|
| 1 beat     | a) the gap      |
| 2 gain     | b) momentum     |
| 3 widen    | c) momentum     |
| 4 generate | d) expectations |
| 5 make     | e) cash         |
| 6 continue | f) acquisitions |

**2 Now match the expressions from Exercise 1 to their meanings as they are used in the article.**

- i) become more successful
- ii) continue success
- iii) make money
- iv) increase a difference in performance
- v) buy other companies
- vi) exceed forecasts

**3 Look at paragraphs 1 to 4 and decide if these statements are true or false.**

In its latest financial year, Wal-Mart ...

- a) performed worse than had been expected.
- b) was responsible for half the growth of all US retailers.
- c) had sales of more than \$400 billion for the first time.
- d) had profits of less than \$10 billion.
- e) had a better financial performance, even though the general economic conditions were not good.
- f) performed better than its competitors by the same amount as before.
- g) had good sales in January, but less good in February.
- h) was able to buy a company in Chile only by increasing its borrowing.
- i) is putting more money into its US stores.

**4 Complete the information about the last three months of Wal-Mart's financial year using information from paragraphs 5 and 6.**

- a) International sales: \$ .....
- b) Operating income from international operations: \$ .....
- c) Increase (+)/decline (-) in international sales in dollar terms: .....%
- d) US sales after costs: \$ .....
- e) Increase (+)/decline (-) in US operating income after costs: .....%
- f) US operating income: \$ .....

**5 Which store chains does Wal-Mart own in the UK and Japan? How did they perform?**

**Over to you 1**

Look at Exercise 4. Find similar information for a company you are interested in, perhaps by looking at its website.

**Over to you 2**

Which is the biggest retailer in your country? How is it currently performing in relation to its competitors?

## SHORT SELLING

## Before you read

Is it acceptable to be able to sell something that you do not own?

## Reading

Read this article from the *Financial Times* and answer the questions.

FT

LEVEL OF DIFFICULTY ● ● ○

# Are short sellers necessary?

by William Leith

Short selling is not like making a normal investment. When you make a normal investment, you buy something, hoping it will be more desirable in the future. This type of investment – ‘going long’ – seems to be about optimism and hope. With short selling, you look for something that you think is going to decline in value. Then you borrow some shares in that thing. Next, you sell those shares to someone who is more optimistic, or less discerning, than you. If you’re right, and the shares plummet, you can buy them back for less than you sold them. If you’re wrong, and they treble in value, you’re bust, because you still owe the shares to their original owner.

Imagine if I go to a shop and see a big shelf of expensive handbags. Let’s say I look at these handbags for a while and come to believe they’re not worth anything like the price on

the label. To me, they look like rubbish handbags. So I go to the owner of the store and ask him, for a small fee, to borrow these handbags for a week. Then I take the bags out of the store and sell them to a trader for a fraction less than the price on the label. He’s happy – he thinks he can make a profit.

Six days later I go to see him. I was right – the handbags were rubbish. He hasn’t sold a single one. So I make a deal – I’ll buy them back for half of what I sold them for. Now he’s happy to get rid of them. The next day, I go back to the store and return the bags to the owner. He’s happy, but maybe a little suspicious. That’s short selling.

So what’s actually happened? I, the short seller, have spotted that somebody is charging a lot of money for handbags that are rubbish. Next, I’ve found somebody who is prepared to

sell any old rubbish as long as he thinks there’s something in it for him.

Now, who are these short sellers? What sort of people are they likely to be? Well, they are people who see things that look good on the surface but are actually rubbish. They are people, in other words, who see the difference between the appearance and the reality. They are the first to notice when something is a con. Short sellers, in fact, reveal the problem. It was short sellers, apparently, who made people realise that Enron was a rubbish product. No, the problem is not the short sellers. It’s the world of empty promises and false values that enables them to thrive. To ban them is to shoot the messenger.

**1 Choose the correct alternative to complete these statements about the expressions in *italic*.**

- a) In *short selling* (line 1), you expect that the value of something will ...  
i) fall. ii) stay the same. iii) rise.
- b) If you *go long* (line 6), you buy something expecting that its value will ...  
i) fall. ii) stay the same. iii) rise.
- c) If someone is *optimistic* (line 14), they think the future will be ...  
i) worse. ii) the same. iii) better.
- d) If someone is *discerning* (line 14), their judgement is ...  
i) bad. ii) good. iii) mistaken.
- e) If the value of something *plummets* (line 16), it falls ...  
i) a little. ii) an average amount. iii) a lot.
- f) If something *trebles* (line 19) in value, it is worth ...  
i) twice as much.  
ii) three times as much.  
iii) four times as much.
- g) If someone is *bust* (line 20), they have ...  
i) made a lot of money.  
ii) sold their shares in something.  
iii) lost a lot of money.

**2 Look at paragraphs 2 to 4 and find:**

- a) a noun used before another noun to say that something has very little value.
- b) an expression meaning that goods are not nearly as valuable as the price shown.
- c) a noun meaning an amount that someone pays for a particular service.
- d) a noun referring to someone who buys and sells things.
- e) an expression meaning that an amount is slightly lower than another amount.
- f) an expression to emphasise that someone has not sold anything at all.
- g) an expression used to talk about finding a way to 'lose' something that you no longer want.
- h) an adjective describing someone who does not trust someone else.
- i) an expression meaning that someone will benefit from a particular situation.

**3 Which three sentences in the article sum up the purpose of the story about the handbags in the context of the whole article?**

**4 True, false or not mentioned in the last paragraph of the article?**

Short sellers ...

- a) are immoral.
- b) are useful because they show the real value of things.
- c) were useful in revealing the Enron scandal.
- d) were useful in revealing other scandals at the time of the Enron scandal.
- e) are only able to do so well because people make false promises.
- f) should be banned.
- g) are like messengers.

**Over to you 1**

Go back to the answer you gave in *Before you read*. Is it the same now that you have read the article? Why? / Why not?

**Over to you 2**

Financial authorities ban the short selling of shares in some situations. Should they do this, or should short selling be allowed at all times?