EQUITY RESEARCH REPORT

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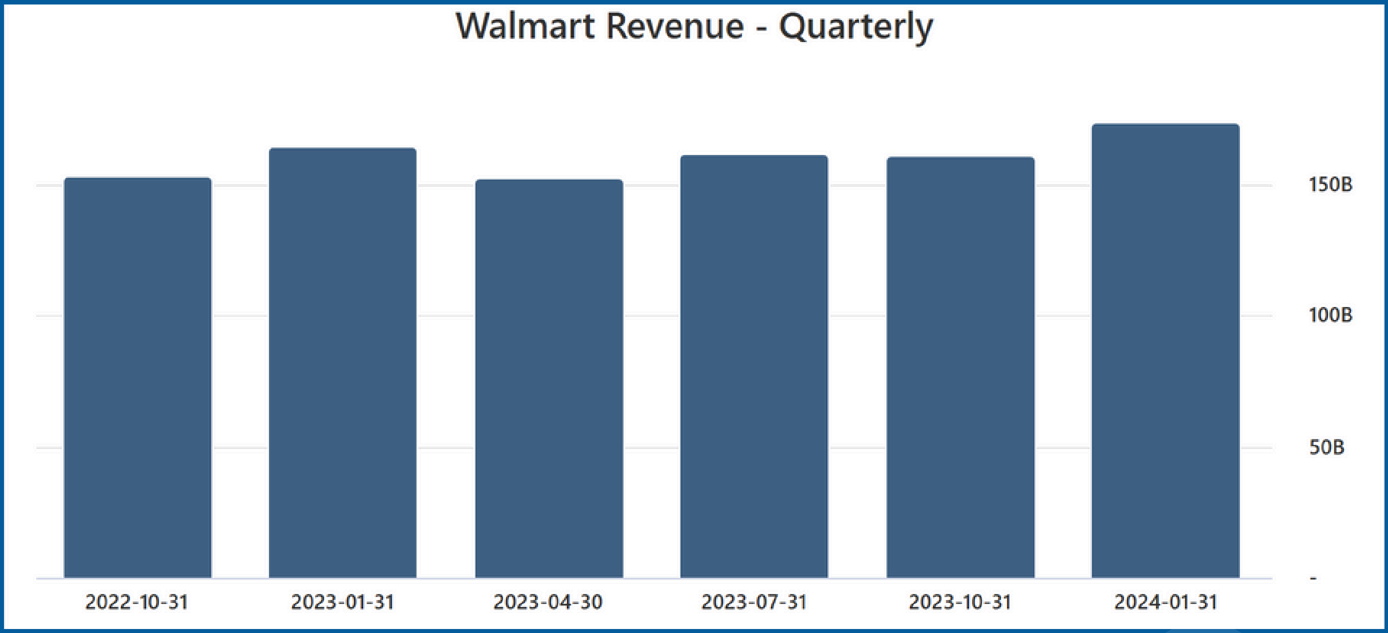
Recommendation

FY 24 Q4 Results: Walmart Inc. reported strong Q4 results with increases in both revenue and income streams. From Q4 in FY23, Walmart U.S. grew 4.0%, Sam's Club grew 3.1% and Walmart International grew 13%. E-commerce expanded by a whopping 23% across all three segments. It accumulated a total revenue of $173.4 billion, up by 5.7% compared to $164.05 billion in Q4 FY23. The consolidated net income was $5.49 billion vs. $453 million in the prior year quarter. These figures stemmed from outstanding performances in international markets, namely India, Mexico, and China, combined with growth in membership subscriptions.a



We estimate Walmart's target price to reach $60, outperforming its current book value of $55. In FY 24, it is trading at the EV/EBITDA multiple of 13.0x, compared to its main competitors with Amazon at 19.6x and Costco at 28.5x. With recent announcements to acquire Vizio, it is likely the stock will surge soon after due to its large segment in the technology industry. Additionally, Walmart plans to carry forward with its 3-1 stock split, driving the stock price even higher, as purchasing it becomes more accessible to potential shareholders. Given Walmarts consistent revenue growth, margins, and rapid expansion, there is more potential for growth. A DCF analysis with long-term FCF projections of 5 years and a discount rate of 6.9%, produces an implied share price of $55.36. The recommendation is a **BUY**.

Company Overview

Walmart is the largest global retailer, focusing on providing everyday items at low costs, creating savings and improving quality of life. It is split into three segments: Walmart U.S, Walmart International and Sam's Club. The company specializes in two separate categories: retail and wholesale. It operates as "Walmart" in the U.S. and Canada and has different names in international countries. However, all the stores share a similar setup: supercenters and hypermarkets combined with e-commerce through mobile apps and websites. With its goal of utilizing an omnichannel system, Walmart has provided seamless customer service through in-store shopping, pick-up, and online deliveries. Walmart also owns Sam's Club, a warehouse-structured store that operates on a member-subscription service, similar to Costco.

Competitive Advantage

Walmart's ability to maintain low prices is driven by its massive scale, which allows it to keep its prices low, streamline logistics, and leverage advanced inventory management systems.

By operating on small margins and generating high sales volumes, Walmart sustains its everyday low price (EDLP) strategy, keeping prices consistently low, instead of offering seasonal discounts. This framework has continuously been employed to reinforce its value proposition to consumers.

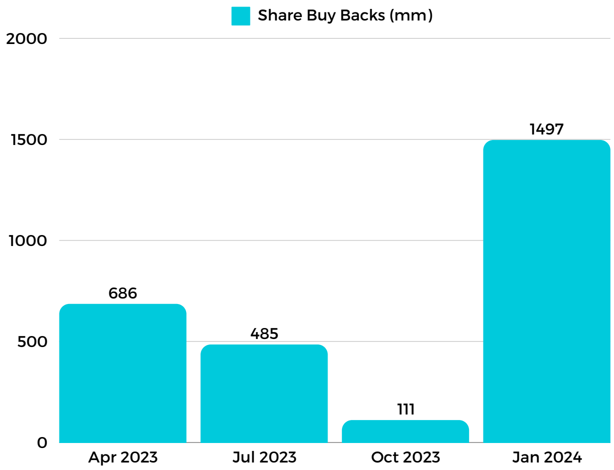
With over 10,500 stores across 19 countries and a growing online presence, Walmart benefits from a vast distribution network that enhances capital efficiency and scalability.

Its investments in automation, supply chain optimization- including Walmart+, curbside pickup- and third-party marketplace expansion, have strengthened its competitive position in both brick-and-mortar retail and e-commerce. By integrating physical stores with digital shopping experiences, Walmart provides convenience and accessibility for customers worldwide.

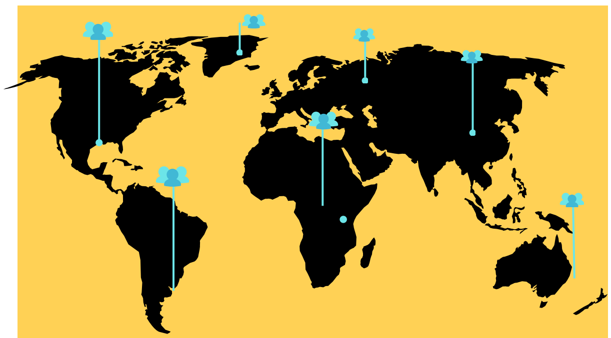
Catalysts

1) Acquisition for VIZIO- Walmart's $2.3 billion acquisition of Vizio, announced on February 20, 2024, forecasts strong financial performance for the next several quarters as it strengthens its advertising capabilities through Vizio's SmartCast platform. By integrating this technology with Walmart Connect, the company can grow their engagement with customers and offer advertisers more targeted opportunities. The acquisition also enables Walmart to engage customers directly through in-home media, creating personalized shopping experiences via Vizio's smart TVs. This move differentiates Walmart from competitors like Amazon by expanding its retail media business and diversifying revenue streams.

2) Stock buyback- In Q4 FY24, Walmart conducted stock buybacks that totalled a whopping $1.059 billion to resecure 19 million of its shares. Given the historical pattern in stock buybacks and Walmart's power to allocate around $16.5 billion to repurchase stocks, we believe the company can adapt to the necessary quantity of buybacks for several fiscal quarters. By reducing the total amount of outstanding shares, the company stocks will be distributed to a smaller pool of shareholders, greatly increasing the EPS. A higher EPS helps Walmart compete better with Target and Amazon, creating a stronger incentive for investors. The decision for stock buybacks also signals the management's confidence in the company, optimistic in its long term growth and healthy cash flows.



3) Global Expansion- Around Q4 FY24, Walmart had announcements to improve its physical retail stores as a main growth strategy. The company disclosed a 5-year expansion plan to establish 150 additional retail locations, which has been its most significant brick-and-mortar growth commitment since 2017. The further expansion will add to its existing massive scale and will increase Walmart's power to provide everyday low prices, continuing to differentiate itself from the market. The expansion also leads to improvements in market penetration in high-growth regions, strengthening sales across all channels. Ultimately, this investment will reinforce its competitive moat and drive sustainable growth to ensure the company's financial position over the next several years.



Projected Unlevered FCF

Unlevered Free Cash Flow (millions)							PROJECTED			
Fiscal Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue	523,964	559,151	572,754	611,289	648,125	687,013	728,233	764,645	795,231	827,040
COGS	394,605	420,315	429,000	463,721	490,142	516,136	547,105	574,460	597,438	621,336
Gross Profit	**129,359**	**138,836**	**143,754**	**147,568**	**157,983**	**170,876**	**181,129**	**190,185**	**197,793**	**205,704**
Operating Expenses										
Selling, General, Administrative	108,791	116,288	117,812	127,140	130,971	142,280	150,816	158,357	164,691	171,279
Total Operating Expenses	108,791	116,288	117,812	127,140	130,971	142,280	150,816	158,357	164,691	171,279
EBITDA	**31,555**	**33,700**	**36,600**	**31,373**	**38,865**	**28,597**	**30,312**	**31,828**	**33,101**	**34,425**
Depreciation & Amortization	10,987	11,152	10,658	10,945	11,853	12,402	12,446	12,490	12,534	12,578
Operating Profit (EBIT)	**20,568**	**22,548**	**25,942**	**20,428**	**27,012**	**16,195**	**17,867**	**19,338**	**20,567**	**21,847**
Operating Taxes	4,915	6,858	4,756	5,724	5,578	3,929	4,335	4,692	4,990	5,301
NOPAT (Net Operating Profit After Taxes)	**15,653**	**15,690**	**21,186**	**14,704**	**21,434**	**12,265**	**13,532**	**14,646**	**15,577**	**16,546**
(+) Depreciation & Amortization	10,987	11,152	10,658	10,945	11,853	12,402	12,446	12,490	12,534	12,578
(-) Capital Expenditures	10,705	10,264	13,106	16,857	20,606	12,891	12,937	12,983	13,029	13,075
(-) Change in NWC	(1,736)	2,185	(839)	(2,703)	(303)	(2,871)	(1,220)	(1,078)	(905)	(941)
NWC	(15,515)	(12,379)	(14,117)	(17,078)	(17,462)	(20,333)	(21,553)	(22,631)	(23,536)	(24,477)
Current Assets	61,806	81,070	90,067	75,655	76,877	84,414	89,478	93,952	97,710	101,619
Current Liabilitites	77,790	92,645	87,379	92,198	92,415	104,747	111,031	116,583	121,246	126,096
Unlevered Free Cash Flow	**17,671**	**14,393**	**19,577**	**11,495**	**12,984**	**14,647**	**14,260**	**15,231**	**15,988**	**16,991**

Assumptions										
Fiscal Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Revenue Growth		6.7%	2.4%	6.7%	6.0%	6.0%	6.0%	5.0%	4.0%	4.0%
COGS % of Revenue	75.3%	75.2%	74.9%	75.1%	75.1%	75.1%	75.1%	75.1%	75.1%	75.1%
SG&A % of Revenue	20.8%	20.8%	20.6%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%	20.7%
Tax % of EBIT	23.9%	30.4%	18.3%	28.0%	20.7%	24.3%	24.3%	24.3%	24.3%	24.3%

Walmart's projected financial performance indicates steady revenue growth, averaging around 5-6% annually from 2024 to 2029. Although there are increasing costs, the company maintains stable gross profit margins, with the cost of goods sold (COGS) consistently around 75% of revenue. Operating expenses, such as selling, general, and administrative (SG&A) costs, remain steady at approximately 20.7% of revenue.

While EBITDA is not as consistent, it is expected to grow from $38.9 billion in 2024 to $34.4 billion in 2029. The company's net operating profit after taxes (NOPAT) follows a similar trend, with moderate increases over time. However, unlevered free cash flow (UFCF), a key indicator of financial flexibility, shows a slight decline from $17.7 billion in 2020 to a projected $16.99 billion in 2029, suggesting potential capital allocation adjustments. Overall, Walmart is projected to continue to grow and strengthen its financial position with sustained cash flow, positioning itself for long-term growth.

Intrisic Value

Implied Share Price Calculation	
Sum of PV of FCF	63,058
Growth Rate	4%
WACC	6.9%
Terminal Value	619,876
PV of Terminal Value	443,991
Enterprise Value	507,049
(+) Cash	9,867
(-) Debt	61,321
(-) Minority Interest	6,710
Equity Value	448,885
Diluted Shares Outstanding (mm)	8108.00
Implied Share Price	**55.36**

Based on the implied share price calculation, Walmart's valuation is driven by a projected long-term growth rate of 4% and a weighted average cost of capital (WACC) of 6.9%.

The enterprise value is estimated at $507 billion, with a present value (PV) of free cash flows contributing $63 billion and a PV of terminal value at $444 billion.

After adjusting for cash holdings of approximately $9.9 billion, total debt of $61.3 billion, and minority interest of $6.7 billion, the equity value stands at $448.9 billion. With 8.1 billion diluted shares outstanding, the implied share price is calculated at $55.36.

This valuation suggests Walmart's current fundamentals and future cash flow potential support a strong market presence, though the actual share price will depend on external factors such as market sentiment and economic conditions.

Sensitivity Analysis

Terminal FCF Growth Rate vs. Discount Rate and Implied Share Price from DCF Analysis:

		Growth Rate				
	55.36	3.05%	3.55%	4.05%	4.55%	5.05%
WACC	5.90%	57.67	70.08	89.21	122.47	194.78
	6.40%	47.95	56.50	68.69	87.45	120.10
	6.90%	40.76	46.97	55.36	67.32	85.74
	7.40%	35.22	39.92	46.01	54.25	65.99
	7.90%	30.82	34.48	39.09	45.08	53.16

Comparable Analysis

5 of the most relevant competitors were chosen for financial comparison: Costco, Amazon, Target, Kroger, Best Buy. Each company compares to a similar industry sector that Walmart is in. For example, Costco is a giant in brick and mortar retailing, Amazon is the leading online retailer, and Best Buy in electronics. Overall, Costco, Amazon, and Target were found to be the most relative comparison in terms of the business's structure, company value, and revenue.

As illustrated in the comparable data table below, although Amazon's equity value triples Walmart, their EBITDA and Revenue is far less than Walmart, indicating Walmart's ability to generate mass amount of sales each quarter in comparison to Amazon. The same results is shown when comparing Walmart to the other companies, indicating that Walmart dominates in their revenue, EBITDA and net income.

Operation Data (mm)			**Capitalization**					
	Equity	Enterprise	**Revenue**		**EBITDA**		**Reported Net Income**	
Company Name	Value	Value	FY 23 (Jan)	FY 24 (Jan)	FY 23 (Jan)	FY 24 (Jan)	FY 23 (Jan)	FY 24 (Jan)
Costco Inc	321,255	312,738	55,266	58,442	2,373	2,576	1,466	1,743
Amazon.com, Inc.	1,570,153	1,672,049	149,204	169,961	15,422	27,029	278	10,624
Target Co.	67,167	84,800	31,395	31,919	1,855	2,594	876	1,382
Kroger Co.	33,194	51,361	34,822	37,064	1,839	2,075	451	736
Best Buy Co., Inc.	16,303	19,445	14,735	14,646	836	782	495	460
Maximum	1,570,153	1,672,049	149,204	169,961	15,422	27,029	1,466	10,624
75th Percentile	945,704	992,394	102,235	114,202	8,898	14,812	1,171	6,184
Median	**67,167**	**84,800**	**34,822**	**37,064**	**1,855**	**2,576**	**495**	**1,382**
Average	**401,614**	**428,079**	**57,084**	**62,406**	**4,465**	**7,011**	**713**	**2,989**
25th percentile	24,749	35,403	23,065	23,283	1,338	1,429	365	598
Minimum	16,303	19,445	14,735	14,646	836	782	278	460
Walmart Inc	**450,105**	**507,049**	**611,289**	**648,125**	**31,373**	**38,865**	**6,275**	**5,494**

For valuation metrics, it is based on the 5-number summary to capture the entire range of values for Walmart and the 5 comparison companies. All of Walmart's statistics perform above the maximum values of all relative companies except Amazon's equity and enterprise value- though this is not relevant as their earnings are not as proportionate. This ties back to Walmart's ability to generate mass volume of sales due to its low-pircing strategy, and meeting consumer demands.

The average was also used as a more accurate metric for evenly spread data values. However, Walmart greatly outperforms both the median and average, highlighting its consistent financial position and competitive edge over its main competitors. Ultimately, Walmart shows promising potential to continue growing and stepping ahead of Amazon and Costco, in particular, with their sales.

Valuation Multiples

The valuation multiple used were the EV/revenue, EV/EBITDA and the P/E ratio. Percentiles were used to evaluate performances, and the average was included for an accurate and transparent representation of symmetrical data values.

Valuation Data (mm)	Capitalization		**Enterprise Value/**		Enterprise Value/		P/E	
	Equity	Enterprise	**Revenue**		**EBITDA**		**Multiple**	
Company Name	Value	Value	FY 23 (Jan)	FY 24 (Jan)	FY 23 (Jan)	FY 24 (Jan)	FY 23 (Jan)	FY 24 (Jan)
Costco Inc	321,255	312,738	0.9 x	1.3 x	21.9 x	28.5 x	36.7 x	47.3 x
Amazon.com, Inc.	1,570,153	1,672,049	1.9 x	2.9 x	17.5 x	19.6 x	-314.8 x	51.6 x
Target Co.	67,167	84,800	0.9 x	0.8 x	14.5 x	9.7 x	27.9 x	16.2 x
Kroeger Co.	33,194	51,361	0.4 x	0.3 x	6.8 x	6.3 x	14.5 x	15.5 x
Best Buy Co., Inc.	16,303	19,445	0.5 x	0.5 x	7.6 x	7.3 x	13.3 x	13.1 x
Maximum	1,570,153	1,672,049	1.9 x	2.9 x	21.9 x	28.5 x	36.7 x	51.6 x
75th Percentile	945,704	992,394	1.4 x	2.1 x	19.7 x	24.0 x	32.3 x	49.5 x
Median	**67,167**	**84,800**	**0.9 x**	**0.8 x**	**14.5 x**	**9.7 x**	**14.5 x**	**16.2 x**
25th percentile	**401,614**	**428,079**	**0.9 x**	**1.2 x**	**13.7 x**	**14.3 x**	**-44.5 x**	**28.7 x**
Minimum	24,749	35,403	0.4 x	0.4 x	7.2 x	6.8 x	-150.8 x	14.3 x
	16,303	19,445	0.4 x	0.3 x	6.8 x	6.3 x	-314.8 x	13.1 x
Walmart Inc	**450,105**	**507,049**	**0.8 x**	**0.8 x**	**16.2 x**	**13.0 x**	**71.7 x**	**28.7 x**

EV/ Revenue multiples:

Walmart's EV/ Revneue ratio stands on the lower end at 0.8 x compared to the retail giants Amazon and Costco, which stands at 2.9 x and 1.3 x respectively. This signals more confidence for investors as it shows walmart is generating more revenue for a smaller enterprise value.

EV/ EBITDA multiples:

Walmart's EV/ EBITDA ratio is also lower at 16.2 x, compared to Amazon and Costco, which stands at 19.6 x and 28.5 x respectively. The ratio is higher compared to smaller companies such as Target, Kroger, and Best Buy. However, this still positions Walmart quite high when observing their earnings solely.

P/E Multiple:

Walmart's P/E ratio is also lower at 16.2 x, compared to Amazon and Costco, which stand at 19.6 x and 28.5 x, respectively. Walmart's P/E ratio stands exactly in the first quartile. Although it is quite high compared to Best Buy and Kroger, it is within a reasonable range for a large, growing company. This high ratio suggests that investors are expecting further growth rates in the upcoming quarters.

Risks

HURDLES IN THE VIZIO HOLDING DEAL

There are many stages before an acquisition is fully complete. During the process, there are different factors such as mutual agreements, control of assets, and takeover of operations that can delay the acquisition. Additionally, Vizio is primarily a manufacturer of TVs while Walmart specializes in retail. Integrating Vizio to align with Walmart could present operational and technological challenges. Finally, acquiring Vizio may dilute earnings, generating short-term profitability rather than long-term gains.

REALLOCATION OF FUNDS FOR BUY BACKS

Shown from the valuation, Walmart uses more debt than equity to finance its investments, resulting in a high debt-to-equity ratio of 0.46. Although this has been the pattern for the past few years, it emphasizes the importance of Walmart's careful management of its cash flows to repay its long-term debt. Some of its declared funds for stock buybacks may be reallocated towards paying off its debt or other investments in expansion or technological developments.

LIMITED STOIRE EXPANSION & INCREASE IN COMPETITION

Expanding brick-and-mortar locations requires significant capital investments, with uncertain returns. In regions with high market saturation, customers are used to convenience and personal preference during shopping. This makes it difficult for Walmart to stand out in the market. With uncertainty on their success of expansion to generate revenue, Walmart will need to reevaluate whether their investments in new stores will be beneficial or a detriment to their financial position.

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