

WALMART INC.

(as at February 28, 2023)

Business Description:

Walmart Inc. (Walmart) was founded by Samuel Moore Walton and James Lawrence Walton in 1945 and is headquartered in Bentonville, AR. Walmart engages in the retail and wholesale business. The company offers an assortment of merchandise and services at everyday low prices.

It operates through the following business segments: Walmart U.S., Walmart International, and Sam's Club. The Walmart U.S. segment operates as a merchandiser of consumer products, operating under the Walmart, Wal-Mart, and Walmart Neighborhood Market brands, as well as Walmart.com and other e-commerce brands. The Walmart International segment manages supercenters, supermarkets, hypermarkets, and warehouse clubs outside of the United States. The Sam's Club segment comprises membership-only warehouse clubs and samsclub.com. The company currently operates in 24 different countries tending to approximately 230 million customers, who visit more than 10,500 stores and multiple eCommerce websites under 46 banners, every week.

Investment Thesis:

- **Walmart's competitive strategy**
The company has built its pricing philosophy around Everyday Low Pricing (EDLP), creating price stability for customers. Additionally, Everyday Low Cost (EDLC) is part of the company's commitment to control expenses that passes cost savings along to customers. Both strategies come into play in a customer-centric experience that integrates eCommerce and retail stores in an omnichannel offering.
- **Mutually reinforcing Flywheel strategy**
Walmart's flywheel strategy is intended to position the company for the next generation of retail. The main goal is to serve customers more broadly, deepen their relationship and sustain a healthy mix. This is achieved in three ways:
 - Expanding general merchandise
 - Build health and wellness
 - Grow financial services
- These verticals are maintained by monetizing capabilities (advertising, data, fulfillment, etc.), and being sustainably lower cost (productivity, digital, automation, etc.). The outcomes are reinvested in customer value proposition (assortment, price, and experience), which would allow Walmart to be the primary destination for customers (in-store, pickup, delivery, Walmart+, and In-Home).
- **Walmart's strategic capital allocation**
The company has previously invested heavily in emerging markets. The company is currently investing more capital towards supply chain, Omni-channel, technology, and remodels, while reducing expenditure in new stores and club opening. The final goal is to bring together stores and eCommerce in a more digitally-connected manner that makes shopping easier.

Retail Industry Drivers/Trends:

- **Technology & AI (artificial intelligence)**
Customers are shifting more towards e-commerce and the convenience of online shopping. Many traditional brick-and-mortar retail stores have been shuttered due to the growth of Amazon and other e-commerce platforms, but the brick and mortars that have survived and thrived have embraced this consumer preference shift.
- **Supply chain as a differentiator**
Conscious consumers used to be a small group, but now they are mainstream. Brands and stores have adapted and incorporated social responsibility within their supply chain and brand identity.
- **Engagement and experiences:** Shopping experiences are driven by staff and customer service. With the drive of e-commerce, staff must offer quality human engagement which machines cannot provide. This includes accurately identifying customer needs, building relationships and loyalty.

Competitive Advantages:

- Omnichannel: Walmart International and Sam's club provide an omnichannel experience to customers, integrating retail stores and eCommerce through pickup and delivery services in most markets.
- Distribution: Walmart's 157 distribution facilities in the U.S. alone, allow for integrations that enable eCommerce and brick-and-mortar capabilities.
- Economies of scale: Due to its large size, Walmart is capable to take advantage of lower costs.
- Brand and Pricing: The company has an established retail brand, while also operating in-house brands such as "Great Value".

Competitors:

- **E-commerce:** Amazon.com, Inc., Alibaba Group Holding Limited, eBay Inc.
- **Physical retail:** Costco Wholesale Corporation, IKEA, Target Corporation, Loblaw Companies Limited

Barriers to Entry:

- **Economies of Scale:** The retail industry is not regulated heavily, allowing new entrants to enter the market. However, new entrants will not be able to offer large quantities of discount prices or capture material global market share without significant economies of scale.
- **Established Brand:** Consumers generally turn towards food and other groceries brands they've purchased before and trust. New entrants must develop a strongly recognized brand to be able to successfully compete within the industry.

Officers and Directors:

Doug McMillon, President and CEO, Walmart Inc.
John Furner, President, and CEO, Walmart U.S.
Dan Bartlett, Executive Vice President, Corporate Affairs
John David Rainey, Executive Vice President, and CFO, Walmart Inc.
Suresh Kumar, Executive Vice President, Global Chief Technology Officer and Chief Development Officer, Walmart Inc.



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Financial Summary:

Income Statement (USD millions, years ended January 31st)

	2018	2019	2020	2021	2022
Revenue	500,343.0	514,405.0	523,964.0	559,151.0	572,754.0
Costs of Goods	(373,396.0)	(385,301.0)	(394,605.0)	(420,315.0)	(429,000.0)
Earning Before Interest & Taxes (EBIT)	20,437.0	21,957.0	20,568.0	22,548.0	25,942.0
Net Profit	9,862.0	6,670.0	14,881.0	13,510.0	13,673.0
Earnings Per Share (Diluted)	3.28	2.26	5.19	4.75	4.87
Dividends per Share	2.04	2.08	2.12	2.16	2.20

Balance Sheet

Total Assets	204,522.0	219,295.0	236,495.0	252,496.0	244,86.0
Long-Term Debt	30,045.0	43,520.0	43,714.0	41,194.0	34,864.0
Total Equity	77,869.0	72,496.0	74,669.0	80,925.0	83,253.0

Statement of Cash Flow

Cash Flows from Operations	28,337.0	27,753.0	25,255.0	36,074.0	24,181.0
Free Cash Flow	18,286.0	17,409.0	14,550.0	25,810.0	11,075.0
Cash Flows from Investing	(9,079.0)	(24,036.0)	(9,128.0)	(10,071.0)	(6,015.0)
Cash Flows from Financing	(19,875.0)	(2,537.0)	(14,299.0)	(16,117.0)	(22,828.0)

Key Ratios and Figures (%)

EBIT Margin	4.1%	4.3%	3.9%	4.0%	4.5%
Return on Equity	12.7%	9.2%	19.9%	16.7%	16.4%

Source: Walmart 2022 Annual Report; Bloomberg



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