BARCLAYS

Equity Research | Instant Insights

12 February 2020

Karen Short	+1 212 526 7146	karen.short@barclays.com	BCI, US	Completed: 12-Feb-20, 04:03 GMT
Renato Basanta	+1 212 526 1297	Renato.Basanta@barclays.com	BCI, US	Released: 12-Feb-20, 10:30 GMT
Robert Amparo	+1 212 526 9382	robert.amparo@barclays.com	BCI, US	

Walmart Inc.

Caution Prevails Ahead of WMT's Analyst Day & 4Q Results But Thesis Intact

Stock Rating/Industry View: Overweight/Neutral
Price Target: USD 135.00
Price (11-Feb-2020): USD 115.40
Potential Upside/Downside: 17%
Tickers: WMT

WMT will host its Investment Community Meeting on Tuesday, February 18th at the NYSE – the last event was hosted in October 2018.

The Set-Up: While we continue to believe WMT's share gains in the near/intermediate/long term are sustainable, we are concerned 4Q results could be a little noisy given the industry backdrop in Toys and the potential for some weakness in Electronics. Investors certainly also appear concerned – given that WMT's stock is down -2.9% YTD versus the S&P up 3.9% - meaning the bar has come down for 4Q – but the overriding concern beyond 4Q is whether or not a weaker than expected 4Q on comp and/or E-comm growth will play in to the resurfacing of an AMZN "one-day Prime" competitive narrative. Along these lines, there appears to be a view that WMT will have to unveil a "next wave" of digital investments to address AMZN – if in fact top line slowed in 4Q. While we believe any potential softness in 4Q is transient in nature (and related to noise more than anything) – we appreciate the fact that investors will remain cautious until the AMZN narrative dissipates. **Net: while we are cautious going in to results, the thesis remains intact and we would use any weakness as a buying opportunity.**

In this note, we provide color on the debates we are engaged in heading in to next Tuesday – but our quick take on the two most pressing topics is the following:

First, while we understand the trepidation surrounding 4Q comps, the quarter will be exceptionally noisy (shortened holiday season, SNAP impact in 2019 and also 2013 etc.), so sentiment will largely hinge on the context management can provide around both the holiday performance and the profit growth opportunity in FY21 & FY22. In the near-term, to the extent key holiday categories such as toys and electronics simply slowed across the industry, WMT is not immune – **but we think the 4Q comps bar is now <2%**. On the other hand, to the extent six fewer holiday shopping days was the bigger problem - as we believe it was - WMT should:

a) be less exposed due to next-day e-comm capabilities (versus TGT) and non-discretionary grocery traffic,

b) see normalized trends post the holidays (ex. the January SNAP headwind) so to the extent WMT would be willing to comment on February trends – this could alleviate concerns, and,

c) benefit given the non-discretionary nature of their sales mix to the extent shopping trips were consolidated.

Said differently, while we firmly believe the shortened holiday period impacted many retailers, and believe 4Q results might play in to the AMZN narrative for now, we do not believe the next day offering impacted WMT's sales, although we acknowledge we might not be proven right until WMT reports 1Q on May 19th.

Second, we do not believe WMT will need to engage in a next wave of e-comm investments. The AMZN "one-day Prime" narrative has driven - in part – concern amongst some investors that WMT will need to invest much more in digital to "keep up" with AMZN. **To us, the unveiling of additional large scale digital investment would run counter to much of WMT's communication to the Street, and, perhaps more importantly, appears neither necessary nor likely given the acceleration in core U.S. EBIT trends.** Instead, we believe WMT will drive home the message that: 1) its investment plans have been appropriate, and profitability (rate) is set to inflect in the near-medium term; and 2) it continues to separate itself from the pack (especially from conventional grocers) with respect to value, customer service, product offerings, and digital infrastructure.

Notwithstanding the 4Q comp trend – which may come in below consensus – and investor concerns emerging (addressed in detail below), we expect Tuesday's meeting to be constructive and remain bullish on WMT. We maintain our $135 price target, which reflects a ~12x FY21 EV/EBITDA and implies ~17% upside vs the current price.

Below, we highlight 4 key investor concerns which reflect the debates we are engaged in heading in to next Tuesday, as well as our thoughts on each:

Key Investor Concern #1: Comps have slowed, causing an AMZN "one-day Prime" narrative to surface.

In general, based on our conversations, investors have triangulated TGT's weak comp, the sequential softening of credit card data for Walmart, and the recent resignation of former U.S. Chief merchant Steve Bratspies, to mean that U.S. core comps in 4Q will be somewhat "squishy". As a reminder, WMT's FY20 U.S. comp expectations gravitated toward ~3% for the year after August's guidance update (in which management said comps would be towards the "upper-end" of +2.5% to +3%). So following 3Q results, which did not materially alter full year expectations, implied 4Q expectations were initially in the high 2% range. ***We now believe investors expect a 1.5%-2% comp in 4Q.*** As a result, investors are beginning to question the sustainability of recent comp trends into 4Q and beyond, and are pointing to AMZN's aggressive rollout of one-day delivery as a reason.

Our rebuttal: *While comp may come in below consensus, the root cause is likely transitory based on Toys and Electronics noise, but we also believe WMT may have been somewhat insulated given WMT's non-discretionary exposure – at >65% of sales. Separately, WMT's e-commerce platform continues to be well positioned vs. Amazon with next-day delivery, and grocery pick-up/delivery.*

By now, it is pretty clear that the 6 fewer holiday shopping days wreaked havoc across bricks and mortar retail, as consumers were time-strapped and likely relied on faster delivery options, or in some cases did not make that marginal holiday purchase at all. **That said, while certainly not immune, we believe WMT was somewhat insulated from the malaise given: a) lower discretionary exposure and #1 grocery positioning in the U.S. (>65% of sales from grocery, HBA and Rx), and b) a relatively well developed digital platform, which reached ~75% of the population with free next day delivery during the holidays.** WMT's same-day grocery platform also continued to migrate general merchandise items into it, adding yet another layer of convenience. Further, WMT's food shop results in a much higher frequency of *necessary* visits, and given the shortened holiday season, customers may have been consolidating trips to retailers at a higher rate. Finally, as alluded to above, the speed of fulfilment matters when customers are time-strapped, and WMT's expansion of free next day delivery was likely a key differentiating factor. **All that said, any potential weakness, if attributed mostly to the 6 fewer shopping days, is only temporary.**

With respect to specific categories, it is – admittedly - unclear if the 6 fewer days directly caused certain categories, such as toys and electronics, to be weak, *or* if underlying trends in these categories are just soft. We tend to believe it is a combination of both. For context, while WMT no longer breaks out its electronics exposure, the electronics and toys categories made up ~13% of annual sales combined in FY10 (the last time this category was broken out) and electronics alone is likely in the 13% of sales range in 4Q (versus ~10% annually).

In toys, after last year's windfall for retailers from the Toys R Us bankruptcy, the category overall appears to have slowed, trending down during the holidays. To us, many retailers appeared to have relied too much on: a) the benefit from Frozen assortments – nearly everyone was carrying Frozen products, and b) continued share gains in the category – not everyone can gain share. Furthermore, the TRU liquidation in 2018 may have resulted in a lot of excess inventory sold during the 2018 holidays that the industry lapped in 2019 – a potential headwind. **While WMT will likely outperform the overall category, our sense is that toys in general will not be a great category for WMT.**

In electronics, reads appear to be mixed as despite TGT's soft result and no clear signs of strength at AMZN, COST (which also has a big grocery business) performed well in its "majors" category (which includes electronics) in Nov/Dec and industry data-points suggest BBY is taking share. It is worth noting that BBY, like WMT offers free next day delivery on the majority of purchases. **While we don't necessarily expect a strong showing, our sense is that WMT may be more in the winner's camp with respect to electronics.**

Finally, we wouldn't read anything into the departure of former Chief U.S. Merchant Steve Bratspies with respect to 4Q trends. WMT often makes executive changes right before the end of the fiscal year, and new leadership at WMT U.S. from John Furner (who replaced Greg Foran after his departure) may have catalyzed more change. Further, Mr. Bratspies was apparently passed over for the WMT U.S. and Sam's CEO jobs, so in light of those facts, his departure doesn't come as a complete surprise.

Key Investor Concern #2: There is a "next wave" of digital investments needed to address AMZN, which will result in below consensus FY21 EBIT.

The core U.S. business has continued to grow EBIT sustainably in the MSD range. However, continued MSD+ core growth relies in the premises that: a) WMT has been investing appropriately, and does not need a significant new "wave" of digital investments, and b) WMT can deliver steady comp performance needed to drive SG&A leverage (given ongoing GM pressure). Tying this into the AMZN "one-day Prime" narrative, investors are worried that WMT will need to invest significantly more, due in part to an AMZN driven comp slowdown. **With consensus consolidated EBIT growth at +4% for FY21, concerns have emerged that WMT will guide to +LSD EBIT growth or lower.**

Our rebuttal: *WMT's strong underlying growth trajectory is sustainable and is still early stage on gaining momentum. Consensus appears reasonable as it relates to how WMT will guide – but if we had to bet on where FY21 EPS will ultimately settle (to be clear – not guide) – we believe it will be closer to $6. Said differently, even if WMT guides below the Street, such guidance will prove conservative.*

A MSD EBIT algorithm is supported by multiple comp drivers. Despite the near-term noise, WMT's comp trajectory is supported by the continued rollout of pickup/delivery, next-day delivery, widening price gaps in food (see details in key investor concern #3 below), private label growth, and merchandising improvements. In-home delivery, "Produce 2.0", e-commerce efficiency initiatives, and the evolution of the supercenter (addition of WMT Health) are areas where we expect management to provide more color on Tuesday. Again, we do not believe AMZN's one-day Prime rollout has negatively impacted WMT.

We don't share most investors' margin concerns for the following reasons:

1. We believe WMT's investment cadence in recent years has built up the appropriate digital foundation whereby *additional* large-scale margin/capex investments are not necessary. While it is practically impossible to parse out exactly how much WMT has invested in technology/digital in recent years, we believe the largest infrastructure investments – click & collect/delivery infrastructure, EDC investments (SKU mirroring, automation etc.), talent (engineers etc.), and robust app/data analytics development - are generally behind the company.

2. WMT has generally communicated to the Street that digital profitability (rate) will inflect – while the exact timing is unknown, we don't envision a dramatic change in tone. Along these lines, WMT has discussed improving profitability trends due in part to: 1) the continued mirroring of SKUs across EDCs (significantly lowers split shipments/shipping costs); 2) the potential for fixed cost leverage as e-commerce top line continues to grow quickly; 3) the additions of higher margin general merchandise SKUs to the grocery app; and 4) greater picking efficiencies as technology is increasingly leveraged. **We believe WMT's e-commerce business can continue to grow the top line at a 30%+ clip** driven by continued expansion/adoption of grocery pickup/delivery, general merchandise integration into the grocery app, SKU/brands and third party marketplace expansion, and the continued next day delivery rollout.

3. EDLC should continue to be prominent. While cost pressure from wages/supply chain may continue, we argue that SG&A progress will also be a function of sales growth matched with efficiencies – leveraging technology and new processes to reduce the "work" associates do in inventory management, stocking, check-out (vis-à-vis self-checkouts – now at over 60% of check-outs based on our estimates) etc., in order to drive an improved customer experience, better in-stocks, and incremental volume/traffic.

Lapping Flipkart dilution should also boost enterprise-wide growth. WMT has been clear that it continues to plan for a significant business in India in the future. While Flipkart is a business that has increased the level of anxiety for investors in the past given regulatory hurdles in India, WMT has said that the business has performed as initially expected, so FY20 losses are likely in the ~$0.60 range. **We estimate Flipkart was a ~$0.40 incremental headwind in FY20 and EPS growth ex Flipkart will be ~9% in FY20 – so lapping this should result in, at least, a MSD percentage point increase to run rate growth vs. our modeled FY20 adj. EPS growth rate of ~2%.** While there will be volatility with respect to India, the general tone coming out of WMT is that operating losses are being ring-fenced. Investors will be listening closely for any change in tone with regards to India and also WMT's plans for the PhonePe asset, which has been valued at ~$10B per media discussions.

Our thoughts on FY21 guidance: WMT will provide FY21 guidance on Tuesday, but do not expect the company to quantify earnings expectations beyond FY21. The Street's FY21 EPS forecast of $5.23 reflects 4.6% EPS growth, and includes: a) 2.8% U.S. comps, b) 4.5% growth in U.S. EBIT, and c) 4.0% growth in consolidated EBIT. We are forecasting EPS of $5.30 including a) 2.8% U.S. comps, b) 4.8% growth in U.S. EBIT, and c) 4.1% growth in consolidated EBIT. There is growing concern that WMT will guide to +LSD EBIT growth (or even lower), similar to initial FY20 guidance. While we wouldn't rule this out, such guidance will ultimately prove to be very conservative in our view. **We believe an appropriate framework should include +LSD U.S. comps, +L-MSD operating income growth, and +MSD EPS growth.**

Key Investor Concern #3: Execution in grocery will suffer in the wake of former U.S. CEO Greg Foran's departure.

Many credit Mr. Foran as the key architect of the strategies responsible for WMT's significant improvements in grocery in recent years – particularly the strides made in fresh. As a result, some investors are antsy about WMT's strategic direction in U.S. grocery.

Our rebuttal: *The grocery landscape is unfolding in a manner that is increasingly favorable for WMT. Our checks suggest the gap in conventional grocery between WMT and direct competitors continues to expand in the two most important areas – value and convenience.*

With respect to value specifically, our pricing checks indicate that pricing gaps to competitors such as Kroger continue to widen. While CPI inflation has trended below 1% in recent months, KR noted in its 3Q call that its own price inflation has been above 1%. Conversely, WMT noted that it actually saw slight deflation in food (despite higher costs) in 3Q and some consumables inflation, although a lot of that inflation was not passed on to customers due to investments. **In our view, KR has been increasingly less focused on EDLP and more focused on convincing customers that it stands for higher quality, fresher product.**

Furthermore, we believe many other grocers are following KR's lead on pricing. As we survey the grocery landscape we see: a) Ahold's limited overlap with WMT in its key markets (so can follow KR's lead), b) Albertsons has highlighted Fresh as a meaningful competitive advantage, c) Publix having never really been focused on price competition, d) ~30% of grocery retail consisting of struggling grocers who would welcome price increases, and e) medium size/larger grocers who are likely eager to take price given the low inflation environment and the significant investments necessary to fund e-commerce development.

The notion that competitors have sustainable pricing power in WMT's markets due to an "edge" in fresh is questionable, to say the least. In recent years WMT went through a period when it made ample strides in fresh (particularly in produce) and narrowed the gap vs. competitors. Going forward, progress will be driven by ongoing initiatives, such as the latest improvements in supply chain and presentation (including Produce 2.0). **We don't believe WMT's progress is being fully appreciated by competitors** – the argument that WMT's quality is vastly inferior and, as a result, competitors can sustain price increases in fresh categories does not hold water, in our view. As such, we believe WMT is in an increasingly favorable position for out-sized share gains as price gaps widen vs. competitors.

With respect to convenience/shopping experience, we expect to hear more on Tuesday about continued enhancements to the grocery e-commerce platform. WMT has aggressively pursued its U.S. rollout of grocery e-commerce Pick-Up (in ~3,100 locations) and Delivery (in 1,600 locations) – but *the next leg of growth should increasingly be driven by higher adoption rates and the addition of general merchandise SKUs to same-day grocery fulfillment*. Recall that WMT expects to eventually merge its 'Blue' and 'Orange' apps (this is not new but timeline remains unknown) as it builds its general merchandise offering to provide a more seamless customer experience. **Today, WMT's omni-channel grocery experience is unmatched. AMZN continues to be on everyone's radar, but the reality is that AMZN has not done a whole lot with Whole Foods in grocery thus far.** While Amazon Fresh is incrementally more competitive after dropping its delivery fees for Prime members, WMT's EDLP pricing (Amazon Fresh priced at a premium in our studies, even after delivery fees), store pick-up options, and availability give WMT a significant edge.

Key Investor Concern #4: Several of WMT's culture carriers have departed, resulting in a talent void at the highest levels of the organization.

In the wake of Greg Foran's and Steve Bratspies's departures, we believe some investors are concerned about a U.S. leadership void and/or a meaningful change in the culture which has allowed WMT to perform well in recent years. Additionally, speculation about the role, and potential departure of CEO of U.S. E-commerce, Marc Lore has also been a concern.

Our rebuttal: *WMT's talent bench is deep and its culture will continue to evolve under the stewardship of Walmart Inc. CEO Doug McMillon and new U.S. CEO John Furner. It is unlikely U.S. E-commerce CEO Marc Lore would leave until his WMT shares from the Jet.com deal vest in 2021.*

In our view, WMT has a deep bench of talent and has been embracing an innovation culture under Doug McMillon's leadership. With new leadership in the U.S. (John Furner, Scott McCall as Chief Merchant, and Dacona Smith as U.S. COO) and added leadership in digital (Chief Technology Officer Suresh Kumar) we expect WMT to continue to evolve into a more technology-centric, nimble, and integrated organization.

WMT has not been afraid of change or innovation as it has evolved over the years to serve the customer. WMT's adaptability and openness to change have been meaningful differentiating factors that, under Doug McMillon's leadership, are ingrained in the culture of the company and are likely to endure in the future. Indeed, WMT continues to embrace more risk-taking and the development of organizational agility/speed. Notably, while much technological/process change will result in an evolution in the role of store associates, WMT has been clear that store labor hours saved will be invested back into driving an improved customer experience.

Separately, while there seems to always be some speculation about the role (and potential departure) of CEO of U.S. E-commerce, Marc Lore, we believe the risk has declined with the departure of Greg Foran. Additionally, it is important to note that only slightly over 50% of the WMT shares Mr. Lore was paid as part of the Jet.com deal have vested and won't completely vest until September 2021.

Other Topics of Investor Focus:

Walmart Health: The addition of the Walmart Health center remains one of the most unique opportunities WMT is pursuing as it continually seeks to evolve the supercenter. Management has been encouraged by customer uptake at the first center in Dallas, Georgia (opened last September) thus far, and recently opened a second location in nearby Calhoun, Georgia. While the Health center's steep discounts for basic services have resulted in dilution concerns amongst investors, **management has stressed that they do not view the Health initiative as a "non-profit" effort and is very focused on driving profitability**, regularly monitoring performance vs. expectations and working to optimize offerings/layout as more openings are planned going forward.

WMT's goal of improving access to basic/preventative healthcare at affordable prices provides another potential traffic driver for the supercenter by differentiating its value proposition vs. competitors. We continue to view the Health initiative as revolutionary, although still in early innings, and expect management to provide further customer feedback regarding the 2 locations at the Analyst Day as well as more granular color on expansion plans and profitability. For comprehensive details regarding the Health center's offerings, see our 9/16/19 report from our visit during the grand opening of the Health center in Dallas, Georgia here.

The Media Opportunity: WMT's media/advertising business remains one of the alternative revenue streams that presents a compelling opportunity for WMT given its scale, private-label expertise, and extensive vendor relationships. While WMT has not disclosed the exact size of the business, management has implied that the business is not insignificant and presents an area for potential progress. WMT, consistent with its plans to scale other parts of the business, seeks to balance the growth while also ensuring that the customer experience does not suffer in any way. **Nevertheless, details on a strategic plan to grow the business have been scarce and we look for incremental color regarding the monetization of WMT's data assets at the Analyst Day.** As WMT continues to grow its omni-channel offerings, we expect the company to better leverage its rich consumer data and exhibit a more focused approach to advertising growth similar to competitors such as KR.

Specific thoughts on 4Q:

We are forecasting 4Q20 EPS of $1.45, in-line with consensus. Performance in the core U.S. business will continue to be the focal point as WMT has delivered four consecutive quarters of ~4%+ growth in operating profit. Following growth of 5.5%, 4.0%, and 6.1% in each of the first three quarters this year respectively, we are forecasting 4.3% growth in 4Q reflecting 2.7% comps and 10 bps of EBIT margin expansion. The Street is forecasting ~5% U.S. EBIT growth reflecting a 2.7% comp and roughly 10 bps of EBIT margin expansion. We believe comp expectations are lower than what consensus implies given negative read-throughs from TGT's soft holiday sales, the lapping of the 40 bps benefit from SNAP pull-forward in 4Q19, and recent management changes that investors have deduced were the result of weaker than expected performance in the quarter. Nevertheless, we believe that strong momentum will continue despite the near-term noise given core share gains, ongoing merchandising and store experience improvements, price investments, and a generally favorable macro backdrop.

What Matters to Us Most:

- Comps and traffic in F4Q20, including the contribution from e-commerce.
- The health of WMT's core customer and the impact of tariffs.
- FY20 guidance.
- U.S. gross margin and ability to leverage SG&A.
- E-commerce growth and drivers.
- Flipkart sales growth and operating losses.
- Cost and price inflation environment.
- Pricing gaps to competitors.
- E-commerce grocery trends.

Progress on Fresh initiatives.

Tailwinds:

- Share gains and traffic growth driven by price investments and continued e-commerce traction
- E-commerce to remain strong supported by: 1) the rollout of Grocery Pickup locations, 2) the expansion of same day grocery delivery to more markets, 3) brand additions and an improved assortment on marketplace, and 4) expansion of NextDay delivery to 75% of the U.S.
- Comps at Sam's Club are benefiting from Club Pickup and delivery.
- Continued execution of share repurchase program.
- Online grocery and e-commerce is contributing to average ticket growth.
- Continued strength in U.S. consumer spending.
- The dilutive Flipkart acquisition will be completely lapped by 4Q20.

Potential share gains in grocery from price increases by competitors.

Headwinds:

- Price investments at Walmart U.S. have not slowed and these are pressuring the gross margin.
- E-commerce mix is negatively impacting margin %.
- Potential expense pressure from wages and tariffs on imported products from China.
- Dilution from Flipkart business in India in 3Q.
- Softer environment in the UK due to the Brexit tensions.
- A shorter holiday season despite WMT's relatively insulated risk from its significant digital presence compared to other retailers
- Negative read-throughs from TGT's holiday performance and mixed industry data point to potential weakness in electronics

Slight negative FX impact of $100 million in 4Q20

Guidance:

---- FY2020 ----

- Adjusted EPS: Slight increase compared with FY19 adjusted EPS, and an increase of +HSD percent compared with FY19 adjusted EPS excluding Flipkart - reflects Flipkart dilution of ~$0.40-$0.45 excluding related interest cost.
- Walmart U.S. comp sales excluding fuel: towards the upper-end of +2.5%-3.0%

· Walmart U.S. e-commerce sales growth of ~35% y/y
· Sam's Club comp sales excluding fuel: ~+1.0% and ~+3.0% excluding Fuel & tobacco
· International net sales growth: +3.0%-4.0% on a constant currency basis (including Flipkart)
· Consolidated net sales growth: ~+3.0% on a constant currency basis
· Expense leverage: at least 20 bps
· Consolidated EBIT: Slight decrease to slight increase including Flipkart, and increase of +L-MSD percent excluding Flipkart
· Effective tax rate: between 25.0% and 25.5%
· Capital expenditures: ~$11 billion
· Grocery Pickup and Delivery: ~3,100 pickup and ~1,600 grocery delivery locations by YE
· Real estate: Walmart U.S. to open <10 stores and Walmart International to open >300 new stores primarily at Walmex and in China

Barclays vs. Consensus:

download image

Report referenced:
"Walmart: Walmart Health is Revolutionary...", 9/16/19

Analyst(s) Certification(s):

I, Karen Short, hereby certify (1) that the views expressed in this research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures:

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Barclays Research is produced by the Investment Bank of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays"). All authors contributing to this research report are Research Analysts unless otherwise indicated. The publication date at the top of the report reflects the local time where the report was produced and may differ from the release date provided in GMT.

Availability of Disclosures:
Where any companies are the subject of this research report, for current important disclosures regarding those companies please refer to https://publicresearch.barclays.com or alternatively send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 13th Floor, New York, NY 10019 or call +1-212-526-1072.
The analysts responsible for preparing this research report have received compensation based upon various factors including the firm's total revenues, a portion of which is generated by investment banking activities, the profitability and revenues of the Markets business and the potential interest of the firm's investing clients in research with respect to the asset class covered by the analyst.

Analysts regularly conduct site visits to view the material operations of covered companies, but Barclays policy prohibits them from accepting payment or reimbursement by any covered company of their travel expenses for such visits.

Barclays Research Department produces various types of research including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations contained in one type of Barclays Research may differ from those contained in other types of Barclays Research, whether as a result of differing time horizons, methodologies, or otherwise.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to https://publicresearch.barcap.com/S/RD.htm. In order to access Barclays Research Conflict Management Policy Statement, please refer to: https://publicresearch.barcap.com/S/CM.htm.

Risk Disclosure(s)

Master limited partnerships (MLPs) are pass-through entities structured as publicly listed partnerships. For tax purposes, distributions to MLP unit holders may be treated as a return of principal. Investors should consult their own tax advisors before investing in MLP units.

Mentioned Stocks (Ticker, Date, Price)

Walmart Inc. (WMT, 11-Feb-2020, USD 115.40), Overweight/Neutral, A/CD/CE/D/J/K/L/M/N/R

Valuation Methodology: Our $135 price target is based on a ~12.3x EV/EBITDA multiple and FY21 EBITDA of $34.3 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

WMT
Source: IDC, Barclays Research

Publication Date	Closing Price	Rating	Adjusted Price Target
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
18-May-2017	77.54		90.00

On 11-Feb-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 82.00.

Source: Bloomberg, Barclays Research

Historical stock prices and price targets may have been adjusted for stock splits and dividends.

Unless otherwise indicated, prices are sourced from Bloomberg and reflect the closing price in the relevant trading market, which may not be the last available price at the time of publication.

Disclosure Legend:
A: Barclays Bank PLC and/or an affiliate has been lead manager or co-lead manager of a publicly disclosed offer of securities of the issuer in the previous 12 months.
B: An employee or non-executive director of Barclays PLC is a director of this issuer.
CD: Barclays Bank PLC and/or an affiliate is a market-maker in debt securities issued by this issuer.
CE: Barclays Bank PLC and/or an affiliate is a market-maker in equity securities issued by this issuer.
D: Barclays Bank PLC and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.
E: Barclays Bank PLC and/or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer within the next 3 months.
FA: Barclays Bank PLC and/or an affiliate beneficially owns 1% or more of a class of equity securities of this issuer, as calculated in accordance with US regulations.
FB: Barclays Bank PLC and/or an affiliate beneficially owns a long position of more than 0.5% of a class of equity securities of this issuer, as calculated in accordance with EU regulations.
FC: Barclays Bank PLC and/or an affiliate beneficially owns a short position of more than 0.5% of a class of equity securities of this issuer, as calculated in accordance with EU regulations.
FD: Barclays Bank PLC and/or an affiliate beneficially owns 1% or more of a class of equity securities of this issuer, as calculated in accordance with South Korean regulations.
GD: One of the Research Analysts on the fundamental credit coverage team (or a member of his or her household) has a long position in the common equity securities of this issuer.
GE: One of the Research Analysts on the fundamental equity coverage team (or a member of his or her household) has a long position in the common equity securities of this issuer.
H: This issuer beneficially owns more than 5% of any class of common equity securities of Barclays PLC.
I: Barclays Bank PLC and/or an affiliate is party to an agreement with this issuer for the provision of financial services to Barclays Bank PLC and/or an affiliate.
J: Barclays Bank PLC and/or an affiliate is a liquidity provider and/or trades regularly in the securities of this issuer and/or in any related derivatives.
K: Barclays Bank PLC and/or an affiliate has received non-investment banking related compensation (including compensation for brokerage services, if applicable) from this issuer within the past 12 months.
L: This issuer is, or during the past 12 months has been, an investment banking client of Barclays Bank PLC and/or an affiliate.
M: This issuer is, or during the past 12 months has been, a non-investment banking client (securities related services) of Barclays Bank PLC and/or an affiliate.
N: This issuer is, or during the past 12 months has been, a non-investment banking client (non-securities related services) of Barclays Bank PLC and/or an affiliate.
O: Not in use.
P: A partner, director or officer of Barclays Capital Canada Inc. has, during the preceding 12 months, provided services to the subject company for remuneration, other than normal course investment advisory or trade execution services.
Q: Barclays Bank PLC and/or an affiliate is a Corporate Broker to this issuer.
R: Barclays Capital Canada Inc. and/or an affiliate has received compensation for investment banking services from this issuer in the past 12 months.
S: This issuer is a Corporate Broker to Barclays PLC.
T: Barclays Bank PLC and/or an affiliate is providing equity advisory services to this issuer.
U: The equity securities of this Canadian issuer include subordinate voting restricted shares.
V: The equity securities of this Canadian issuer include non-voting restricted shares.

Guide to the Barclays Fundamental Equity Research Rating System:

Our coverage analysts use a relative rating system in which they rate stocks as Overweight, Equal Weight or Underweight (see definitions below) relative to other companies covered by the analyst or a team of analysts that are deemed to be in the same industry (“the industry coverage universe”). To see a list of companies that comprise a particular industry coverage universe, please go to https://publicresearch.barclays.com.

In addition to the stock rating, we provide industry views which rate the outlook for the industry coverage universe as Positive, Neutral or Negative (see definitions below). A rating system using terms such as buy, hold and sell is not the equivalent of our rating system. Investors should carefully read the entire research report including the definitions of all ratings and not infer its contents from ratings alone.

Stock Rating
Overweight - The stock is expected to outperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.
Equal Weight - The stock is expected to perform in line with the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.
Underweight - The stock is expected to underperform the unweighted expected total return of the industry coverage universe over a 12-month investment horizon.
Rating Suspended - The rating and target price have been suspended temporarily due to market events that made coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

Industry View
Positive - industry coverage universe fundamentals/valuations are improving.
Neutral - industry coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.
Negative - industry coverage universe fundamentals/valuations are deteriorating.

Distribution of Ratings:
Barclays Equity Research has 1582 companies under coverage.
45% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 50% of companies with this rating are investment banking clients of the Firm; 76% of the issuers with this rating have received financial services from the Firm.
38% have been assigned an Equal Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 42% of companies with this rating are investment banking clients of the Firm; 68% of the issuers with this rating have received financial services from the Firm.
15% have been assigned an Underweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Sell rating; 33% of companies with this rating are investment banking clients of the Firm; 64% of the issuers with this rating have received financial services from the Firm.

Guide to the Barclays Research Price Target:
Each analyst has a single price target on the stocks that they cover. The price target represents that analyst's expectation of where the stock will trade in the next 12 months. Upside/downside scenarios, where provided, represent potential upside/potential downside to each analyst's price target over the same 12-month period.

Top Picks:
Barclays Equity Research's "Top Picks" represent the single best alpha-generating investment idea within each industry (as defined by the relevant "industry coverage universe"), taken from among the Overweight-rated stocks within that industry. Barclays Equity Research publishes "Top Picks" reports every quarter and analysts may also publish intra-quarter changes to their Top Picks, as necessary. While analysts may highlight other Overweight-rated stocks in their published research in addition to their Top Pick, there can only be one "Top Pick" for each industry. To view the current list of Top Picks, go to the Top Picks page on Barclays Live (https://live.barcap.com/go/keyword/TopPicks).
To see a list of companies that comprise a particular industry coverage universe, please go to https://publicresearch.barclays.com.

Types of investment recommendations produced by Barclays Equity Research:
In addition to any ratings assigned under Barclays' formal rating systems, this publication may contain investment recommendations in the form of trade ideas, thematic screens, scorecards or portfolio recommendations that have been produced by analysts within Equity Research. Any such investment recommendations shall remain open until they are subsequently amended, rebalanced or closed in a future research report.

Disclosure of other investment recommendations produced by Barclays Equity Research:
Barclays Equity Research may have published other investment recommendations in respect of the same securities/instruments recommended in this research report during the preceding 12 months. To view all investment recommendations published by Barclays Equity Research in the preceding 12 months please refer to https://live.barcap.com/go/research/Recommendations.

Legal entities involved in producing Barclays Research:

Barclays Bank PLC (Barclays, UK)
Barclays Capital Inc. (BCI, US)
Barclays Bank Ireland PLC, Frankfurt Branch (BBI, Frankfurt)
Barclays Bank Ireland PLC, Paris Branch (BBI, Paris)
Barclays Bank Ireland PLC, Milan Branch (BBI, Milan)
Barclays Securities Japan Limited (BSJL, Japan)
Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)
Barclays Capital Canada Inc. (BCCI, Canada)
Barclays Bank Mexico, S.A. (BBMX, Mexico)
Barclays Securities (India) Private Limited (BSIPL, India)
Barclays Bank PLC, India branch (Barclays Bank, India)
Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)
Barclays Bank PLC, DIFC Branch (Barclays Bank, DIFC)

Disclaimer:

This publication has been produced by Barclays Research Department in the Investment Bank of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been prepared for institutional investors and not for retail investors. It has been distributed by one or more Barclays affiliated legal entities listed below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. To the extent that this publication states on the front page that it is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors under U.S. FINRA Rule 2242, it is an “institutional debt research report” and distribution to retail investors is strictly prohibited. Barclays also distributes such institutional debt research reports to various issuers, media, regulatory and academic organisations for their own internal informational news gathering, regulatory or academic purposes and not for the purpose of making investment decisions regarding any debt securities. Media organisations are prohibited from re-publishing any opinion or recommendation concerning a debt issuer or debt security contained in any Barclays institutional debt research report. Any such recipients that do not want to continue receiving Barclays institutional debt research reports should contact debtresearch@barclays.com. Clients that are subscribed to receive equity research reports, will not receive certain cross asset research reports co-authored by equity and FICC research analysts that are distributed as “institutional debt research reports” unless they have agreed to accept such reports. Eligible clients may get access to such cross asset reports by contacting debtresearch@barclays.com. Barclays will not treat unauthorized recipients of this report as its clients and accepts no liability for use by them of the contents which may not be suitable for their personal use. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the information or opinions contained in any written, electronic, audio or video presentations of third parties that are accessible via a direct hyperlink in this publication or via a hyperlink to a third-party web site (‘Third-Party Content’). Any such Third-Party Content has not been adopted or endorsed by Barclays, does not represent the views or opinions of Barclays, and is not incorporated by reference into this publication. Third-Party Content is provided for information purposes only and Barclays has not independently verified its accuracy or completeness.

The views in this publication are solely and exclusively those of the authoring analyst(s) and are subject to change, and Barclays Research has no obligation to update its opinions or the information in this publication. Unless otherwise disclosed herein, the analysts who authored this report have not received any compensation from the subject companies in the past 12 months. If this publication contains recommendations, they are general recommendations that were prepared independently of any other interests, including those of Barclays and/or its affiliates, and/or the subject companies. This publication does not contain personal investment recommendations or investment advice or take into account the individual financial circumstances or investment objectives of the clients who receive it. The securities and other investments discussed herein may not be suitable for all investors. Barclays is not a fiduciary to any recipient of this publication. Investors must independently evaluate the merits and risks of the investments