



**Western Michigan University**

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***Corporate Finance Models Project: Written Report***

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## **Table of Contents**

	<b>Page</b>
1. Executive Summary	<b>3</b>
2. Company Background	<b>4</b>
3. Financial Analysis	<b>5</b>
4. Risk and Return Analysis	<b>6</b>
5. Financial Forecasting: Assumptions and Findings	<b>6</b>
6. Conclusion	<b>7</b>
7. References	<b>8</b>

## **Executive Summary**

This report presents a comprehensive financial analysis of Walmart Inc. (WMT) conducted through an extensive Excel-based modeling exercise. The analysis encompasses various facets of Walmart's financial health, performance, and future prospects, providing a holistic view for stakeholders.

Our project started with a detailed examination of Walmart's financial statements, assessing liquidity, profitability, and efficiency ratios, and comparing them to industry benchmarks.

Walmart's profitability was evaluated through net profit margin, growth rates, and economic profit analysis, showcasing the company's consistent profitability.

Utilizing DuPont analysis, we deconstructed ROE, revealing a balanced mix of asset utilization, profit margins, and financial leverage driving financial performance.

A rigorous financial distress analysis affirmed Walmart's resilience and robust financial position against adverse economic conditions.

Risk and return were evaluated, considering historical stock performance, volatility metrics, and beta, indicating a well-balanced risk-return profile.

Stock valuation using various models suggested alignment with the market price, and forecasting with sensitivity analysis provided insights into potential future performance.

In conclusion, our comprehensive financial modeling underscores Walmart's strength, strategic effectiveness, and resilience, offering stakeholders valuable insights for informed decision-making.

## **Company Background**

Established in 1962 by the visionary Sam Walton, Walmart Inc. has emerged as a global retail powerhouse, redefining the landscape of consumer commerce. Headquartered in Bentonville, Arkansas, Walmart's influence extends across 25 countries, solidifying its reputation as an industry leader.

At the heart of Walmart's success lies its unwavering commitment to offering customers everyday low prices. The company's multifaceted approach encompasses various retail formats, including supercenters, discount stores, and warehouse clubs, catering to a diverse clientele and fulfilling a spectrum of consumer needs.

Walmart has carved a niche for itself through an ingenious supply chain and logistics management system. Pioneering in efficiency and cost-effectiveness, the company's global sourcing initiatives and advanced technological solutions underscore its ability to maintain a resilient and responsive supply chain, ensuring a consistent flow of products at competitive prices.

In the ever-evolving digital landscape, Walmart has embraced technological innovation, making substantial investments in e-commerce and digital strategies. The company's adaptability to changing market dynamics is evident in its strategic use of online platforms and technology-driven solutions to enhance the overall customer experience.

Beyond its commercial pursuits, Walmart is committed to corporate social responsibility. The company has set ambitious sustainability goals, aiming for zero waste and a transition to 100% renewable energy. Engaging in community development programs, Walmart extends its impact beyond profit margins, reflecting a commitment to positive societal contributions.

Listed on the New York Stock Exchange under the ticker symbol WMT, Walmart Inc. remains a focal point for investors, analysts, and stakeholders. Its global reach, financial performance, and dedication to innovation underscore its enduring significance in the intricate tapestry of the global retail industry.

## Financial Analysis

Walmart Inc.'s financial statements reveal a robust and stable financial foundation. The income statement illustrates consistent revenue growth over the analyzed period, indicating the company's effectiveness in generating sales. Operating expenses are efficiently managed, resulting in healthy profit margins.

The balance sheet reflects a strong liquidity position and a well-managed capital structure. Walmart's asset base shows a strategic balance between current and noncurrent assets, contributing to the company's operational flexibility and long-term stability.

Applying DuPont analysis to Walmart's return on equity (ROE) reveals a comprehensive breakdown of factors contributing to financial performance. However, the results for ROE, Operating Profit Margin, and Net Profit Margin for Walmart Inc. in the years 2021-2022 fell below the industry average, indicating areas that may require attention.

While asset turnover demonstrates effective resource utilization, and profit margin points to prudent cost management, the overall ROE performance suggests a need for further examination.

Walmart's economic profit analysis underscores the company's ability to generate wealth beyond the cost of capital. Positive economic profit across the analyzed period suggests that the company consistently creates value for shareholders. This aligns with the broader narrative of sustainable profitability and effective capital allocation.

The economic profit metric not only validates Walmart's financial strength but also highlights its capacity to outperform the cost of capital, a key indicator of long-term shareholder value creation.

A thorough examination of financial distress indicators affirms Walmart's resilience against adverse economic conditions. The Altman Z-score and other relevant metrics consistently position the company in a secure financial position, indicating a low likelihood of financial distress.

## **Risk and Return Analysis**

A meticulous examination of Walmart Inc.'s historical stock prices provides insights into the company's risk and return profile. The stock's performance over the analyzed period indicates a relatively stable trajectory, with fluctuations aligning closely with market trends.

Walmart's beta, a measure of the stock's sensitivity to market movements, suggests a moderate level of risk. The stock has exhibited a historical correlation with broader market trends, contributing to a well-balanced risk-return profile.

Investors have historically found Walmart's stock to be a resilient choice, offering a steady return with lower volatility compared to more high-risk investments. This stability can be attributed to the company's position as a defensive stock, known for weathering economic downturns.

While the historical stock prices underscore Walmart's reliability as a stable investment, careful consideration of market conditions and industry dynamics remains crucial for a comprehensive risk and return assessment.

## **Financial Forecasting: Assumptions and Findings**

In projecting the future financials of Walmart Inc. for the years 2023-2026, a combination of methodologies was employed. The assumptions made for both the balance sheet and income statement are essential in capturing the dynamic nature of Walmart's operations.

For certain items, an average of the previous years was computed to forecast future values. This approach was particularly useful for elements with consistent patterns, ensuring a stable projection based on historical trends.

Many items were forecasted in proportion to sales, reflecting a dynamic relationship with revenue. This method accounts for the inherent connection between certain balance sheet components and the company's top-line performance. In more specific instances, it was found more appropriate to forecast items in proportion to other relevant variables, such as interest expense and pretax income.

For certain items where fluctuations were minimal or the values remained relatively constant, a static assumption was applied. It was assumed that the value of the current year would remain consistent in the subsequent years.

These forecasting assumptions, grounded in a blend of historical performance and industry dynamics, aim to provide a comprehensive and realistic projection of Walmart Inc.'s financial landscape for the years 2023-2026. Through our projections, it is evident that the company is expected to maintain its growth trajectory, with financial metrics indicating positive momentum and sustained numerical expansion. Additionally, a sensitivity analysis was conducted to illustrate potential outcomes in both optimistic and pessimistic scenarios, where variations in sales levels were considered to evaluate the robustness of the projections.

## **Conclusion**

In conclusion, our extensive examination of Walmart's financial landscape has been a comprehensive exploration. We conducted a meticulous analysis of historical data, implemented forecasting assumptions, and utilized sensitivity analysis to project the company's financial trajectory from 2023 to 2026. The integral observation is that Walmart stands well-positioned for continued growth.

Our in-depth study encompassed diverse analytical tools, including financial statement analysis, DuPont analysis, economic profit assessment, and risk and return analysis. While our findings suggest a positive trajectory, the inclusion of sensitivity analysis acknowledges the need for a nuanced understanding of potential variations that can lead to 'the optimistic highs and the cautious lows'.

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