Walmart Equity Valuation Report.

Bhargavi Challa.

1. Introduction

- This is Walmart Inc. (NYSE: WMT) review, the global largest retailing firm in revenues. Established in Bentonville, Arkansas in 1962, Walmart has established over 10,500 retail stores across the world under different brands in almost 20 countries. It has more than 2 million associates all over the world and continues to feature in the Fortune 500 list every year. It is known and respected in the world due to low-cost orientation, operations efficiency and supply chain excellence on mega size.

Business segments: Walmart operates in three segments of business: Walmart U.S., Walmart International, and Sam's Club. Walmart U.S. is the largest contributor of revenues of the company, with revenues accounting for over 60% of the company revenues. Walmart has made significant investments in its online portal and digital strength in the recent past in order to compete with online retail giants like Amazon.

- Business analysis -

Walmart operates three main segments: Walmart U.S., Walmart International, and Sam's Club. Walmart has been competitive using the size advantage, effective supply chains, and high investment in technology to aid physical and digital stores. Walmart is strong in 2025 with superior profitability (ROE of 21.41%), dividend payments (34.4% payout ratio), and low relative volatility (beta of 0.69) that indicate good financials and investor confidence. At an equity cost of 6.12%, Walmart would also seem to provide investors with good risk and return value

- Industry analysis -

The retail sector has been experiencing extremely profound change from changing consumer behavior, e-commerce growth, and technological advances. As in-store sales plateaued in the traditional brick and mortar model, retailers such as Walmart reacted by building out their online sites and omnichannel initiatives. Walmart's everyday low price strategy, international expansion, and investments in technology and logistics position it well compared to industry competitors such as Amazon, Costco, and Target. In spite of competition and low margins typical of retailing, Walmart's steady growth and strategic flexibility ensure its long-term prospects in the industry are more promising.

2. Valuation

- Assumptions in our analysis

Numbers are as of April 29, 2025 unless specified otherwise

Key inputs (if calculation involved show in text below)	**Brief explanation and Source**
Risk free rate =**<u>4.23%</u>** (as of Apr 28, 2025)	[10 Year Treasury Rate] The return on an investment with zero risk is usually associated with U.S. Treasury Bonds and is used as a baseline to compare other investments.
Market Risk Premium = **<u>2.74%</u>** Step 1 (from yahoo) Expected return = (diluted eps/trailing P/E) + trailing dividend yield (2.41 / 39.51) + .87% = 6.97% Step 2 Expected - risk free 6.97 - 4.23% = 2.74%	[Walmart Stock Statistics] The additional return investors require to take on risk is used in the CAPM formula to determine the cost of equity.
Beta = **<u>0.69</u>**	[Walmart Stock] Beta measures the volatility of a stock relative to the market. The higher the beta, the more the stock tends to move with the market, while a lower beta means it doesn't move as closely with the market. With a beta of 0.69, the stock is more stable, making it more favorable for risk-averse investors.
ROE = **<u>21.41%</u>**	[Walmart Stock Statistics] Return on equity (ROE) is a measure of a company's profitability relative to its stockholders' equity, indicating how effectively it uses capital invested by stockholders to generate profit. In other words, Walmart is generating 21.41 cents in profit for every dollar invested.

Dividend Payout Ratio =**<u>34.4%</u>** From Walmart 10-k Dps / diluted eps Eps in 10-k (use diluted) Dividends declared per common share(DPS) in 10-k .83 / 2.41 = 34.4%	Walmart Annual Report 2025 The dividend payout ratio is the percentage of net income paid out to stockholders in dividends. Walmart is paying 34.4% of its net income to stockholders.
Cost of Equity (ke) =**<u>6.12%</u>** CAPM formula = risk free rate + beta x equity risk premium 4.23% + .69 x 2.74% = 6.12%	The cost of equity represents the return investors require to compensate for the risk of stocks. Investors would require a minimum return of 6.12% to invest in Walmart.
If used for Terminal Value (TV), Growth Rate (g) = **<u>2% - 4%</u>**	Average Terminal Growth Rate The 2% growth aligns with the increase in inflation, 3% is more in line with GDP growth, and 4% is considered optimistic.

- **Equity Valuation**
  - Cost of equity calculation
    - CAPM formula = risk free rate + beta x equity risk premium
      4.23% + .69 x 2.74% = 6.12%
  - Abnormal earnings calculation
    - Abnormal earnings calculation = Actual earnings - Expected earnings
      Actual earnings = ROE x Beginning Book Value
      Expected earnings = Cost of Equity (ke) x Beginning Book Value
- **Comparison of calculated equity value with current stock price**
  - The current stock price (as of April 29, 2025) is ~$95.7
  - As Walmart's latest full-year financials are for fiscal year ending Jan 31, 2025
  - Base Year (Latest Financials) Fiscal Year Ending 31st Jan 2025
  - Current stock price is greater compared to the baseline forecast Equity Value

3. Sensitivity Analysis

- Effect of changing assumptions/inputs on our company's calculated value
  - The value per share increased when the forecast was extended or when growth was included

- Comments/Explanation

  - The beginning book value is taken from the previous year's ending book value

    Reason for 7-year baseline forecast

    - Give enough time for any short-term effect to set
    - Around the beginning of where the stock price started to increase from ~$29 in 2018

    Reason for 11-year longer horizon

  - Takes into account more long-term plans that the 7-year doesn't cover

4. Summary and Conclusion

Our model of residual income calculates Walmart's intrinsic value based on good fundamentals, capital efficiency, and low market risk. Our estimate of low cost of equity (6.12%) and high return on equity (21.41%) reveals that the firm is generating value above investors' expectations. Since the stock price is trading at about $95.70 as of April 29, 2025, Walmart is trading close to its intrinsic value on conservative to moderate assumptions of the terminal growth (2–4%).

Sensitivity analysis revealed that Walmart equity value increases with the increasing projection horizon or with the greater terminal growth assumption reflecting the firm's capacity to sustain long-run performance. Walmart, therefore, emerges as a strong and likely undervalued investment option with strong appeal to conservative investors in search of steady returns in retail.

In addition, Walmart's supply chain optimization, e-business expansion, and global expansion strategic initiatives support the company's long-term growth opportunities. Given that it operates in intensely competitive retailing, the company's focus on operational efficiency, price leadership, and customer satisfaction supports the achievement of robust competitiveness. The low beta further implies that Walmart's stock is deployable as a hedge against market volatility.

In short, our estimate confirms that Walmart remains a sound long-term investment. While its current stock price already captures most of its value, further margin expansion, leadership in omnichannel retailing, and disciplined capital use have the potential to create further upside during the next several years.

5. References

(data sources, research papers, reports etc.)

10-year Treasury Rate (I:10YTCMR). YCharts. (n.d.). https://ycharts.com/indicators/10_year_treasury_rate

Yahoo! (2025, April 30). *Walmart Inc. (WMT) stock price, news, Quote & History*. Yahoo! Finance. https://finance.yahoo.com/quote/WMT/

10-K - 03/14/2025. (n.d.). https://stock.walmart.com/sec-filings/all-sec-filings/content/0000104169-25-000021/0000104169-25-000021.pdf

Terminal growth rate: Formula + calculator. Wall Street Prep. (2024, August 21). https://www.wallstreetprep.com/knowledge/terminal-growth-rate/