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# Walmart Inc.

## F3Q21 Earnings Preview

**Stock Rating/Industry View:** Overweight/Neutral**Price Target:** USD 160.00**Price (05-Nov-2020):** USD 143.47**Potential Upside/Downside:** 12%**Tickers:** WMT**Earnings Release Details:**

Tuesday, November 17

7:00AM ET Press Release; 8:00AM ET Earnings Call (projected)

Unlike many names in our coverage universe, we believe the bar is relatively low for WMT ahead of earnings on 11/17. Despite the low bar, the narrative for the last several months has been generally dominated by conversations around WMT's share trends in consumables: growth on a dollar comp basis has clearly underperformed conventional retailers, leading skeptics to conclude WMT has been losing share during the pandemic. While we certainly cannot refute the dollar comp gap discussion versus some of the conventional food retailers, in a separate report published today, "*Fortress*" ([click here for report](#)), we do a deep dive into share loss concerns (among a host of other WMT topics), which we strongly believe are short-sighted, as the root causes of share loss, such as shortened hours, out-of-stocks, and higher prices at competitors, are mostly transient, and will prove irrelevant when shopping behavior normalizes. In conjunction with our Investment Science colleagues, our report also looks at "share of mind" - or more specifically change in "visit" share - and this data show WMT is not losing mindshare or visit share. In fact, the data show WMT has been seeing an acceleration of visits every month since the June 2020 trough. We believe these data are more relevant than dollar comp comparisons as we look forward because it reflects "mindshare" or "visit" share.

**On expectations:** In our conversations, it seems that investors are anchoring expectations to credit card data, which have been reflecting ~MSD U.S. comp trends, although this data may not be accurate considering ~30% of WMT's U.S. sales are transacted in cash, and there is a SNAP component that the credit card data doesn't capture. We are forecasting U.S. comps of +4.0% in 3Q21 vs. consensus of +4.4%. Our estimates reflect a relatively challenging BTS season, which will likely be a drag on margins as well as comps, in addition to the COVID cost drag on margins. On the other hand, WMT continues to make progress on e-commerce profitability given efficiency mix benefits that are sustainable. We expect U.S. EBIT margins down 25 bps in 3Q21 vs. consensus down 5 bps.

As we head into the Holiday season, Walmart has continued to expand its capabilities to elevate the customer experience and enhance its value proposition. We elaborate on these capabilities in detail in our separate "*Fortress*" report. One recent example is the "Walmart+" launch, which should result in ecosystem-type frequency/engagement benefits. As WMT's overall omni-channel capabilities now stand, we think no one is better equipped than WMT to compete in what will shape out to be a competitive 2020 Holiday season. As we have seen, the cadence of Holiday promotions in the industry has been pulled forward, but we generally expect a strong Holiday season given the large pool of dollars available from the drop in travel/restaurants spending, and, quite simply, consumers' yearning for any semblance of fun/cheer during the Holiday season.

Looking beyond Holidays 2020, the conversation on WMT should quickly shift towards 2021, and we are very constructive on the trajectory vs. others in this regard. **WMT is one of the few retailers we cover that will have easy comparisons next year, so a potential comp decline should be much less onerous.** Walmart+ should also really start to hit its stride next year. Furthermore, expanded store hours, better in stock positioning, and perhaps most importantly, a return to a more value conscious mindset on the part of consumers should be major tailwinds. Overall, while we understand the reasons for skepticism today, we are very confident WMT's day will come because price will matter again and comparisons next year are relatively easy. Reiterate OW.

**Ahead of the Quarter:**

We are forecasting 3Q21 EPS of \$1.11 vs. consensus of \$1.18. WMT has pivoted its focus on making the necessary investments to

serve its customers and workers during the pandemic. Gross margin, incremental COVID-19 related costs, and overall top-line flow-through will be top of mind as investors are looking to gauge the stickiness of costs and the impact to profitability going forward. The Street is forecasting a gross margin of 24.5%, flat y/y, while we are estimating a 20bp decline as stimulus benefits fade along with general merchandise strength. Tailwinds to gross margin to offset mix may include a less promotional environment and less shrink. SG&A costs are likely to be substantial given WMT's investment in additional labor and cleaning costs. Consensus estimates overall SG&A, including both labor and other incremental COVID-19 related costs, to be ~\$27.9B vs our ~\$27.8B forecast. Despite the near-term noise on cost, we believe WMT has reacted quickly to serve customer needs and will continue its strong momentum.

#### **What Matters to Us Most:**

- QTD comps and traffic by category, including the contribution from e-commerce.
- The health of WMT's core customer and the impact of COVID-19.
- Any color on FY21 and FY22 outlook.
- Specifics regarding ongoing incremental SG&A costs related to COVID-19.
- Puts and takes on gross margin.
- E-commerce growth and drivers.
- Government stimulus and SNAP impact on sales.
- Flipkart sales growth and operating losses.
- Cost and price inflation environment.
- Pricing gaps/promotional activity vs competitors.
- E-commerce grocery trends.
- Color on Express Delivery reception and expansion plans.
- Color on WMT+ rollout and early uptake.
- Color on the Instacart test
- Update on capital allocation/strategic investment priorities.
- Proceeds from ASDA sale and uses for cash.
- Any color on potential TikTok deal.

#### **Tailwinds:**

- Lower shrink in fresh.
- Increased FAH as well as "at home" general merchandise categories.
- E-commerce to remain strong supported by: 1) the rollout of WMT+; 2) rollout of Grocery Pickup locations; 3) the expansion of same-day grocery delivery to more markets; 4) brand additions and an improved assortment on marketplace; 5) expansion of NextDay delivery; 6) launch of Express Delivery.
- Online grocery and e-commerce is contributing to average ticket growth.
- Potential share gains as customers look to consolidate shopping trips in stores that can fulfill all needs.
- Increase in spending due to government stimulus and SNAP increase.
- Fewer markdowns as a result of higher sell-through in general merchandise.

#### **Headwinds:**

- Substantial SG&A expenses related to COVID-19.
- Reduced store hours due to COVID-19.
- Out of stock challenges.
- E-commerce mix impact to margin.
- Uncertain macro environment.

**Guidance:** Withdrawn due to COVID-19 uncertainty

#### **Figure 1: Consensus Expectations**

Source: ConsensusMetrix, Barclays Research

Restricted - External

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**Walmart Inc.** (WMT, 05-Nov-2020, USD 143.47), Overweight/Neutral, CD/CE/D/J/K/L/M/N

**Valuation Methodology:** Our \$160 price target is based on a ~14x EV/EBITDA multiple and FY22 EBITDA of \$34.9 billion.

**Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target:** We believe the long-term risks for Walmart include: (1) the challenges associated with managing increasingly vast and complex operations, (2) the growing contribution of the lower-margin food business to the overall merchandise mix, (3) the ability to acquire and successfully integrate assets abroad, (4) the proficiency with which the company adapts its store formats to the various economic and cultural environments in international markets, and (5) ability to profitably grow its e-commerce business. Our earnings forecast and investment thesis for Walmart are subject to such factors as cost of goods, consumer spending and debt levels, currency fluctuations, interest rate fluctuations, store expansion plans, and variability in comparable store sales.

### Ratings and Price Target History:

Walmart Inc.  
Currency=USD



Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
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
04-Sep-2018	95.36	Overweight	110.00
09-May-2018	83.06	Rating Suspended	
20-Feb-2018	94.11		116.00
26-Jan-2018	108.39		120.00
17-Nov-2017	97.47		110.00
13-Nov-2017	90.99		100.00

On 05-Nov-2017, prior to any intra-day change that may have been published, the rating for this security was Overweight, and the adjusted price target was 90.00.

Source: Bloomberg, Barclays Research

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