



Walmart Inc.

FY23 Could Be Time to Shine

WMT delivered a very strong print amidst a multitude of investor concerns ahead of earnings, underscoring the company's ability to successfully navigate a challenging backdrop. In our view, this will likely prove to be one of the stronger earnings results/outlooks this season considering the many challenges facing retailers in 2022, setting the stage for the stock to continue to grind higher over time. To elaborate, we think WMT is "separating" from the pack vis-à-vis its unique/diversified/customer-centric model, evidenced by: **1) exceptional U.S. gross margin performance** of +54 bps in 4Q22 and guidance for FY23 expansion, despite severe inflation/supply chain headwinds – WMT's unmatched global experience managing inflation/pricing/mix in a value-focused manner, scale/vendor relationships, as well as the ongoing growth of high margin businesses such as Walmart Connect (\$2.1B business), WFS, Go Local, marketplace etc. are all contributors; **2) ongoing top line strength**, with 4Q22 U.S. comps at + 5.6%, positive Jan-22 comps against mid-teens in Jan-21, and FY23 U.S. comp guidance set at ~3%, despite lapping tough compares and stimulus - WMT is gaining units and \$ share in grocery, is set to lower its out-of-stocks, is improving service levels (which were negatively impacted by Omicron), is growing digital fulfillment capacity/offers and has not veered at all from its value promise to customers (price gaps wider vs. pre-pandemic levels & rollbacks up q/q) – so if/when the consumer becomes more challenged, we believe WMT will actually win even more share; **3) sizable offensive investments that don't result in margin contraction**, as WMT reiterated its ~4% top line and EBIT>Sales growth (ex-divestitures) and 2.5%-3.0% capex algorithm for FY23, so while tech, supply chain, and labor investments will be meaningful, resulting in capex in the ~\$18B range and SG&A deleverage, the model will still deliver robust top line growth and margin expansion in FY23 – i.e., WMT is able to manage a multitude of levers to drive sustainable growth despite the challenging backdrop.

Overall, we believe momentum will continue and FY23 guidance is achievable. While concerns about the low-income consumer, lapping stimulus, and ongoing inflation may linger, we believe WMT is positioned significantly better than most retailers in this environment. Along these lines, we think FY23 guidance is achievable given share/inflation trends, GM tailwinds, and the lapping of ~\$1B in COVID leave costs in FY23. We adjust FY22 ests. to reflect new guidance/trends and maintain our \$170 PT.

WMT: Quarterly and Annual EPS (USD)

	2022		2023		2024		Change y/y	
FY Jan	Actual	Old	New	Cons	Old	New	2023	2024
Q1	1.69A	N/A	1.45E	1.65E	N/A	N/A	-14%	N/A
Q2	1.78A	N/A	1.89E	1.89E	N/A	N/A	6%	N/A
Q3	1.45A	N/A	1.54E	1.60E	N/A	N/A	6%	N/A
Q4	1.53A	N/A	1.83E	1.64E	N/A	N/A	20%	N/A
Year	6.45A	6.79E	6.70E	6.75E	N/A	7.28E	4%	9%
P/E	20.7		19.9			18.3		

Source: Barclays Research.

Consensus numbers are from Bloomberg received on 17-Feb-2022; 16:49 GMT

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PLEASE SEE ANALYST CERTIFICATION(S) AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 8.

Equity Research

Consumer | North America Food & Staples

Retailing

17 February 2022

Stock Rating	OVERWEIGHT
	Unchanged
Industry View	NEUTRAL
	Unchanged
Price Target	USD 170.00
	Unchanged

Price (16-Feb-2022)	USD 133.53
Potential Upside/Downside	+27.3%
Tickers	WMT

Market Cap (USD mn)	370396
Shares Outstanding (mn)	2773.88
Free Float (%)	52.46
52 Wk Avg Daily Volume (mn)	8.4
Dividend Yield (%)	1.65
Return on Equity TTM (%)	9.80
Current BVPS (USD)	29.51

Source: Bloomberg

Price Performance	Exchange-NYSE
52 Week range	USD 152.57-126.28



Source: IDC; Link to Barclays Live for interactive charting

North America Food & Staples Retailing

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North America Food & Staples Retailing	Industry View: NEUTRAL
Walmart Inc. (WMT)	Stock Rating: OVERWEIGHT

Income statement (\$mn)	2022A	2023E	2024E	2025E	CAGR	Price (16-Feb-2022)	USD 133.53
Revenue	572,754	589,179	617,977	N/A	N/A	Price Target	USD 170.00
EBITDA (adj)	36,823	37,926	40,068	N/A	N/A	Why Overweight? Rationale: A valuation slightly above "Staple-Type" companies under our coverage (in line when adjusted for Flipkart losses) that reflects: 1) a continuation of solid comps and traffic, 2) moderate EPS growth after adjusting for Flipkart losses, and 3) an above average FCF and dividend yield compared to "Staple-Type" companies.	
EBIT (adj)	26,165	26,968	28,573	N/A	N/A		
Pre-tax income (adj)	24,235	25,075	26,680	N/A	N/A		
Net income (adj)	18,087	18,444	19,678	N/A	N/A		
EPS (adj) (\$)	6.45	6.70	7.28	N/A	N/A		
Diluted shares (mn)	2,805.0	2,751.5	2,704.2	N/A	N/A		
DPS (\$)	2.20	2.24	2.28	N/A	N/A		

Margin and return data	Average				
EBITDA (adj) margin (%)	6.4	6.4	N/A	N/A	6.4
EBIT (adj) margin (%)	4.6	4.6	N/A	N/A	4.6
Pre-tax (adj) margin (%)	4.2	4.3	4.3	N/A	4.3
Net (adj) margin (%)	3.2	3.1	N/A	N/A	3.1
ROIC (%)	13.9	14.3	N/A	N/A	14.1
ROE (%)	19.7	19.5	N/A	N/A	19.6
ROA (lease-adjusted) (%)	8.3	8.9	N/A	N/A	8.6

Balance sheet and cash flow (\$mn)	CAGR				
Tangible fixed assets	94,515	101,557	108,062	N/A	N/A
Intangible fixed assets	N/A	N/A	N/A	N/A	N/A
Cash and equivalents	14,760	11,485	12,523	N/A	N/A
Total assets	244,860	234,679	246,396	N/A	N/A
Short and long-term debt	35,274	35,274	N/A	N/A	N/A
Total liabilities	152,969	140,223	145,107	N/A	N/A
Net debt/(funds)	23,317	26,592	N/A	N/A	N/A
Shareholders' equity	91,891	94,455	101,288	N/A	N/A
Change in working capital	-6,597	-9,431	2,881	N/A	N/A
Cash flow from operations	24,181	30,889	32,203	N/A	N/A
Capital expenditure	-13,106	-18,000	-18,000	N/A	N/A
Free cash flow	17,642	13,511	N/A	N/A	N/A

Valuation and leverage metrics	Average				
P/E (adj) (x)	20.7	19.9	18.3	N/A	19.6
EV/EBITDA (adj) (x)	10.9	10.7	N/A	N/A	10.8
Equity FCF yield (%)	4.7	3.7	N/A	N/A	4.2
P/Sales (x)	0.7	0.6	0.6	N/A	0.6
P/BV (x)	4.1	3.9	N/A	N/A	4.0
Dividend yield (%)	1.6	1.7	1.7	N/A	1.7
Adj debt/EBITDAR (x)	1.2	1.2	N/A	N/A	1.2

Selected operating metrics	Average				
Same store sales growth (%)	6.5	2.9	N/A	N/A	4.7
Square footage growth (%)	-5.4	0.7	N/A	N/A	-2.3
Inventory growth (%)	25.7	3.0	N/A	N/A	14.4
Capex/sales (%)	2.3	3.1	N/A	N/A	2.7

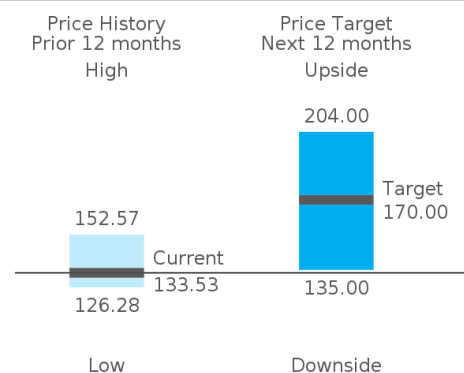
Upside case USD 204.00

Reflects: 1) Robust comps, 2) accelerating e-com growth, 3) strong EPS growth after adjusting for Flipkart losses, 4) improvement at Sam's Club, 5) a multiple closer to Staples peers, 6) an improvement in consumer spending, and 7) lower-than-expected Flipkart losses.

Downside case USD 135.00

Reflects: 1) slowing comps, 2) a meaningful slowdown in e-com growth, 3) greater than expected margin contraction, 4) significant increase in capex to support e-commerce/technology, 5) a slowdown in consumer spending, and 6) larger-than-expected Flipkart losses.

Upside/Downside scenarios



Source: Company data, Bloomberg, Barclays Research
Note: FY End Jan

Details on 4Q22 Results

WMT reported 4Q22 adjusted EPS of \$1.53 vs. consensus at \$1.50 and our estimate of \$1.49. Total revenue came in at \$152.9B, an increase of 0.5% y/y (or \$153.0B when excluding the effects of currency). Walmart U.S. comp transactions of +3.1% drove comp sales of +5.6%, which was higher than our estimate of 5.0% and Consensus of 5.4%. U.S. e-commerce sales grew 1% y/y and 70% on a 2 – year stack basis. Sam's Club comps increased 10.4% ex fuel and FX compared to our estimate of 8.0% and consensus at 9.2%. Membership income increased 9.1% y/y with the member count reaching an all – time high. Lastly, ecommerce sales grew 21% y/y at Sam's Club.

Consolidated gross margin increased ~10bps, reflecting price management and mix and growth in the advertising business, partially offset by higher supply chain costs. Consolidated SG&A expenses deleveraged 1bps due to higher wages, partially offset by strong sales and lower y/y COVID costs. Lastly, the EBIT margin was 4.0% vs. Barc/Cons estimates of 4.1%/4.0%.

WMT U.S. gross margin increased by ~54bps y/y due to price management and mix including a benefit from WMT Connect partially offset by higher supply chain costs. U.S. operating income grew 0.3% y/y reflecting an EBIT margin of 4.92% compared to our estimate of 5.29% and consensus at 5.21%. Sam's Club operating income increased by 41.1% y/y and WMT International operating income decreased 0.6% y/y (excluding divestitures of \$31M) – underscoring the strength of WMT's broad based performance. Looking ahead, WMT is well positioned from an inventory perspective given that WMT U.S. inventory was up 28.3% y/y at the end of 4Q.

Takeaways from Follow-Up Call with Management

- WMT isn't seeing any metrics that would indicate that inflation has become a problem for consumers yet, but is prepared if the economy worsens.
- One indicator is private label penetration – and so far, private label penetration has not yet increased as would typically happen when consumers become more budget conscious and January had positive comp even on tough stimulus fuelled comps from last year.
- While supply chain logjams have improved slightly recently, WMT is still building in longer lead times as the global supply chain is still far from historical pre-COVID efficiency.
- As point of clarification, 1Q EPS growth guidance excluded divestitures, and as a reminder, WMT's F4Q23 is expected to benefit vs. F4Q22 due to the shift of Big Billions Day Internationally. However, the larger driver of income growth in F4Q23 is expected to be the over \$700M in supply chain (\$400M) and Covid leave costs (\$300M) from F4Q22, which are anticipated to abate.
- The vast majority of the incremental capex in FY23 is expected to be for supply chain and technology.
- WMT won't lap their last major wage increase until midway through F3Q23, resulting in a y/y SG&A deleverage in general - this could prove to be a theme for several other retailers in our coverage.
- Within FY23 guidance, WMT has incorporated a level of wage inflation – but currently expects it to be more surgical in nature compared to the broad wage increases from FY22.
- WMT is currently able to adequately meet their staffing needs - and even exceeded their hiring goals during 4Q.

- As expected - WMT's advertising business' flowthrough is significantly higher than the average gross margin for WMT – but is not a direct/100% flow through – so we would just caution this new revenue stream is not a direct offset/benefit to gross margins because there are some costs associated with the revenue stream.

FIGURE 1
FY23 Guidance

Metric	FY23 Guidance
Consolidated net sales	Increase ~3% in constant currency. Ex-divestitures, increase of ~4%
Comp sales growth	Walmart U.S.: slightly above 3% ex-fuel
Gross Margin	Increase
SG&A Expense	Some deleverage
Consolidated operating income	Increase ~3% in constant currency. Ex-divestitures, increase at a rate higher than net sales
Tax rate	25%-26%
EPS growth	Increase MSD. Ex-divestitures, increase 5%-6%
Capex	Upper end of 2.5%-3% of net sales
Share repurchase	At least \$10B
Metric	FY23 Quarterly Guidance
U.S. Comp sales growth	1Q: ~1-2%. Somewhat higher through remainder of year
Operating Income and EPS	1Q: down LDD to low-teens. 2Q-3Q: +L-MSD. 4Q: +high-teens

Source: Barclays Research, Company Reports

Results vs Expectations

FIGURE 2

WMT 4Q Results vs. Expectations

	4Q21A	Barclays 4Q22E	4Q22A	YOY growth	4Q22 Consensus
Sales	\$150,985.0	\$148,750.8	\$151,525.0	0.4%	\$149,901.5
Other income	\$1,094.0	\$1,137.8	\$1,346.0	23.0%	\$1,296.5
Total Revenue	\$152,079.0	\$149,888.5	\$152,871.0	0.5%	\$151,480.0
Cost of Goods Sold	<u>115,261.0</u>	<u>113,750.7</u>	<u>115,522.0</u>		<u>114,802.3</u>
Gross Profit	36,818.0	36,137.8	37,349.0	1.4%	36,677.7
Gross Profit Margins	24.2%	24.1%	24.4%	22bp	24.2%
SG&A	31,331.0	30,044.2	31,239.4	-0.3%	30,560.2
SG&A Ratio	20.6%	20.0%	20.4%	-17bp	20.2%
Operating Income	5,487.0	<u>6,093.6</u>	6,109.6	11.3%	6,117.5
EBIT Margins	3.6%	4.1%	4.0%	39bp	4.0%
EBITDA	8,306.0	8,931.9	8,815.6	6.1%	8,912.8
Interest Expense	494.0	450.0	380.0	-23.1%	456.2
Other (Income) Expense	<u>(150.8)</u>	<u>(10.0)</u>	<u>113.0</u>		<u>0.0</u>
Pretax Income	5,143.8	5,653.6	5,616.6	9.2%	5,661.4
Income Taxes	1,132.4	<u>1,427.4</u>	1,343.7	18.7%	1,425.0
Tax Rate	22.0%	25.2%	23.9%		25.2%
Non-Controlling Interest	(83.0)	(76.3)	(15.4)		(71.2)
Net Income	3,928.4	4,149.8	4,257.5	8.4%	4,165.2
Operating EPS	\$1.39	\$1.49	\$1.53	10.1%	\$1.50
Shares O/S	2,826.0	2,793.6	2,782.0		2,784.2
Margin Summary (ex charges)					
Gross Profit Margins	24.2%	24.1%	24.4%	22bp	24.2%
SG&A Ratio	20.6%	20.0%	20.4%	-17bp	20.2%
EBIT Margin	3.6%	4.1%	4.0%	39bp	4.0%
Tax Rate	22.0%	25.2%	23.9%		25.2%

Source: Barclays Research; Company Data

FIGURE 3

WMT 4Q Segment Results vs. Expectations

	4Q21A	Barclays 4Q22E	4Q22A	y/y % growth	4Q22 Consensus
Walmart U.S.					
Revenue	99,585	104,540	105,279	5.7%	105,048
SSS ex gas/FX	8.6%	5.0%	5.6%		5.4%
Adjusted EBIT	5,168	5,530	5,183	0.3%	5,472
EBIT Margin %	5.2%	5.29%	4.92%	-26.6bp	5.21%
Sam's Club					
Revenue	16,527	17,868	19,249	16.5%	18,514
SSS ex gas/FX	10.8%	8.0%	10.4%		9.2%
Adjusted EBIT	389	474	549	41.1%	480
EBIT Margin %	2.4%	2.7%	2.9%	50bp	2.6%
Walmart International					
Revenue	34,873	26,343	26,997	-22.6%	26,550
Adjusted EBIT	964	944	940	-2.5%	869
EBIT Margin %	2.8%	3.6%	3.5%	72bp	3.3%
Corporate					
Operating income (expense)	-1,034	-854	-677		-699
Total					
Revenue	152,079	149,889	152,871		
EBIT	5,487	6,094	5,995		6,123

Source: Barclays Research; Company Data

Valuation

We maintain our PT of \$170 reflecting a ~12x EV/EBITDA multiple on our new FY24E EBITDA estimate of \$40.1B.

FIGURE 4

Walmart Current Valuation

Walmart Current Valuation			
Data Points (for year end January)			
\$ in MM, except per share	FY22	FY23E	FY24E
Shares	2,805	2,751	2,704
Stock	\$138.16	\$138.16	\$138.16
Market Cap	\$387,539	\$380,141	\$373,619
Net Debt Estimate	\$23,317	\$26,592	\$25,554
Enterprise Value ex Leases	\$410,856	\$406,732	\$399,173
Enterprise Value incl. Leases	\$433,775	\$429,099	\$421,690
Valuation Excluding Rent			
	FY22	FY23E	FY24E
EV	\$410,856	\$406,732	\$399,173
EV/Sales	0.72x	0.69x	0.65x
EV/EBITDA	11.2x	10.7x	10.0x
PE	21.4x	20.6x	19.0x
PEG	1.2x	5.2x	2.2x
FCF Current Yield	4.6%	3.6%	4.1%
P/FCF	22.0x	28.1x	24.3x
EV/FCFF	21.1x	26.6x	23.2x
Valuation Including Rent			
	FY22	FY23E	FY24E
EV including rent	\$433,775	\$429,099	\$421,690
EV+leases/Sales	0.76x	0.73x	0.68x
EV+leases/EBITDAR	10.9x	10.5x	9.8x

Source: Barclays Research

FIGURE 5

Walmart Price Target Valuation

Walmart Price Target Valuation			
Data Points (for year end January)			
\$ in MM, except per share	FY22	FY23E	FY24E
Shares	2,805	2,751	2,704
Stock	\$170.00	\$170.00	\$170.00
Market Cap	\$476,850	\$467,747	\$459,722
Net Debt Estimate	\$23,317	\$26,592	\$25,554
Enterprise Value ex Leases	\$500,167	\$494,339	\$485,277
Enterprise Value incl. Leases	\$523,086	\$516,705	\$507,794
Valuation Excluding Rent			
	FY22	FY23E	FY24E
EV	\$500,167	\$494,339	\$485,277
EV/Sales	0.87x	0.84x	0.79x
EV/EBITDA	13.6x	13.0x	12.1x
PE	26.4x	25.4x	23.4x
PEG	1.5x	6.4x	2.7x
FCF Price Target Yield	3.7%	2.9%	3.3%
P/FCF	27.0x	34.6x	29.9x
EV/FCFF	25.7x	32.3x	28.2x
Valuation Including Rent			
	FY22	FY23E	FY24E
EV including rent	\$523,086	\$516,705	\$507,794
EV+leases/Sales	0.91x	0.88x	0.82x
EV+leases/EBITDAR	13.2x	12.7x	11.8x

Source: Barclays Research

Estimates vs Consensus

FIGURE 6

Barclays vs Consensus

	Barclays	Consensus	Barclays	Consensus	Barclays	Consensus	Barclays	Consensus
INCOME STATEMENT (\$ mm)	1Q23E	1Q23E	2Q23E	2Q23E	FY23E	FY23E	FY24E	FY24E
Total Sales	137,541.2	140,627.3	147,090.0	146,226.8	589,179.4	588,701.2	617,976.5	609,589.4
COGS	103,248.1	105,296.1	109,541.6	109,220.2	440,974.9	441,655.5	462,528.5	457,469.3
Gross Profit	34,293.1	35,331.3	37,548.4	37,006.7	148,204.6	147,045.7	155,448.0	152,120.1
SG&A Expenses	28,239.0	28,584.7	30,031.9	29,509.6	121,236.6	119,895.9	126,874.6	123,329.3
Operating Income	6,054.0	6,746.5	7,516.6	7,497.1	26,968.0	27,149.8	28,573.5	28,790.8
Net Interest Expense (Income)	450.0	491.7	450.0	493.9	1,800.0	1,929.6	1,800.0	1,947.4
EBT	5,592.8	6,254.8	7,069.6	1,003.2	25,074.6	25,220.2	26,680.1	26,843.4
Income Taxes	1,500.6	1,580.2	1,794.4	1,774.8	6,347.0	6,371.5	6,681.6	6,815.7
Tax Rate (%)	26.8%	25.2%	25.4%	25.3%	25.3%	25.3%	25.0%	25.4%
Net Income from Cont. Ops.	4,018.8	4,608.0	5,201.4	5,150.9	18,444.0	18,581.1	19,678.4	19,752.4
EPS	\$1.45	\$1.66	\$1.89	\$1.86	\$6.70	\$6.74	\$7.28	\$7.27
Diluted WASO	2,774.3	2,774.5	2,758.7	2,764.1	2,751.5	2,758.8	2,704.2	2,714.5
EBITDA	8,700.2	9,437.8	10,270.7	10,192.1	37,926.5	38,284.3	40,067.7	40,479.4
EBIT growth	-12.37%	-2.35%	2.21%	1.95%	3.07%	3.77%	5.95%	6.04%

Key Metrics

Total Revenue % Δ y/y	-0.56%	1.68%	4.28%	3.67%	2.87%	2.78%	4.89%	3.55%
US Sales % Δ y/y	1.55%	2.99%	3.69%	3.52%	3.12%	3.82%	4.24%	3.34%
Walmart U.S. Stores comps	1.50%	3.00%	3.50%	3.20%	2.91%	3.00%	4.00%	3.20%
Flipkart Net Sales - \$	4,897.6	3,096.0	2,880.3	2,634.7	17,223.3	12,779.1	20,668.0	12,166.2

Margin Analysis

Gross Profit Margin	24.9%	25.1%	25.5%	25.3%	25.2%	25.0%	25.2%	25.0%
SG&A Margin	20.5%	20.3%	20.4%	20.2%	20.6%	20.4%	20.5%	20.2%
Operating Income Margin	4.4%	4.8%	5.1%	5.1%	4.6%	4.6%	4.6%	4.7%
EBITDA Margin	6.3%	6.7%	7.0%	7.0%	6.4%	6.5%	6.5%	6.6%
Pretax Margin	4.1%	4.4%	4.8%	0.7%	4.3%	4.3%	4.3%	4.4%
Net Margin	2.9%	3.3%	3.5%	3.5%	3.1%	3.2%	3.2%	3.2%

Margin Change

Gross Profit Margin	(40)	(21)	10	(12)	6	(12)	(0)	(2)
Operating Income Margin	(59)	(20)	(10)	(9)	1	4	5	11
EBITDA Margin	(60)	(21)	(10)	(12)	0	7	0	14
Net Margin	(52)	(17)	(1)	(3)	(3)	(0)	5	8

Source: Barclays Research; Consensus Metrix

ANALYST(S) CERTIFICATION(S):

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Primary Stocks (Ticker, Date, Price)

Walmart Inc. (WMT, 16-Feb-2022, USD 133.53), Overweight/Neutral, A/CD/CE/D/E/J/K/L/M/N

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North America Food & Staples Retailing

Albertsons Companies Inc (ACI)

Alimentation Couche-Tard Inc. (ATD-B.TO)

Big Lots, Inc. (BIG)

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Walmart Inc. (WMT / WMT)

USD 133.53 (16-Feb-2022)

Stock Rating

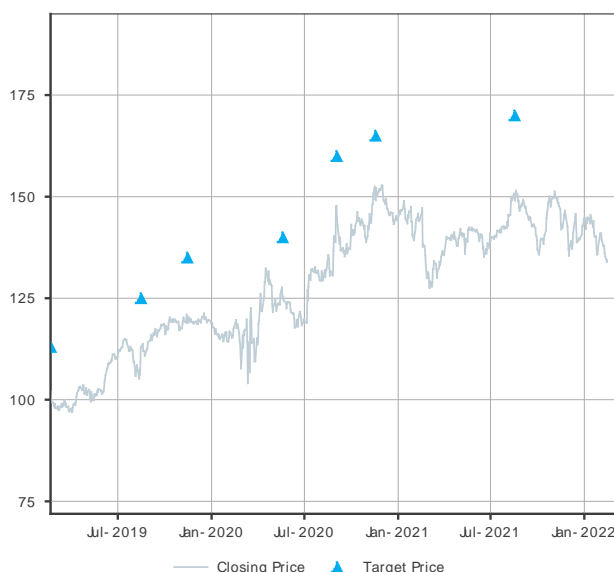
OVERWEIGHT

Industry View

NEUTRAL

Rating and Price Target Chart - USD (as of 16-Feb-2022)

Currency=USD



Publication Date	Closing Price*	Rating	Adjusted Price Target
17-Aug-2021	150.70		170.00
17-Nov-2020	149.37		165.00
02-Sep-2020	147.68		160.00
19-May-2020	124.95		140.00
14-Nov-2019	120.65		135.00
15-Aug-2019	112.69		125.00
19-Feb-2019	102.20		113.00

On 17-Feb-2019, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 110.00.

Source: Bloomberg, Barclays Research

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Valuation Methodology: Our \$170 price target is based on a ~12x EV/EBITDA multiple and FY24 EBITDA of ~\$40.1 billion.

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