



Walmart

BARE NECESSITIES

Walmart Walmart Canada Walmart Mexico y Centroamérica Walmart Supercenter Walmart Neighborhood Market Walmart Express Walmart2 Walmart Pay Walmart2WORLD Walmart Vision Center Walmart Pharmacy Walmart care clinic Sams Club Pharmacy VUDU

SHIPPING

Walmart.com ASDA Moosejaw Sams Club

STORES

Walmart Walmart Canada Walmart Mexico y Centroamérica Walmart Supercenter Walmart Neighborhood Market Walmart Express Walmart2 Walmart Pay Walmart2WORLD Walmart Vision Center Walmart Pharmacy Walmart care clinic Sams Club Pharmacy VUDU

FIRST PARTY ECOMMERCE

Walmart.com ASDA Moosejaw Sams Club

MARKETPLACE

Flipkart Lord & Taylor JD.COM tinystep

SOCIAL / LOYALTY

Walmart2WORLD Walmart Pay

ADVERTISING

AdIQuity Flipkart Ads MEDIA GROUP

LOGISTICS

eKart Doordash Postmates Rakuten SEIYU

HOME AND PERSONAL SERVICES

HelloTech FedEx Porch

DIGITAL ENTERTAINMENT

VUDU eBooks Rakuten kobo

HEALTH AND WELLNESS

Walmart Vision Center Walmart Pharmacy Walmart care clinic Sams Club Pharmacy

FINANCIAL SERVICES

Walmart2WORLD Walmart Pay Walmart Vision Center Walmart Pharmacy Walmart care clinic Sams Club Pharmacy

Walmart partnerships

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Walmart is an American multinational company operating as a grocery store, chain of hypermarkets and department stores. Sam Walton founded the company in the year 1962, and its headquarters are based in Bentonville, Arkansas (Caraway 2016, p. 909). The company trades in stock on the New York Stock Exchange where it was first listed in the year 1972. Each week, over 275 million customers and members visit more than 11,300 stores under 58 banners in 27 countries and eCommerce websites. With fiscal year 2019 revenue of \$514.4 billion, Walmart employs over 2.2 million associates worldwide. Walmart continues to be a leader in sustainability, corporate philanthropy and employment opportunity.

The Company operates through three segments: Walmart U.S., Walmart International and Sam's Club.

- The **Walmart U.S. segment** includes the Company's mass merchant concept in the United States operating under the Walmart brands, as well as digital retail.
- The **Walmart International segment** consists of the Company's operations outside of the United States, including various retail Websites.
- The **Sam's Club segment** includes the warehouse membership clubs in the United States, as well as samsclub.com.



\$13.5
billion
returned to
shareholders



\$514
billion
in revenue



\$27.8
billion
operating cash flow

2. Very briefly summarize the risk factors the company is facing (section 1.A). Which are the two most important risk factors investors should consider, and why? Are there any other risk factors that the company should consider but the company has omitted reporting?

There are many risk factors that the company is facing. But there are some most important that are as follows:

Strategic Risks: -

- The company is facing strong competition from other retailers and wholesale club operators (whether through physical retail, digital retail or the integration of both), which could materially adversely affect financial performance.
- They may not timely identify or effectively respond to consumer trends or preferences, which could negatively affect the relationship with their customers, demand for the products and services we sell, their market share and the growth of the business.
- Failure to grow eCommerce business through the omni-channel integration of physical and digital retail or otherwise, and the cost of our increasing eCommerce investments, may materially adversely affect their market position, net sales and financial performance.

Operational Risks: -

- Natural disasters, changes in climate, and geo-political events could materially adversely affect our financial performance.
- Risks associated with the suppliers from whom our products are sourced could materially adversely affect our financial performance.



- If the products we sell are not safe or otherwise fail to meet our customers' expectations, we could lose customers, incur liability for any injuries suffered by customers using or consuming a product we sell or otherwise experience material adverse effects to our brand, reputation and financial performance.
- If the technology-based systems that give our customers the ability to shop with us online do not function effectively, our operating results, as well as our ability to grow our eCommerce business globally, could be materially adversely affected.
- Any failure to maintain the security of the information relating to our company, customers, members, associates and vendors, whether as a result of cybersecurity attacks on our information systems or otherwise, could damage our reputation, result in litigation or other legal actions against us, cause us to incur substantial additional costs, and materially adversely affect our business and operating results.
- Our failure to attract and retain qualified associates, increases in wage and benefit costs, changes in laws and other labor issues could materially adversely affect our financial performance.

Financial Risks

- Fluctuations in foreign exchange rates may materially adversely affect our financial performance and our reported results of operations.
- Failure to meet market expectations for our financial performance could adversely affect the market price and volatility of our stock.

The two most important risk factors are: -

- Investors of the company will face the risks in terms of financial performance that may get affected by the exchange rate fluctuations
- The failure of company to meet the demand will also adversely impact the investor's decisions.

The various risks that company fails to deal with are business cycle risk, interest rate risk, and intense competition from companies such as Target and Amazon.

3. What are the key characteristics of the company's financial condition? (Total assets, ROE, Debt-to-Equity, and Net Income). What is the company's average growth over the past 3 years? What is the company's cash flow volatility? How much of NI is linked to operations vs. other gains/losses? What are these other gains/losses and how persistent these gains/losses you expect to be in the future? How do you assess the company's operating efficiency and leverage in building up ROE?

The key characteristics of company's financial conditions are: -

- **Total assets:** - Assets of the company for the year 2019 are \$2,19,295 millions while the total assets of the company in year 2018 were \$204522 million.
- **ROE:** - Return on Equity is net annual income divided by shareholder's equity.
$$\text{ROE} = \$6670 / 72496 \text{ million} = 0.092$$
- **Debt to Equity:** -
$$\text{Debt-to-Equity} = 45,396 / 72496 \text{ million} = 0.62$$

It means company uses 0.62 cents from debt for each dollar provided by shareholders.

- **Net Income:** - Walmart's net income is \$6670 million in year 2019



Company's Average growth rate over the past 3 years

Year	Average growth rate
2017	1.60%
2018	2.10%
2019	3.70%

Cash Flow Volatility is the standard deviation of operating cash flows divided by the average assets during the period.

Year	Operating Cash flow (in millions)	Net assets(millions)
2019	27,753	2,19,295
2018	28,337	2,04,522
2017	31,673	1,98,825
2016	27,552	1,99,581
2015	28,564	2,03,490

Standard Deviation of operating cash flow is: \$1671.44988 millions

Average of Net Sales: \$2,05,143 millions

Cash Flow Volatility = \$ 0.0082 million (Approx.)

NI linked to operations vs other gains or losses

Net operating income is \$ 21,957 million and other gains / losses are \$8368 millions.

Persistency of gains/losses in the future

The future persistency of Walmart shows that on online platform, sales of the stores can go up. So, it will also add to net income of the company.

Company's operating efficiency and leverage

The operating efficiency of the company is very high as company is involved marginally in credit sales and its receivables are high that is 75 times in year 2019.

Leverage = Total debt / Total Assets = 45396 / 219295 = 0.21

Both leverages are helping company to have sound base for its ROE. As we have seen that company is very consistent in declaring and paying dividend to its shareholders.

4. How much debt does the company hold outside its balance sheet?

Company holds following debts that are not recorded in the balance sheet. The following heads are not considered as debt by the company: -

- Non-cancelable operating leases
- Interest on long term debt
- Syndicated and other letters of credit
- Purchase obligations

But as per the financial statement of Walmart as on 31 Jan 2019, company had no off balance sheet arrangements. This means company is holding no debt outside the balance sheet anymore.

**5. Provide a brief assessment of the company's inventory and customer (AR) turnover.**Inventory Turnover

	2018	2019
Inventory	43,783	44,269
Net Sales	373396	385301

Inventory turnover is the measure to show the efficient control of the company over its merchandise. The company has consistent inventory turnover in last 2 years which is around 8.5 and 8.7 times, means company is converting its stock into sales 8.5 times in a year.

Customer (Average receivable) Turnover

	2018	2019
Net Credit Sales	478614	482229
Average Accounts Receivable	6283	5614
AR Turnover	75	85

AR turnover = Net Credit Sales / Average AR

AR Turnover shows the efficiency of the company in collecting its funds from customers. The AR ratio of company shows that in comparison to year 2018, the turnover in year 2019 has increased to 85 times. While in the year 2018 turnover was 75 times. So we can see that company has good collection policy (as company is into the business where credit sales are negligible).

6. Based on your responses above, do you assess the business model to be sustainable?

Inventory turnover shows the efficiency of the company in conversion of its inventory and sales. As company is maintaining same ratio in year 2018, 2019 under study shown, its consistent in terms of sustainable business model.

Company's higher AR turnover shows that the company is doing well in retaining its customers for long. So, from the above it is clear that the business model adopted by Walmart leads to the sustainability on both the fronts.

7. How much is the company's market capitalization and stock price volatility? Briefly describe two reasons why market capitalization is different from stockholders' equity.

Market capitalization = current share price * number of outstanding shares
 = 0.10 * 2878 billion
 = \$ 287,800,000

Stock price Volatility = \$9.31 in the year 2019 which is the highest volatile year for the company in last 10 years.

Market capitalization versus Shareholders equity

- Capitalization denotes the market value of company's total common stock. Whereas, shareholders equity is just the book value of their claim over company's assets.
- Shareholders equity is shown in the balance sheet of the company while the other is price payable to own the equity of the company.



8. Did the company engage in major corporate events, such as M&A, Sale/purchase of tangible assets, Purchase/Sale of Marketable Securities (Corporate Investments), Stock buybacks? Did the company impair goodwill? Which financial statements you used to answer this question?

Yes, the company have attended many corporate events and it seems like Walmart attends events very frequently. All the upcoming events and past attended events can be seen on the Walmart's website.

Walmart's engage in major corporate events like:

- UBS Global Consumer and Retail conference
- Bernstein's 35th Annual Strategic Decisions Conference
- Evercore ISI 8th Annual Retail Summit

Yes, the company carries goodwill of \$31,181 in the year 2019. While in 2018, \$18,242 was the goodwill. Balance sheet financial statement is used to check the goodwill under assets section.

9. Did the company pay dividends? How much cash dividends did the company pay?

Yes, company is paying dividends to its shareholders.

In the year 2016-17, the company declared cash dividend of \$2.00 per share

In the year 2017-18, the company declared cash dividend of \$2.04

In the year 2018-2019, the company declared \$2.08 cash dividend

10. What depreciation method does the company follow? What is the average age of the company's tangible assets? Has the company changed depreciation method and/or estimates (useful life, salvage value) over the past three years? What was the effect of these changes on Net Income?

Walmart is using diminishing method of depreciation. The company has made no change in method of depreciation in last 3 years. The average of estimated useful life for building(3-4yrs), fixtures (1-30years), transportation(1-30years) and equipment(3-15years). As no change in method by the company so it has no impact on net income of Walmart.

11. Is the company innovating internally? How do you assess the company's R&D productivity?

- From new mobile apps for both customers and employees to robots on the store floor, Walmart is using tech to best the competition. Walmart is focussed on the ability to quickly and seamlessly launch new features; customers continuously observes Walmart innovating to save them time and money across the shopping journey. There are also massive benefits to operating at scale as Walmart builds a global IoT platform on Azure – from connected HVAC and refrigeration units to reduce energy usage in thousands of U.S. stores or applying machine learning when routing thousands of trucks in the supply chain.
- The use of innovation by company made it preferred store for not only customers but also for employees. This also adds to the sales of company every year. The other benefit the company is making out of its innovation in terms of enhanced efficiency of its employees and reduction in cost of operations.

12. What is the company's effective tax rate (ETR)? Why is ETR different than 21% or 35%?

ETR of Walmart is 37.4% for fiscal 2019. It is higher than 21% or 35%. As the effective tax rate of company has gone up in the year due to the minimal tax benefits related to its stake in Walmart Brazil and Flipkart. The other reason of higher ETR is change in the assessment of tax contingencies, valuation allowances and change in tax laws.



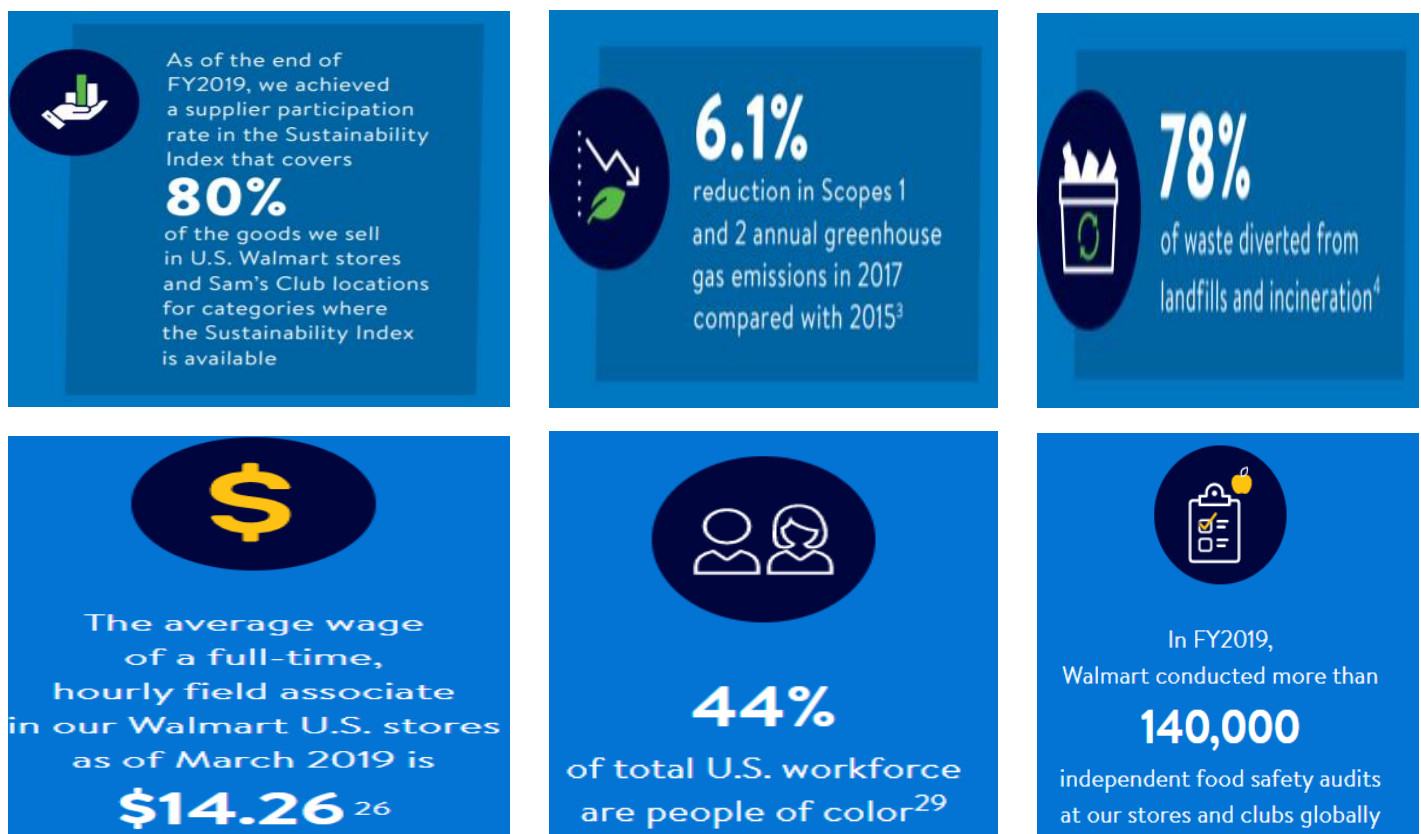
13. Briefly assess the company's corporate social responsibility and sustainability performance. Does the company provide any detailed information about sustainability performance on its annual report? What other reports did you use to assess this question?

Walmart's sustainability report shows social responsibility and sustainability performance in two ways that is,

Sustainability in operations: Walmart itself takes initiatives to help promote positive change in communities across the world by reducing Greenhouse gas emissions, reducing wastes, and advancing water and land stewardship.

Sustainability in global value chains: As a global retailer, Walmart has the potential to impact sustainability at every level of the supply chain. This company collaborate with suppliers to make sure the products they sell are as affordable, safe and sustainable as possible. The company takes initiatives in many ways like:

- Walmart engages in advocacy and coalitions to promote environmental public policy that aligns with their shared value business objectives.
- A Walmart buyer can use sustainable index score to identify improvement opportunities for individual suppliers and spotlight issues for category-wide initiatives, such as sustainable chemistry and packaging design.
- Walmart is providing safer, healthier food & other products which is best to serve the community.



Yes, the company has mentioned some information regarding social responsibility and sustainability performance in annual report. For the above-mentioned information, I refer the website of the company and Walmart ESG report.

After going through the financial statement of the company and analysing the return on equity I will recommend the investors to buy the company stock as the chances of growth in future are there.