

Walmart Inc. Financial Analysis

Group Number: 1

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1. Introduction:

- **History:** Founded in 1962 by Sam Walton: Walmart started as a single discount store in Bentonville, Arkansas, with a vision to provide customers with high-quality products at affordable prices. Sam Walton's innovative business model and customer-centric approach laid the foundation for Walmart's success and growth, fostering a culture of innovation, operational excellence, and continuous improvement that has propelled Walmart to become a global retail leader and industry innovator.
- **Global Expansion:** Over the decades, Walmart has expanded its operations and transformed into a global retail powerhouse, operating in over 25 countries across North America, South America, Europe, Asia, and Africa, with a diverse portfolio of retail formats, including Walmart Supercentres, Walmart Discount Stores, Sam's Club locations, and eCommerce platforms, serving millions of customers worldwide and showcasing its extensive global retail network, market penetration, and growth potential.
- **Current Operations:**
 - **Product Offerings:** Walmart offers a wide range of products and services across various categories, including groceries, general merchandise, apparel, electronics, home goods, health and wellness products, pharmacy services, financial services,

and eCommerce solutions through Walmart.com, Flipkart, and other online platforms.

- **Retail Formats:** Walmart operates multiple retail formats to cater to different customer needs and preferences, including Walmart Supercentres, Walmart Discount Stores, Neighbourhood Markets, Sam's Club locations, and eCommerce platforms, providing customers with convenient shopping options, competitive prices, and diverse product selection.
- **Global Presence:** Walmart's global operations span across 25 countries with over 10,000 retail units, including more than 4,700 Walmart stores in the United States and approximately 6,000 international stores, serving millions of customers worldwide and generating over \$500 billion in annual revenue, reflecting its extensive global retail network, market leadership, and growth potential.
- **Macroeconomic Environment:**
 - **Growth Strategies:** Walmart has achieved sustainable growth through organic expansion, opening new stores, launching eCommerce platforms, forming strategic partnerships, and investing in digital transformation, technology innovation, supply chain optimization, and customer experience enhancement to drive sales growth, market share expansion, and profitability.
 - **Strategic Acquisitions:** Walmart has expanded its global footprint and diversified its business through strategic mergers and acquisitions, including the acquisition of Flipkart in India for \$16 billion in 2018, marking Walmart's largest acquisition and strengthening its eCommerce capabilities, market position, and growth prospects in key international markets.
 - **Digital Transformation:** Walmart has invested heavily in digital transformation, technology innovation, and omnichannel integration to enhance its eCommerce capabilities, improve operational efficiency, optimize inventory management, and deliver personalized shopping experiences, driving online sales growth, customer engagement, and loyalty, and positioning Walmart as a leading digital retailer and innovator in the global retail industry.

- **Industrial Competitors:**

- **Major Competitors:** Walmart faces intense competition from major retail chains and online retailers, including Amazon, Target, Costco, Kroger, Home Depot, and other regional and local retailers, competing across various retail segments, market channels, and geographies, driving innovation, customer engagement, and market differentiation.
- **Competitive Landscape:** Walmart competes on multiple fronts, including price, product selection, customer service, convenience, and digital capabilities, facing challenges from competitors' aggressive pricing strategies, fast delivery options, innovative services, and personalized shopping experiences, requiring Walmart to continuously innovate, adapt, and differentiate its offerings to maintain its competitive edge, market leadership, and customer loyalty in the dynamic and evolving retail landscape.

- **Market Share:**

- **U.S. Dominance:** Walmart is a dominant player in the U.S. retail industry, holding a significant market share across various segments, including grocery, general merchandise, pharmacy, and eCommerce, reflecting its strong competitive position, market leadership, and ability to capture market share from competitors.
- **Global Presence:** Walmart's global operations and extensive retail network enable it to maintain a leading market position in key international markets, including Canada, Mexico, the UK, China, and India, serving millions of customers and generating substantial revenue and profit contributions from its international operations, showcasing Walmart's global brand strength, market penetration, and growth potential in the international retail industry.

Company	12-Month Revenue Ending Q4 2023	Market Share
Walmart Inc.	\$611 Billion	43.65%
Costco Wholesale Corp.	\$248.82 Billion	17.77%
Target Corporation	\$107.41 Billion	7.67%

2. Ratio Analysis:

- **Financial Ratios:**

Financial ratios serve as quantitative measures derived from a company's financial statements, offering valuable insights into its financial health. These ratios are extensively utilized by investors, analysts, creditors, and management teams to evaluate a company's fiscal position and guide decision-making processes.

Presented below is an analysis of the financial ratios computed based on the available financial statement data for Walmart Inc.:

- **Profitability Ratios:**

Profitability ratios are quantitative indicators employed to assess a company's ability to produce profits relative to its revenue, operational costs, assets, or equity. These ratios offer a snapshot of the company's profitability either at a specific moment or across a timeframe, facilitating the evaluation of its financial performance.

- **Gross Margin: 24.38%**

Walmart's gross margin of 24.38% indicates that the company retains approximately \$0.24 from each dollar of sales after accounting for the cost of goods sold. A higher gross margin suggests efficient inventory management and pricing strategies.

- **Operating Margin: 4.17%**

Walmart's operating margin of 4.17% reflects the profitability from core business operations after deducting operating expenses. A positive operating margin indicates that the company is generating profits from its primary business activities.

- **Return on Assets (ROA): 6.15%**

Walmart's ROA of 6.15% signifies that the company generates a return of 6.15% on its total assets. This ratio measures the efficiency of asset utilization and indicates the company's ability to generate profits from its investments in assets.

➤ **Return on Equity (ROE): 18.5%**

Walmart's ROE of 18.5% indicates that the company generates a return of 18.5% on shareholders' equity. A higher ROE suggests effective management of shareholders' investments and better profitability.

➤ **Return on Sales (ROS): 4.17%**

Walmart's operating margin is aligned with its return on sales at 4.17%, indicating that the company efficiently manages its operating expenses relative to its total revenue.

➤ **Return on Investment (ROI):**

The Return on Investment (ROI) for Walmart Inc. is not provided in this analysis due to the lack of specific data on the cost of investment during the evaluated period. Without this crucial information, calculating an accurate ROI would be incomplete and potentially misleading

● **Liquidity Ratios:**

Liquidity ratios serve as financial indicators employed to gauge a company's capability to fulfil its immediate financial obligations and navigate liquidity risks. These ratios evaluate the company's efficiency in converting its assets into cash promptly to address short-term debts. By calculating these ratios, investors, creditors, and management can evaluate the company's resilience against short-term financial hurdles and its capacity to operate efficiently without over-reliance on external funding.

➤ **Current Ratio: 0.83**

Walmart's current ratio of 0.83 indicates that the company has \$0.83 in short-term assets to cover each dollar of short-term liabilities. A current ratio below 1 suggests potential liquidity issues and may indicate difficulties in meeting short-term obligations.

➤ **Quick Ratio: 0.24**

Walmart's quick ratio of 0.24 reveals that the company has \$0.24 in liquid assets (excluding inventory) to cover each dollar of short-term liabilities. A quick ratio

significantly below 1 raises concerns about the company's short-term liquidity and its ability to cover immediate obligations without relying on inventory sales.

➤ **Cash Ratio: 0.11**

Walmart's cash ratio of 0.11 signifies that the company has \$0.11 in cash and cash equivalents to cover each dollar of short-term liabilities. A low cash ratio indicates a limited ability to cover short-term liabilities with readily available cash, which could pose liquidity risks.

● **Price-to-Earnings Ratio (P/E):**

- The Price-to-Earnings (P/E) ratio is a widely used financial metric that investors employ to gauge the relative valuation of a company's stock. It compares the current market price of a stock to its earnings per share (EPS), offering insights into how much investors are willing to pay for each unit of earnings generated by the company.
- The P/E ratio can be categorized into two types: trailing P/E and forward P/E. Trailing P/E uses past earnings over the last 12 months to calculate the ratio, providing a historical perspective on the stock's valuation. In contrast, forward P/E uses estimated future earnings to compute the ratio, giving investors a glimpse into the market's expectations for the company's future performance.
- In the context of Walmart, the Price-to-Earnings (P/E) ratio is calculated to be approximately 27.28. This means that investors are willing to pay around \$27.28 for every dollar of Walmart's earnings. A P/E ratio of this magnitude suggests that the market has relatively high expectations for Walmart's future growth and profitability.
- It reflects the market's confidence in Walmart's ability to generate earnings, making the stock potentially attractive to investors seeking companies with promising growth prospects. However, it's essential to consider the P/E ratio in conjunction with other financial metrics and industry benchmarks to make a well-informed investment decision.

● **Dividend Payout Ratio:**

- Walmart Inc., the dividend-based financial ratios such as the Dividend Yield or Dividend Payout Ratio cannot be calculated due to the lack of dividend data.

These ratios rely heavily on dividend payments as a fundamental component in their computation.

- However, without specific dividend data, investors should focus on other financial metrics, Walmart's business model, growth prospects, market position, and overall financial performance when evaluating the company as an investment opportunity.

- **Sustainable Growth Rate (SGR):**

- The Sustainable Growth Rate (SGR) is a metric that indicates the maximum rate at which a company can grow without requiring additional external financing, considering factors like profitability, asset turnover, financial leverage, and dividend policy. This rate offers crucial insights into a company's capacity for sustainable expansion and aids in making informed investment decisions.
- For Walmart Inc., given the lack of specific dividend data, calculating the Sustainable Growth Rate using the conventional formula, which incorporates a dividend payout ratio, becomes challenging.
- investors should focus on alternative financial metrics like profitability, asset efficiency, and leverage, along with Walmart's business model, market position, and growth strategies, to assess the company's financial health and growth potential for informed investment decisions.

- **Debt to Equity Ratio:**

- The Debt-to-Equity Ratio compares a company's debt to its shareholders' equity, indicating the balance between debt and equity financing. A higher ratio typically suggests greater reliance on debt financing, which can boost potential returns but also increase financial risk. Conversely, a lower ratio reflects a more conservative financial structure with less debt and reduced financial risk.
- Walmart's Debt-to-Equity Ratio of 0.73 indicates a balanced approach to financing. For every dollar of equity, Walmart has \$0.73 of debt, demonstrating a conservative financial stance. This lower ratio suggests that Walmart manages its capital structure prudently, maintaining a healthy balance between debt and equity while minimizing financial risk.

3. CAPM Analysis:

- The Capital Asset Pricing Model (CAPM) is a widely recognized financial model used to estimate the expected return on an investment based on its risk relative to the overall market. This model provides a systematic framework for investors to evaluate the potential risk and return of an asset, assisting in making informed investment decisions.
- **Key Components of CAPM:**
 - **Risk-Free Rate: 3.55%** - This rate signifies the return on a risk-free investment, representing the time value of money without any risk of loss. This is the theoretical return on a risk-free investment, typically represented by government bonds. The risk-free rate compensates investors for the time value of money without exposing them to any risk of loss.
 - **Expected Market Return: 13.66%** - This figure reflects the anticipated return on the overall market, serving as a benchmark for evaluating individual asset performance. This represents the anticipated return on the overall market, reflecting the aggregate performance of all securities. It serves as a benchmark for assessing the performance of individual assets relative to the market.
 - **Beta (β) Coefficient: 0.5287** - It indicates that the stock's volatility is lower than the market, suggesting that Walmart is less risky. Beta measures the volatility or systematic risk of an asset compared to the overall market. A Beta less than 1 indicates that the asset is less volatile than the market, while a Beta greater than 1 suggests higher volatility.
- **Interpretation of Results:**
 - The expected return for Walmart (WMT) calculated using the CAPM framework is 8.89%. This figure represents the return that investors can anticipate from holding Walmart's stock, considering its risk profile relative to the market and the risk-free rate. With a Beta of 0.5287, which is less than 1, Walmart is considered to be less volatile than the market. This lower expected return of 8.89% for Walmart aligns with its lower risk profile compared to the market return of 13.66%.

4. Free Cash Flow:

- Free Cash Flow (FCF) is a key financial metric that provides insights into a company's ability to generate cash from its core operations after accounting for capital expenditures. It represents the cash that is available to be distributed to shareholders, used for debt reduction, or reinvested in the business for growth opportunities.
- Walmart reported a Free Cash Flow of \$15.12 billion, indicating strong operational cash generation capabilities. This positive FCF suggests that Walmart has sufficient cash available after covering its capital expenditures to pursue various strategic initiatives. The excess cash can be utilized for shareholder returns, such as dividends or share buybacks, debt reduction to improve financial flexibility, reinvestment in the business for growth opportunities, or strategic acquisitions to expand market presence and diversify business operations.

5. WACC Analysis:

- The Weighted Average Cost of Capital (WACC) is a comprehensive financial metric that provides a blended cost of financing a company's operations, taking into account both equity and debt components. WACC serves as a discount rate used in valuation models to determine the net present value of future cash flows and assess the investment attractiveness of a company.
- The calculated WACC of 5.93% for Walmart represents the blended cost of financing the company's operations through both equity and debt. This WACC serves as a crucial discount rate in valuation models and investment analysis, aiding in assessing Walmart's investment attractiveness and determining the required rate of return to justify investment in the company's stock or projects.
- A lower WACC indicates lower risk and can enhance the net present value of future cash flows, potentially making Walmart more attractive to investors. Conversely, a higher WACC suggests higher risk and can reduce the net present value, requiring a higher return to compensate for the increased risk.

6. Stock Prices of Last One Year:

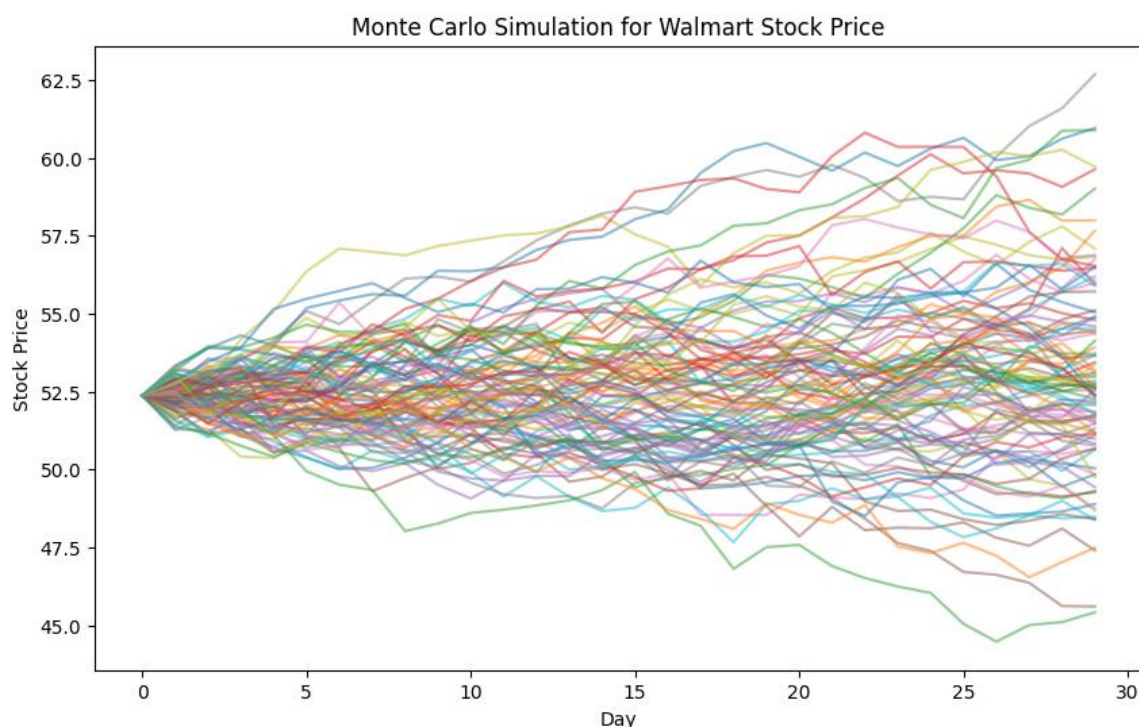
- The graph displays Walmart's adjusted closing stock price over the past year. The graph shows a notable upward trend in stock price, with the current price standing at \$59.93. The trend indicates an increase in the value of Walmart's stock, which is generally a positive sign for the company and its investors.
- This may suggest strong company performance, positive market sentiment, or successful business strategies that have boosted investor confidence.



- Investors might view the upward trend as a favourable sign and could consider maintaining or increasing their investment in Walmart, anticipating potential continued growth.
- Potential Buyers could see the recent performance as an opportunity to invest, but should be mindful of the stock's valuation to avoid buying at a peak.
- Walmart as a company should leverage this positive trend to potentially raise capital through new stock offerings if needed, or to negotiate better terms in debt financing.

7. Monte Carlo Simulation:

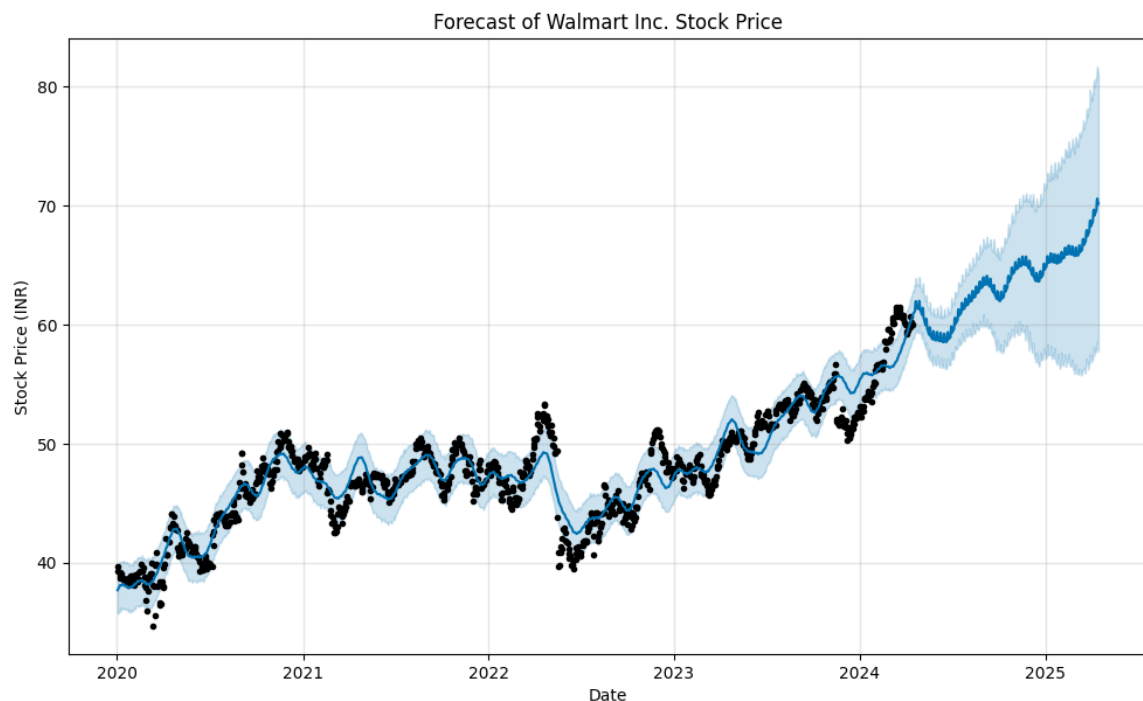
- Monte Carlo Simulation is a computational technique used to estimate the probability of different outcomes in a process that cannot be easily predicted due to the presence of random variables. This simulation method involves running multiple scenarios using random sampling to model the probability distribution of an uncertain variable and analyze the potential outcomes and risks associated with a decision or investment.
- This graph shows a Monte Carlo simulation for Walmart's stock price, projecting it over the next 30 days. The simulation results in a wide range of potential outcomes, indicating high volatility. The graph does not display a clear direction in price movement, with the simulations showing both increases and decreases in price.



- Investors should consider the high level of unpredictability and risk indicated by the simulation. Those with a low-risk tolerance might want to seek more stable investments.
- Portfolio Managers may use these simulations to assess the risk associated with Walmart's stock and to adjust the portfolio's risk profile accordingly.
- Walmart's Financial Analysts could use these forecasts to advise company decision-makers on potential risks and to prepare strategies for stock price volatility.

8. Facebook (FB) Prophet Analysis:

- This graph is based on the FB Prophet analysis, which is forecasting Walmart's stock price into the future. The black dots represent actual past closing prices, the blue line is the forecasted price trend, and the shaded areas are the confidence intervals. The trend suggests an overall increase in stock price, although the confidence interval grows wider over time, reflecting greater uncertainty in the long-term forecast.



- Long-term investors may find the predicted increase in stock price encouraging but should also consider the increasing uncertainty in the longer term.
- Short-term traders might use this forecast to identify potential trends and time their trades, although they should be aware of the model's limitations and incorporate other analysis methods.
- Walmart's management could interpret the forecasted growth as a reflection of effective business strategies but should also plan for the range of possible outcomes given the forecast uncertainty.

9. Recommendations:

- Given Walmart's stable financials, market dominance, and positive growth trend, the stock could be considered a Buy for long-term investors seeking a resilient portfolio addition with growth potential. However, the projected volatility and higher market valuation warrant a cautious approach. It may be wise to await a more favorable entry point or to accumulate gradually.
- For current shareholders, the recommendation would be to Hold and benefit from potential price appreciation. The absence of a dividend payout could be a drawback for those seeking regular income, but the company's reinvestment strategy could lead to capital gains.
- Potential investors looking for short-term gains should be cautious due to the volatility indicated by the Monte Carlo simulation. A diversified approach or the use of hedging strategies may be advisable to manage the risk.
- Overall, for a diversified investor with a balanced portfolio, Walmart represents a solid addition, but the timing and method of investment should be carefully considered to align with individual risk tolerance and investment goals. As always, investors should consult with financial advisors to tailor these recommendations to their financial situations.

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