The Henry Fund
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Walmart, INC. (WMT)

October 17, 2022

Consumer Staples – Food and Staples Retailer

Stock Rating **HOLD**

Investment Thesis

We have a **HOLD** rating on Walmart (WMT). WMT shares are currently trading at $130 per share, which is below our target range of $137 to $141 with an upside of 7.09%. We see Walmart as a relatively safe growth play amidst a bear market with fears of a recession in the near-term. Bloomberg analytics suggests 100% chance of a recession in the next 12 months, we believe that we are already there. We believe Walmart can get over near-term issues within cost pressures and profitability issues, in large part due rapidly rising transportation costs. We believe Walmart can achieve high growth in its newly added subscription service, Walmart+, which offers a modern demand with high profit margins.[1&11]

Drivers of Thesis

- Walmart+ provides WMT the platform to level the e-commerce playing field with Amazon and reward loyalty to customers.
- Due to high barriers for new entrants and Walmart's established market position, we expect Walmart to at least retain its consumer base and growth with inflation.
- A potential recession could provide WMT the opportunity to attract and retain customers for long-term. We expect a 3.35% CAGR in revenue per square foot over the forecasted period as a result of higher volumes due to consumers moving to "lower" quality goods.

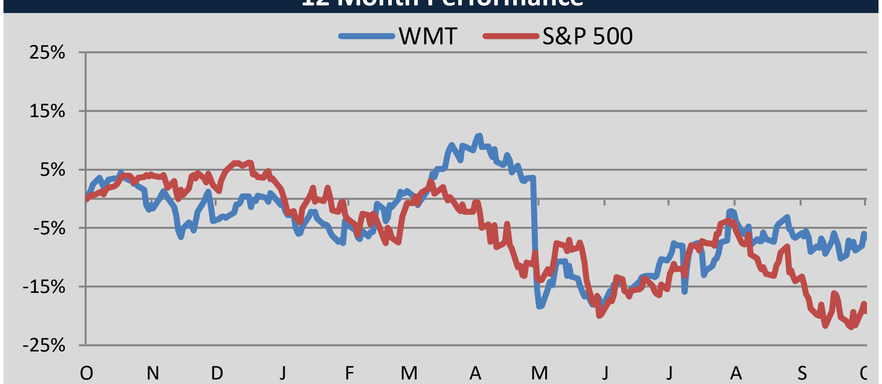
Risks to Thesis

- In the long-term, as disposable income increases consumers are more likely to purchase perceived "higher quality" goods or services. Walmart's brand is seen as "cheap" by majority of consumers.
- There is fierce competition within Food and Staples Retailer Sub-Industry as many small businesses have lower prices on niche goods or services, which can lower profit margin.
- Walmart is facing a multitude of cost pressures from transportation and wage issues as an enterprise, which lower profitability.

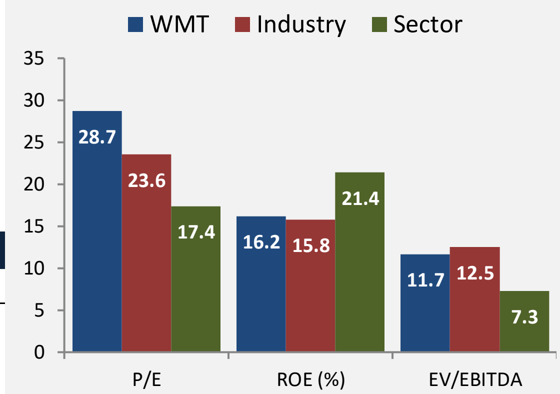
Earnings Estimates

Year	2020	2021	2022	2023E	2024E	2025E
EPS	$4.93	$5.48	$6.46	$5.85	$6.59	$7.19
HF est.				$5.50	$5.78	$6.18
Growth	*11.54%*	*11.16%*	*17.88%*	*-14.78%*	*4.91%*	*7.08%*

12 Month Performance



Target Price	$137-141
Henry Fund DCF	$140
Henry Fund DDM	$124
Relative Multiple	$111
Price Data	
Current Price	$130
52wk Range	$117 – 161
Consensus 1yr Target	$151
Key Statistics	
Market Cap (B)	$354.0
Shares Outstanding (M)	2,738
Institutional Ownership	32.5%
Beta	0.52
Dividend Yield	1.8%
Est. 5yr Growth	4.6%
Price/Earnings (TTM)	28.7
Price/Earnings (FY1)	22.2
Price/Sales (TTM)	0.6
Price/Sales (FY1)	0.6
Profitability	
Operating Margin	4.06%
Profit Margin	2.36%
Return on Assets (TTM)	6.14%
Return on Equity (TTM)	16.20%



Company Description

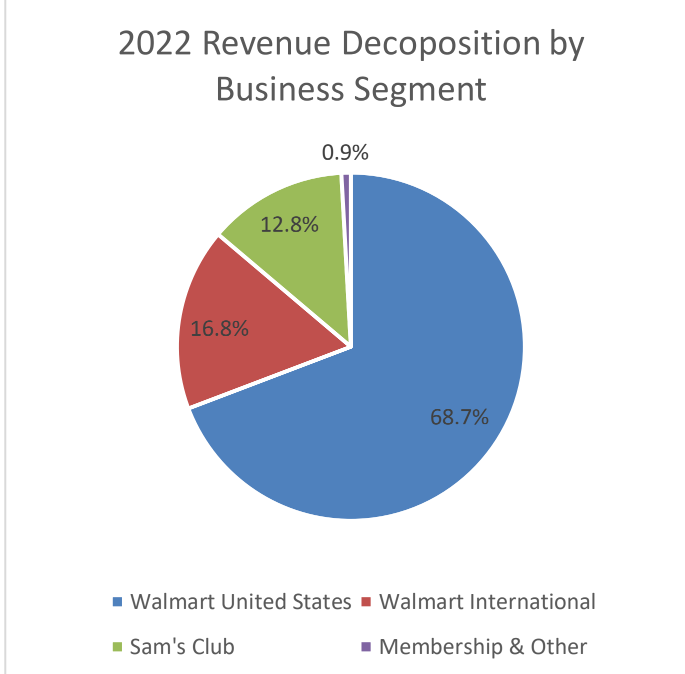
Walmart, Inc. operates mainly in retail and wholesale business. Walmart is headquartered in Bentonville, Arkansas. Its' business segments include Walmart U.S., Walmart International, and Sam's Club. This firm offers a miscellany product selection, from merchandise to services at "everyday low prices". WMT is not only the largest retailer in North America, but also a major competitor internationally. Walmart, Inc. manages roughly 10,500 stores and an assortment of e-commerce services in 24 countries. [1]

COMPANY DESCRIPTION

Walmart, Inc. operates primarily in retail and wholesale business. This firm offers a miscellany product selection, from merchandise to services at "everyday low prices." Walmart is headquartered in Bentonville, Arkansas with an international grasp on the retail market. There is roughly 90% percent of the United States population that lives within 10 miles of their nearest Walmart. Its' business segments include: Walmart U.S., Walmart International, and Sam's Club. WMT employs 2.3 million associates internationally, with nearly 1.6 million associates in the United States. WMT managing roughly 10,500 stores and an assortment of e-commerce services in 24 countries. Walmart increases the quality of live around the world by giving equitable opportunity to "Save money, live better" internationally.

During the fiscal year of 2022, WMT generated total revenues of $572.8 billion. Walmart attracts consumers by having a massive array of quality goods and services at "Everyday low prices." Its "Everyday low costs" are permitted by buying in unprecedented volumes to control expenses. Walmart's business strategy involves large scale sales at a low margin to undercut competitors and arrange a value proposition for consumers. [1]

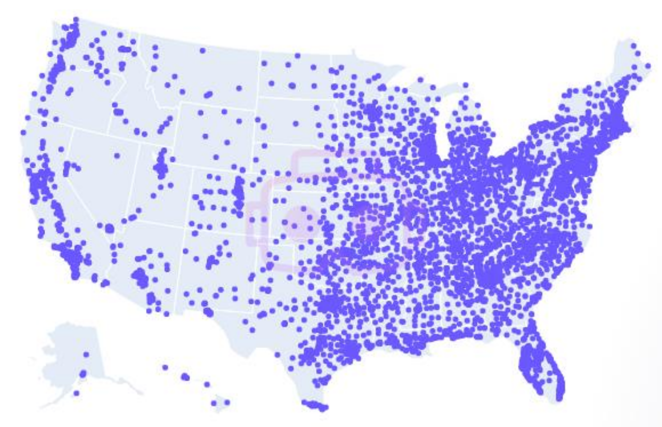
WMT is broken up into three official segments, Walmart U.S., Walmart International, and Sam's Club. We broke down further and added Membership & Other as a business segment to get a better understanding of the firm's main drivers and revenue. [1]



Walmart U.S.

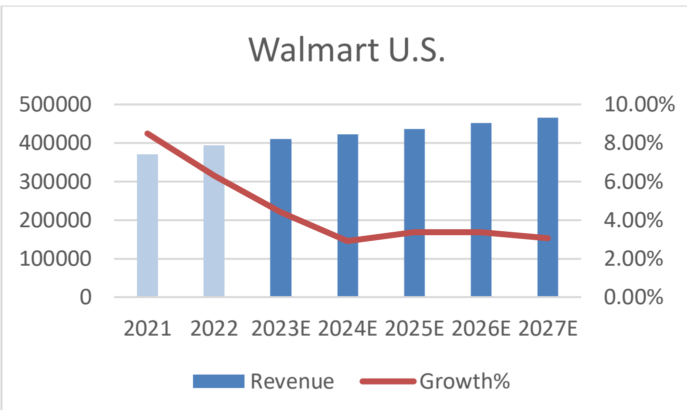
Walmart U.S. is WMT's largest business segment and operates in all 50 states of the United States, as well as Washington D.C. and Puerto Rico. Walmart is a mass retailer and merchandiser with net sales $393.2 billion for the fiscal year of 2022. This was roughly 69% of total sales for its enterprise. Walmart U.S. Fiscal year 2022 breakdown includes 56% Grocery, 32% General Merchandise, 11% Health & Wellness and 1% Other; which is similar to its recent history. [1 & 20]

Walmart U.S. Store Footing Map



Source: SmartScrapers (As of April 2021)

Walmart U.S. has many different shopping options around the United States, such as supercenters, discount stores, neighborhood markets, 24/7 market online, and more based on geography and consumer need. At the FYE 2022, WMT had approximately 4,600 pickup locations and over 3,500 same-day delivery locations to optimize the customer experience in the COVID-19 era. Walmart U.S. utilizes a total of 157 distribution facilities, which are strategically located across the United States to seamless transport goods from suppliers to consumers through WMT's private truck fleet. When consumers buy merchandise through its e-commerce platform, many methods are used to leverage WMT's 31 dedicated eCommerce fulfillment centers or over 3,500 stores to ship goods directly to consumers.[20 & 3]



Source: Henry Fund Model & FactSet

We anticipate a steady growth from Walmart's U.S. segment over the forecasted period. We expect Walmart to do this through open an additional 186 supercenters and improving their revenue per square foot growth by 4.5%. This is historical average over the past four years and should keep in line with inflation for the next year. Thereafter, we forecast a slight decline in stores into perpetuity as ecommerce becomes more prevalent. We expect perpetual growth of 2.75%.

Walmart International

Walmart international is WMT's second largest business segment and operates in 23 countries, none of which are the United States. The international Walmart's have operations through entirely owned subsidiaries in China, Canada, and Chile. In the other 20 countries in this segment Walmart operates throughout majority-owned subsidiaries.

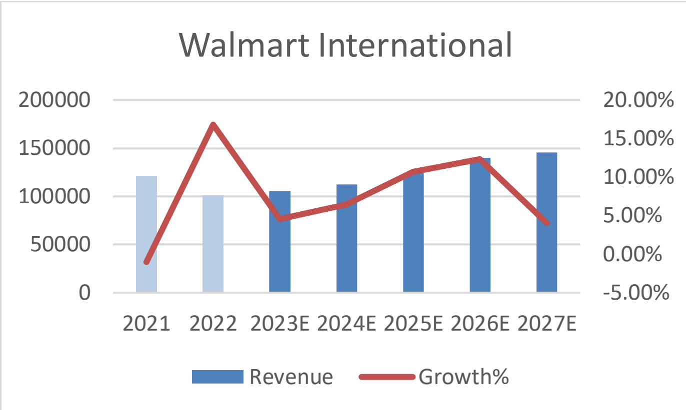
Walmart Countries of Operations Map

Source: Seeking Alpha (As of FY 2021)

Walmart has previous divested operations in Argentina (FY21), United Kingdom (FY22), and Japan (FY22).

Consistency is the focus with Walmart international. WMT continues to innovate by developing innovative technologies and formats to create a better, more convenient shopping experience for consumers. This segment leverages 179 international distribution facilities. These facilities process and then distribute both domestic and imported goods to their respected final destination. A majority of its sales passed through these facilities in Fiscal Year 2022. The remainder of transportation of business units is through supplier ships, which are delivered directly to stores.[19]

This segment has a broad efficient network of connected physical stores and fulfillment centers and distribution to get shipments directly to where consumers live. When consumers buy merchandise through its e-commerce platform, many methods are used to leverage WMT's 83 dedicated eCommerce fulfillment centers or over 3,400 stores to ship goods directly to consumers. WMT does not hedge against currency risk, so as the dollar gets stronger it hurts the bottom line in the near term and poses as threat in the long-term.



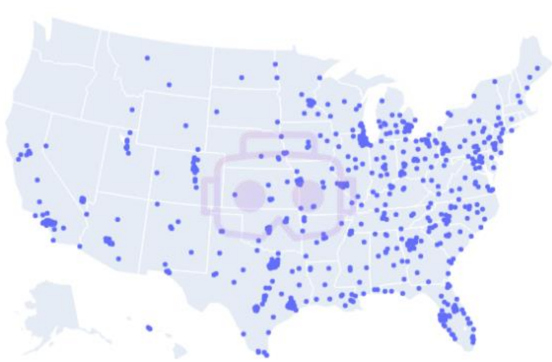
Source: Henry Fund Model & FactSet

We anticipate a strong growth from Walmart's International segment over the forecasted period. We expect Walmart to generate revenue back to historical pre pandemic levels. This is through added 800 stores back over the forecast period, that were previously closed during COVID. We expect the 2.5% growth until revenue per square foot growth until the steady state where it is 3.6% to keep up with inflation and currency exchanges.

Sam's Club

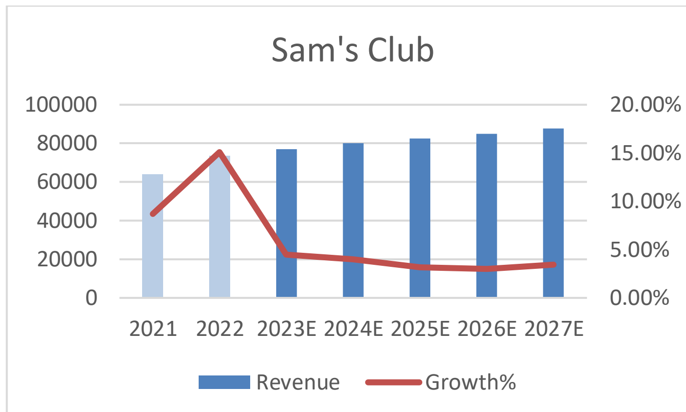
Walmart's smallest segment is Sam's Club. Sam's Club focuses on the operation of membership warehouse clubs. Sam's Club are operated in 44 states, Puerto Rico, and samsclub(dot)com. In the Fiscal Year 2022, Sam's Club had net sales of $73.6 billion, which is roughly 13% of the enterprise total net sales.[20]

Sam's Club Store Footing Map



Source: SmartScrapers (As of April 2021)

This segment's Fiscal year 2022 breakdown includes 64% Grocery & Consumables, 15% Fuel, Tobacco & Other Categories, 12% Home & Apparel, 4% Technology, Office & Entertainment and 5% Health & Wellness. These categories are consistent relative to the past three years. A significant share of income for this segment is from the membership income, as Sam's Club is a membership-only warehouse club. Sam's Club operates at a lower gross profit rate and lower operating expenses to compared to WMT's other segments. Sam's Club leverages 28 dedicated distribution facilities and some U.S. Walmart facilities to cover the logistics of transportation of goods from suppliers to stores. Sam's Club has 12 dedicated eCommerce fulfillment centers to deliver goods to where consumers live.[20 & 1]

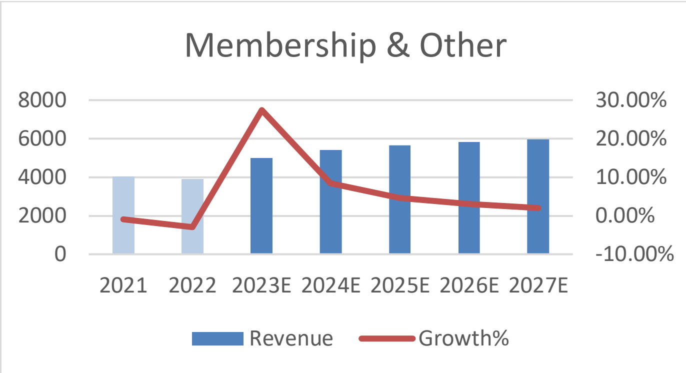


Source: Henry Fund Model & FactSet

We anticipate a strong growth from Sam's Club segment over the forecasted period. We expect Walmart to do this through improving their revenue per square foot growth by 4.5%. This is rounded historical average over the past five years and should keep in line with inflation for the next year. We expect perpetual growth of 3%.

Membership & Other

Membership & Other is not an official WMT segment, however, Walmart's revenue decomposition breaks to this portion. For better accuracy, we also broke down to this portion, which hosts memberships for Walmart+, Sam's Club, and other ventures.



Source: Henry Fund Model & FactSet

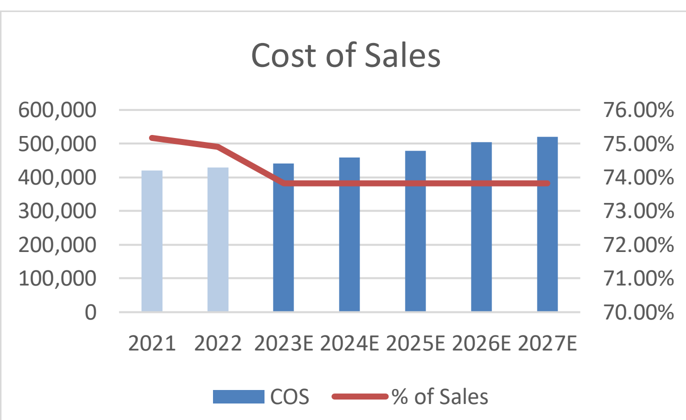
We expect strong growth early in the forecast period. We are bullish on Walmart+ as it becomes a cheaper substitute to Amazon's Prime. We expect perpetual growth of 2%.[11]

Cost Structure Analysis

Walmart has two major operating expenses, Cost of Sales and Selling; General and Administrative.

Cost of Sales

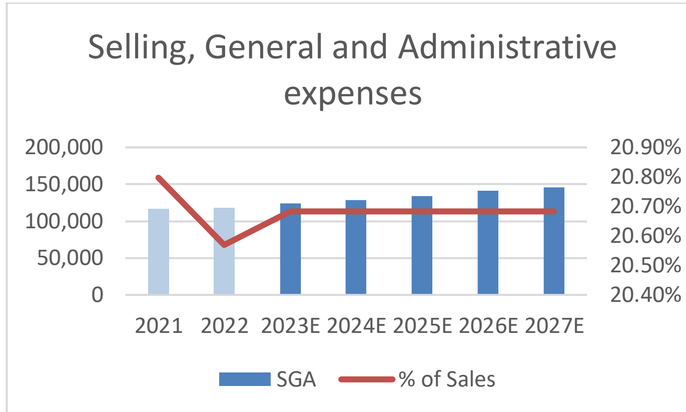
Cost of Sales is largely determined by commodity markets for their respected products. We see input costs rising to keep up with fast-moving inflation. We used the three-year historical average cost of sales to get the cost of sales as a percent of sales. We used this percentage of sales for the forecasted period.



Source: Henry Fund Model & FactSet

Selling, General, and Administrative

Selling, General and Administrative includes marketing expenses, professional fees, technology related costs, etc. We see project these costs to stay within historical averages with revenue for the foreseeable future. We used the four-year historical average SGA to get the SGA as a percent of sales. We used this percentage of sales for the forecasted period.



Source: Henry Fund Model & FactSet

Debt Maturity Analysis

Walmart has a S&P credit rating of AA with a stable outlook. Using the Standard & Poor's credit rating scale bonds, those who have a rating of BBB- or better are considered "investment grade." This is ideal because having a better rating allows more asset managers' charters to allow for trading on the market.[1]

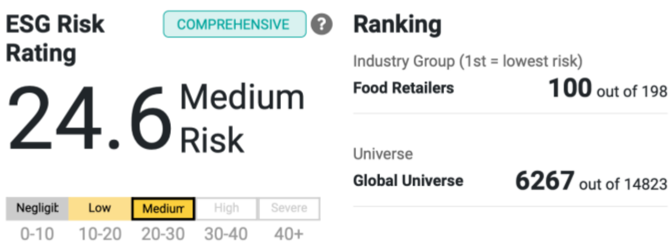
WMT had lowered its long-term debt by more than $7 billion during the FYE 2022. We anticipate Walmart to continue to pay down its long-term debt during the forecasted period due to the rising cost to finance its business with debt. We believe there is low solvency risk with WMT due to constant cash flows yield from this business model and forecasted liquidity ratios (current, quick, and cash ratios) expected to improve over forecast period.

Fiscal Year	Payment ($mil)
2023	2,803
2024	4,224
2025	3,565
2026	857
2027	2,757
Thereafter	23,461
Total	37,667

Source: WMT 2022 10K

ESG Analysis

ESG stands for environmental (E), social (S), and corporate governance (G). The Risk Rating below was rated by Morningstar's Sustainalytics.



Source: Sustainalytics

Sustainalytics calculates firms' ESG Risk Ratings by measuring firms' exposure and management risk, as well as its controversy rating. WMT had medium exposure risk, average management risk, and four out of five controversy rating. Walmart had medium exposure risk do its business model requiring logistics jobs, which require relatively hard physical labor and the usage of heavy equipment.[17]

Walmart had an average management risk due to its practices and ESG policies aligning with its subindustry. We believe Walmart had a high controversy risk due to perceived low wage versus working conditions and serious injuries occurring within its distribution centers. Generally, WMT is an average ESG firm within its sector. There are not any glaring issues, conversely there is nothing separating WMT from its peers within this space.

RECENT DEVELOPMENTS

Walmart Q2 Earnings

On August 16, 2022, WMT reported its Q2 beating street estimates for EPS $1.77 versus $1.63. Walmart's revenue growth for Q3 is expecting to be 5% versus estimates of 3.5%, however revenue is expected to be negatively impacted $1.3 billion due to foreign currency fluctuations.

Walmart's comp sales for its Walmart U.S. segment, excluding fuel, are expecting to be roughly 6% for Q2. This is higher than expectations leading to negatively affecting gross margin. Food inflation and gas inflation are well over double digits YoY leading to lower consumers purchasing power. During Q2, WMT made progress lowering their inventory and managing prices to reduce costs associated with supply chain logistics. Customers are continuing to choose Walmart to save money in this time of macroeconomic uncertain, which has allowed the firm to make market share gains in grocery.[19, 21, & 25]

Russia Exposure

Walmart does not have operations within Russia nor Ukraine. Walmart has not conducted business in Russia since 2010. The Russia-Ukraine conflict does not impact WMT in terms of sales, however, it does affect suppliers' input cost and ability to produce goods.[1]

Walmart+ Membership Service

Debuted in September 2020, Walmart+ is a subscription service at a price of $12.95 per month or $98 per year. This undercuts its main peer comparison of Amazon Prime, which is current $139 per month. Walmart+'s perks include unlimited same-day delivery from over 160,000 stores nationwide, fuel discounts, exclusive price offers, video streaming with Paramount+, 6-month trial to Spotify, loyalty points, and more.[28]

INDUSTRY TRENDS

Online Grocery Shopping

The United States online grocery market undoubtedly benefitted from the 2020 coronavirus pandemic. As brick-and-mortar shops were forced to be closed-down do to government intervention and many shoppers chose to stay home to slow down the spread of the virus. The demand for online grocery spiked, gifting grocery firms the opportunity to capitalize, which they did. Tens of millions of US consumers purchased groceries online for the first time amidst the pandemic.[26]

Source: Oberlo

As the chart above shows, there is an expectation for the online grocery market to continue its rapid growth. In 2022, the expectation is for the online grocery market to hit $147.51, this would be a 20.5% YoY growth from 2021. This is the third largest YoY growth out of the displayed years of 2019 to 2025. The most significant annual growth increase is from 2019 to 2020 (the COVID-19 year), which yielded 63.9% growth.

If you look forward to the forecasted years of 2023 through 2025, there is an expected growth of on average 18% growth per year. Over the covered period of 2019 through 2025 the revenue is nearly four times as large. The two firms, that have benefited the most in terms of revenue are the following: Walmart with an expected $37.6 billion in online grocery sales during 2022. Amazon with an expected $35.1 billion in online grocery sales during 2022.

The End of Tobacco Sales?

In 2014, CVS became the first major retailer to ban tobacco products as it conflicted with its purpose of supporting health for consumers. This move has been applauded by many politicians and consumers and has added pressure on other major retailers to do the same.

In April 2019, Walgreens "de-emphasized" tobacco products, and raised the purchase age from 18 to 21, within its stores. In December 2019, Donald Trump raised the federal minimum purchase age from 18 to 21 for tobacco products.

In March 2022, Walmart decided to stop selling cigarettes in select locations for the time being with the possibility of making it nationwide eventually. Target ended sales of tobacco in 1996. Costco has ended the sales of tobacco in select locations.[13]

MARKETS AND COMPETITION

Threat of New Entrants

The threat of new entrants is **low**. This is in large-part due to upfront capital expenditures and significant scale needed to compete with major food retailer players. It is nearly inconceivable to imagine a new entrant could compete with low prices and robust geographical footprint like other firms within this sub industry in the medium or near terms. Walmart, Sam's Club has stores located within 10 miles of 90% of the United States population. There are not large enough profit margins to justify a massive upfront investment that provide a new entrant an opportunity to be competitive on a national scale.

Threat of Substitutes

The threat of substitutes is moderate. We see the threat of substitutes, being that customers have the availability to buy alternative goods or services outside of major players in this industry. Companies within this sub-industry tend to have many shops, which are super centers offering a vast product selection (i.e., grocery; merchandise retail; meat deli; pharmacy; financial services; barber shops; etc.). Notable threats come from pure-plays in their respected products or services. Other non-traditional business modes also pose a threat, such as online subscription services or pure-play online retailers (like Amazon).

We believe super center have largely increased their investments into omni-channel offerings to better compete with pure-play online retailers. More recent investments have allowed customers the convenience to have home delivery from traditional super centers. Super centers have begun to offer meal kits that were seen as an exclusively online subscription-based services.

There are many substitutes, but due to adaptation succession to bring the vast product and services offers on the same platforms gives us confidence that they will continue to adapt as technology allows different opportunities.

Intensity of Competitor Rivalry

The intensity of competitor is **high**. Companies with this sub industry are offering a vast product and service selection. They are seen as a one-stop shopping location. As firms are essentially a convergence of many traditional stores. There is competition from all pure plays within intersection of goods or services (i.e., grocery competition from Hy-Vee and specialty completion from Lowes). In our view, it is optimal to support a platform, which houses all needed offerings allowing convenience to sway consumers. We believe super center have largely increased their investments into omni-channel offerings to better compete. In addition, favorable geographical footing can provide consumers with more traditional shopping preferences.

Bargaining Powers of Customers

The bargaining power of customers is **low**. Consumers in this sub industry are either buying products or services in person are on an online platform. As individuals, consumers make up a minute fragment of firms' revenue. Therefore, consumers have nearly no say in prices. If consumers in aggregate behave a certain way, that makes a difference. We believe there would have to be a catastrophic event, for consumers in aggregate to behave a certain way.

PEER COMPARISONS

The Food & Staples Retailers Sub-Industry offers an array of merchandise and services at low prices. These products are sold to consumers within supercenters, general stores, discount stores, grocery retailers, etc. The companies we compared are BJ's Wholesale Club Holdings, Inc. (BJ), Costco Wholesale Corporation (COST), PriceSmart, Inc. (PSMT), Target Corporation (TGT), Amazon.com, Inc. (AMZN), Best Buy Co., Inc. (BBY), Dollar General Corporation (DG), Walgreens Boots Alliance, Inc. (WBA), and CVS Health Corporation (CVS).

BJ's Wholesale Club Holdings, Inc. (BJ)

BJ's Wholesale Club Holdings, Inc. focuses on the operation of membership warehouse clubs. Its business segments operations are the following: Grocery (71.0%), Gasoline & Other (15.0%), and General Merchandise & Services (14.0%). BJ's Wholesale Club was founded in 1984 and headquartered in Westborough, Massachusetts. BJ is a one of the leading warehouse club operators in the Eastern United States. BJ's Wholesale Club has 226 stores across 17 states, and 157 gas stations in near-by areas to its club stores. BJ is largely dependent on the New York metropolitan area, as it represents roughly 23% of its total sales. At FYE 2022, BJ had over 6 million paid members and 34 thousand employees (None represented by a labor union).[4 & 1]

Costco Wholesale Corporation (COST)

Costco Wholesale Corp. focuses on the operation of membership warehouses. Its business segments operations are the following: Food & Sundries (40.2%), Non-foods (29.1%), Warehouse Ancillary & Other (16.5%), and Fresh Foods (14.2%). COST was founded in 1983 and is headquartered in Issaquah, Washington. Costco Wholesale operates 828 warehouses internationally, mostly in the United States and Canada. At FYE 2021, COST had nearly 62 million paid memberships and 288 thousand employees (Approximately 6% of these employees are represented by a labor union). COST's e-commerce accounted for roughly 7% of its total sales in FYE 2021.[5 & 1]

PriceSmart, Inc. (PSMT)

PriceSmart, Inc. focuses on the operation of membership warehouse clubs. Its business segments operations are the following: Food & Sundries (50.1%), Fresh Foods (29.0%), Hardlines (11.8%), Softlines (5.1%), and Other (4.0%). PSMT was founded in 1994 and is headquartered in San Diego, California. PriceSmart operates 50 warehouse clubs in 12 different countries. PriceSmart is known as the largest operator of membership warehouse clubs in not only Central America, but the Caribbean and Colombia, as well. At the FYE 2021, PSMT had nearly 10 thousand employees and over 3 million paid members.[6 & 1]

Target Corporation (TGT)

Target Corp. focuses on the operation of general merchandise retail stores. Its business segments operations are the following: Beauty & Household Essentials (25.7%), Food & Beverage (19.2%), Home Furnishings & Decors (19.1%), Hardlines (17.6%), Apparel & Accessories (16.9%), and Other (1.5%). TGT was founded in 1902 and headquartered in Minneapolis, Minnesota. TGT generally caters to middle- and upper-class consumers by having higher quality products and premium customer service. Target operates 1,926 locations across all 50 United States' states and the District of Colombia. Target has approximately 450 thousand employees (None represented by a labor union).[7 & 1]

Amazon.com, Inc. (AMZN)

Amazon.com, Inc. is a conglomerate multinational firm with its main focus in the provision of e-commerce. Its business segments operations are the following: Online Stores (47.3%), Third-Party Seller Service (22.0%), Amazon Web Services (13.2%), Subscription Services (6.8%), Advertising Services (6.6%), and Physical Stores (0.5%). Amazon was founded in 1994 and is headquartered in Seattle, Washington. AMZN has over 1.2 million employees, with about 10 thousand in represented in by a labor union (All in New York). AMZN has over 200 million paid "Prime" members and 618 stores located internationally in FYE 2021.[10 & 1]

Best Buy Co., Inc. (BBY)

Best Buy Co., Inc. focuses on the provision of retail consumer technology products and services. Its business segments operations are the following: Domestic (92.4%) and International (7.6%). BBY was founded in 1966 and is headquartered in Richfield, Minnesota. Best Buy provides broad array of technology products in services available in-store, online, or at consumers' house. In the FYE 2022, BBY had 34% of its total revenue from consumer electronics and 13% from appliances. BBY operates under copious brand names such as Geek Squad, Pacific Kitchen and Home, Magnolia, GreatCall, and many more. At FYE 2022, BBY was operating over 11 thousand stores internationally and over 180 thousand employees.[29 & 1]

Dollar General Corporation (DG)

Dollar General Corp. focuses on the operation of discount retailer merchandise stores. Its business segments operations are the following: Consumables (76.7%), Seasonal (12.2%), Home Products (6.8%), and Apparel (4.3%). DG was founded in 1939 and is headquartered in Goodlettsville, Tennessee. DG has 19,190 stores across 47 of 50 states within the Unites States, as well as roughly 163 thousand employees in FYE 2022. [30 & 1]

Walgreens Boots Alliance, Inc. (WBA)

Walgreens Boots Alliance Incorporated focuses on the provision of pharmacy services. Its business segments operations are the following: Retail (66.9%), Retail (25.2%), and Wholesale (7.9%). WBA was founded in 1901 and is headquartered in Deerfield, Illinois. At FYE 2021, WBA operated nearly 13 thousand retail stores and has approximately 315 thousand employees. Walgreens was one of the largest retail pharmacy firms in the world with sales of $132.5 billion (FY 2021). WBA offers a mixed general product offering from traditional general merchandise to healthcare products.[9 & 1]

CVS Health Corporation (CVS)

CVS Health Corp. focuses on the provision of healthcare services. Its business segments operations are the following: Pharmacy Services (45.5%), Retail (29.8%), Health Care Benefits (24.5%), and Corporate (0.2%). CVS was founded in 1963 and is headquartered in Woonsocket, Rhode Island. At the FYE 2021, CVS was operating over 9,900 retail locations and roughly 1,200 walk-in health care clinics, serving over 110 million plan members for its industry leading pharmacy benefits manager, and providing senior pharmacy care for over one million patients, annually. CVS offers a miscellany product offering from traditional general merchandise to healthcare products. CVS operates in all 50 states and has approximately 300 thousand employees.[8 & 1]

Food & Staples Retailer Debt Comparison

TCKR	LT Debt/Assets	EBITDA/Interest Expense	Debt Rating
BJ	49.8	15.5	BB+
COST	16.1	63.7	A+
PSMT	12.3	24.7	-
TGT	29.8	27.7	A
CVS	29.2	7.9	BBB
WMT	21.3	19.6	AA
WBA	36.7	12.0	BBB
AMZN	27.7	26.7	AA

Source: FactSet

The Food & Staples Retailers Sub-Industry is relatively saturated and capital intensive. In time of potential economic hardship, it is important to rely less on debt, this is more significant due to high interest rates. An EBITDA to interest rate greater than 1 is the rule of thumb for being able to pay off its interest expenses. COST had the best EBITDA to interest expense.

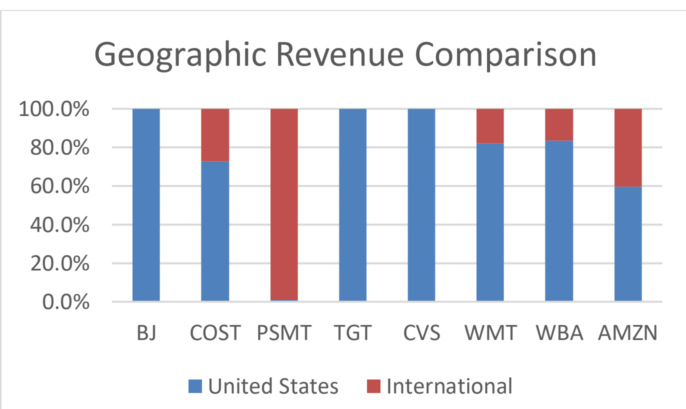
Food & Staples Retailer Margin Comparison

TCKR	Operating	Net	Gross
BJ	5.3	7.1	42.0
COST	12.1	2.6	12.1
PSMT	4.2	2.5	16.7
TGT	8.5	6.6	27.1
CVS	5.1	2.7	17.8
WMT	5.0	2.4	25.1
WBA	2.1	3.3	19.8
AMZN	5.3	7.1	42.0

Source: FactSet

The Food & Staples Retailers Sub-Industry is highly competitive with many major players. The two within this comparison that standout are AMZN and BJ, which recorded a 42% gross margin last FYE. Subsequently, they both recorded the highest net margin out of the comparison. WMT was middle of the pack, in terms of gross sales and last in net margin. Due to WMT's business model of high volume at a low margin, they are still able to net high earnings. WMT does not have comparably many services as AMZN, whose AWS, web service is a high margin revenue business venture.

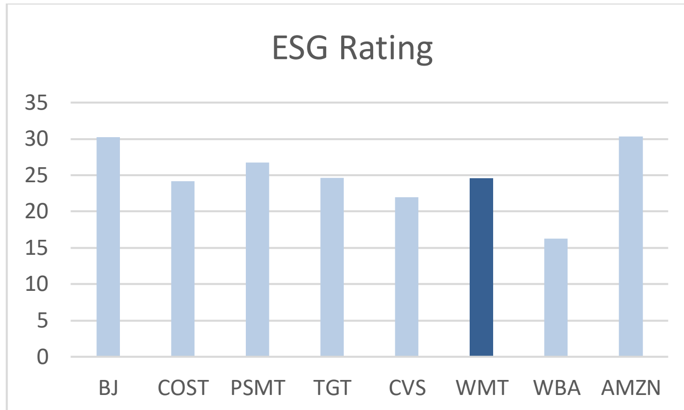
Food & Staples Geographic Comparison



Source: FactSet

The dollar continues to strength in value, which lowers the purchasing power of revenue earned in foreign currencies relatively. WMT does not hedge for foreign exchange leaving them. Other international countries, such as PSMT (99% foreign exposure) and AMZN (40% foreign exposure) use derivatives. COST has all of its foreign exposure in Canada. BJ, TGT, and CVS have no foreign currency exchange risk due to exclusively operating domestically.

Food & Staples Retailer ESG Comparison

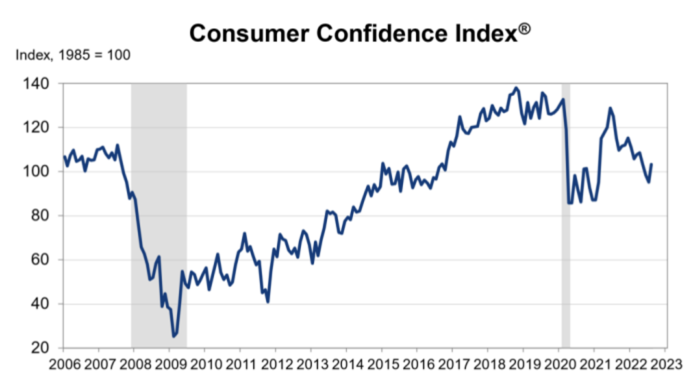


Source: Sustainalytics

BJ has the highest ESG risk according to Sustainalytics due to its lack of ESG initiatives within corporate governance and recent history of customers being injured onsite in stores. AMZN has numerous issues in recent history affects its ESG score, such as potential tax evasion, employee relations issues, data security breaches, and more. WMT was one of the higher ESG risk firms within the comparison due to its issues with its employees.[17]

ECONOMIC OUTLOOK

Consumer Confidence Index

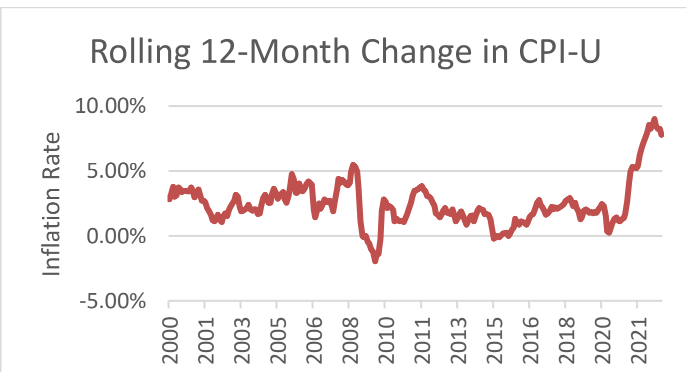


Source: Conference Board

The Consumer Confidence Index (CCI) is a survey, handled by The Conference Board. This is a metric that measures how optimistic or pessimistic individuals are regarding their expected of their financial situation. The Consumer Confidence Index is built on the premise that if survey takers are optimistic, they will spend money creating an expansion on the economy. If survey takers are pessimistic, they will save their money and there could potentially be an economic slowdown or recession.

On the August CCI, which was on August 30, 2022, the Conference Board's increased from 95.3 to 103.2. This was following a three-month decline. We anticipate the confidence to drop over the next several months as expected interest rate hikes will cool down spending.[18]

Consumer Price Index

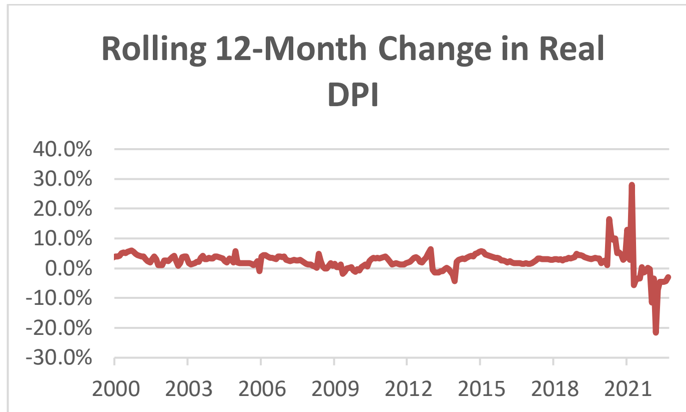


Source: FRED

The August CPI report relieved higher than street expectations. Core inflation rose by 60bps MoM. Headline inflation rose by 10bps MoM, despite plunging gas prices. The initial reaction from equity markets appeared that the streets are baking in at least an interest hike of 75bps. The traditional route to tame inflation is via rate hikes, however we believe that aggressive rate hikes may not be successful versus this current inflation. This inflation is caused by supply shocks from the Russia-Ukraine conflict and underline Covid-19 supply chain issues.

Disposable Personal Income

Disposable income is the amount of money an individual has after taxes, not necessarily after all necessity expenses, which is known as discretionary income. Disposable income is a macroeconomic measure used to gauge the overall economic. If the disposable income lowers, it can be a major indicator of a possible recession.



Source: FRED

As shown in the figure above the Real Disposable Personal Income has declined from LTM high of $19,119 in March 2021 to $15,146 in July 2022. This could be an early indicator of a recession. As consumers have less purchasing power, their spending is lessened. We see consumers moving toward WMT as their purchasing power lessens.[12]

US Dollar Index

The US dollar Index is a measure of the value of the dollar against a basket of foreign currencies. The foreign currencies it is against is the British pound, Euro, Japanese yen, Canadian dollar, and Swedish krona. The index was established in 1973 by the US Federal Reserve with a base of 100. This is index is a fair indication of the US Dollar's value in global markets.

US Dollar Index

Source: Marketwatch

In the past year, the US Dollar Index has increased from 93.28 in September 2021 to 109.64 in September 2022. We believe the US Dollar will continue to increase as the US dollar strengthens due to the energy crisis in Europe. This negatively effects WMT as their profits and uninvested cash from foreign nations are tampered. We believe this is a near-term issue and will be settled over the course of the next year to decade.[16]

VALUATION

Revenue Decomposition

We decomposed the revenue into business segments to mimic how the revenue is displayed in official release documents. The segments are Walmart U.S., Walmart International, Sam's Club, and Membership and Other. We broke these segments down to stores categories by square foot, total number of stores, and average square foot per store.

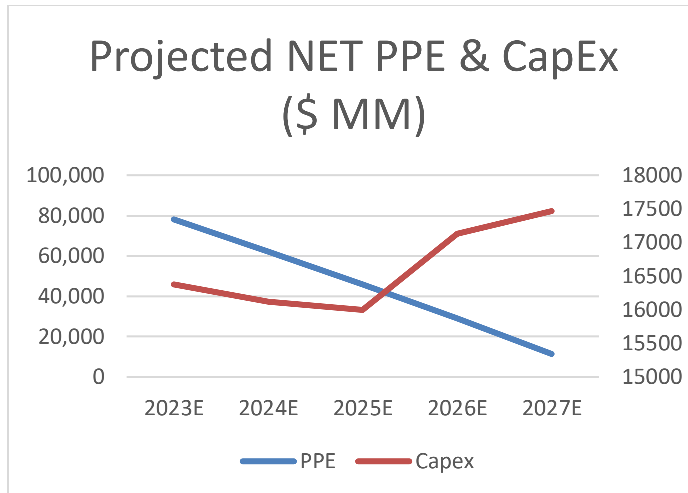
Income Statement

We expect the total revenues to increase by nearly 4.5% in 2022E to $598 billion. The cost of sales is forecasted to be approximately $442 billion. The EPS is expected to be $5.50, which is lower than the FactSet Consensus of $5.85. This is because we have potentially overstated the cost of sales and SGA. We are expected dividends to be raised $0.04 per share next year with $0.08 per share in later years.

Balance Sheet

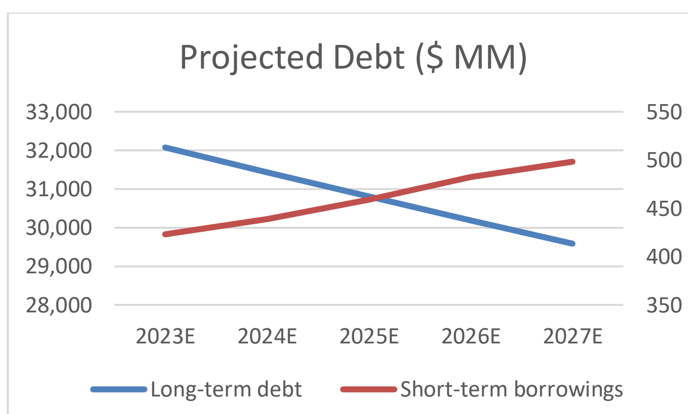
Operating assets and liabilities like accounts payable, inventories, etc., are projected to grow at the historical average percentage of sales. This is in large part because we do not expect any major changes to shake up the cost of these items in the future.

For capital expenditures, we expect it to rise to 1610 in 2022. From there on out we have than figure rising to keep up with inflation. Depreciation is also expected to keep up with inflation. The inflation figure used was 3.60%, which was the median Henry Fund Analyst estimate.



Source: Henry Fund Model

For capital expenditures, we expect it to rise to 16,377 in 2023. This was derived by historical capex per store. From there on out, we have than figure rising to keep up with inflation. For depreciation, we used an average of the last three years, as assets were depreciating at a higher rate to be conservative with over model. The inflation figure used was 3%.



Source: Henry Fund Model

We believe that WMT will pay down their long-term debt over the forecasted period to get it back to historical amounts in 2018. With the highest interest rates, it is not advantages to continue to be highly leverage. We do believe that Walmart has the sufficient cash flows to make this possible. Short-term borrowing is to keep up with its historical average with that respected year's current assets.

Value Drivers

We calculated the NOPLAT as a needed input to get the free cash flows and ROIC. We got the operating working capital added to the present value of operating leases, intangible assets, and net property plant and equipment to get the invested capital. We then calculated each year's free cash flow by taking that year's NOPLAT less the change in invested capital. We calculated ROIC by taking each year's NOPLAT divided by the beginning invested capital. The economic profit was also calculated on this worksheet by taking each year's beginning invested capital time ROIC less WACC.

WACC

The weighted average cost of capital was calculated using the 10-year Treasury bond as the risk-free rate. The beta used was an average of 2, 3, 3, 4, and 5-year weekly raw betas web scraped off of Bloomberg. The equity risk premium of 5.15% was Henry Fund Analysts' estimate. Using the CAPM, the cost of equity of 6.31% was solved. Walmart's pre-tax cost of debt is the yield on the firm's 10-year corporate bond. Using the marginal tax rate of 24%, the after-tax cost of debt is 1.82%. Walmart has $364,161 million in market equity value and $52,569 million in market value of debt. The market value of equity is 87.39% of market value of the firm and the market value of debt is 12.61%. After using the WACC formula, we received an estimated WACC of 5.95%.

Discounted Cash Flows Model

The discounted cash flows model used the free cash flows from the drivers' page. This model aims to discount future cash flows to the present. After we get the present value of operating assets, which was garnered from discounting the free cash flows from 2023 to perpetuity by the WACC, we subtracted the non-operating adjustments to get a value of equity. The value of equity was then divided by the number of shares outstanding to get the intrinsic value at the end of the last fiscal year. We then fractional discounting to get the intrinsic value of the share price today, which was $140

Economic Profit Model

The economic profit model used the terminal value growth of NOPLAT assumption of 2% and terminal year ROIC of 15.38%. The terminal year ROIC was calculated on the drivers' page using last year's NOPLAT divided by the beginning invested capital. We discounted the economic profit from 2023 to perpetuity by the WACC, we subtracted the non-operating adjustments to get a value of equity. The value of equity was then divided by the number of shares outstanding to get the intrinsic value at the end of the last fiscal year. We then fractional discounting to get the intrinsic value of the share price today, which was $140.

Relative Valuation Model

The relative valuation uses peers' financial ratios that have similarities to the target company to arrive at an implied relative value. We selected BJ's Wholesale Club Holdings, Inc., Costco Wholesale Corporation, PriceSmart, Inc., Target Corporation, Amazon.com, Inc., Best Buy Co., Inc., Dollar General Corporation, Walgreens Boots Alliance, Inc., and CVS Health Corporation as peers for the Food & Staples Retailers Industry. The financial metrics used were 2023E P/S, and 2024E P/S. After getting the peers' average for each metric it is used as a multiple to arrive at the implied relative value. We multiplied the Walmart's financials metrics times the peers' multiples and averaged these out to arrive at an implied relative value of $111 per share.

Dividend Discount Model

The dividend discount model uses the assumption that the earning per share growth will be 2%, to sustain growth with the economy. The terminal year ROE was solved for on the ratios' worksheet. The cost of equity was solved for on the WACC's worksheet. The future EPS and DPS were projected out on the IS worksheet. The dividends per share were discounted for 2023 to perpetuity by the cost of equity to get the intrinsic value at the end of last fiscal year. We then utilized fractional discounting to get the intrinsic value of the share price today, which was $124.

Sensitivity Analysis

We built six sensitivity tables that would help us understand the marginal change by slight differences in the models' assumptions the twelve variables were pre-tax cost of debt, risk-free rate, beta, terminal growth of NOPLAT, marginal tax rate, WACC, terminal growth of ROE, 2023E-2026E SGA% of Net (Sales), 2023E-2026E COS% of Net (Sales), Walmart International Growth Rate 2023, and Walmart United States Growth Rate 2023.

The most sensitive table made was the 2023E-2026E SGA% of Net (Sales) versus 2023E-2026E COS% of Net (Sales). If SGA moves 25 bps as a percent of revenue it could swing the stock price plus or minus over 8% per share. If COS moves 25 bps as a percent of revenue it could swing the stock price plus or minus over 8% per share. If Walmart could find a way to their operating costs, it could significant impact the shareholders return.

Sanity Check

The For a sanity check we chose three liquidity ratios, asset-management leverage ratios, profitability ratios, and payout ratios. The most eye catch ratio is the return on equity, the five-year average 14% over the forecasted period is expected to improve to over 16.5% The liquidity ratios improved as well. The current ratio improved from the three-year average of 3.74 to over 4.05 for the entire forecasted period.

CATALYST FOR GROWTH

Within an industry that is highly saturated and competitive, it is important to keep reinvesting in new technology, infrastructure, employees, geographic reach, product offerings, etc. WMT needs to keep growing, Walmart+ and other membership services, which offer Walmart the opportunity to gain high margins and build out their brand loyalty. The strongest players in the future will be largely dependent on efficiency, the difference between strong and weak players is a mere 1% difference in net margins. We also believe advertisement is a major area for growth. WMT's online platforms garner major attention and with that is the opportunity to market that space. In addition, it is important that WMT is mindful of its social and environmental impact on customers, as consumers become more conscience of enterprise-wide decisions.

KEYS TO MONITOR

We need to keep inflation, fuel prices, and labor costs at the front of our attention. Inflation can cause products to be underpriced and laborers to be underpaid. Fuel prices have brought near-term cost pressure, if transportation prices were to rise rapidly again, this issue could reoccur. As employment figures continue to be strong, laborers will have more negotiation power. If laborers unionize it could have extremely negative impacts on the bottom line.

RECOMMENDATION

We have a **HOLD** rating on Walmart (WMT). WMT shares are currently trading at $130 per share, which is below our target range of $137 to $141 with an upside of 7.09%. We see Walmart as a safe growth play amidst at bear market. Walmart has an array of exciting high margin plays that have great growth potential. WMT has a great business model of low prices, deep geographic footprint, and booming ecommerce platform. We expect these to at least sustain its current market control and to be relatively inflation insensitive.

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