BUSINESS BRIEF

WALMART INC.

Portland Investment Counsel®
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(as at May 31, 2020)

Business Description:
Walmart Inc. engages in 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 was founded by Samuel Moore Walton and James Lawrence Walton in 1945 and is headquartered in Bentonville, AR. The company currently operates in 27 different countries with more than 2.2 million employees worldwide.

Investment Thesis:
- **Walmart has consistently experienced strong, efficient growth.** The company has built its brand around low prices and customer service. These two factors have allowed for sustainable earnings and returns growth. The company's growth was evident in 2019 when U.S. comparable sales grew at the highest annual growth rate in 10 years.
- **E-commerce and other areas of innovation has allowed the company to compete not only with other brick and mortar retailers, but with other e-commerce players as well.** Many concerns with retailers is the takeover of e-commerce retail platforms such as Amazon.com, Inc. Walmart has done a tremendous job building its e-commerce presence and other digital innovations. The company has utilized technology in ways such as grocery pickup from online orders and the Scan & Go app where customers bypass the checkout line and pay for items on their mobile devices.
- **Walmart has demonstrated excellent strategic capital allocation historically.** The company has previously invested heavily in emerging markets which has demonstrated a tremendous return. However, the company is currently investing more capital towards becoming more digital and efficient. This will allow for better customer service while at the same time reducing store costs.

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:
- Economies of scale due to size and therefore lower costs
- Established brand earns trust from customers around the globe
- Business models allow for limited exposure to cyclicality

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 strong recognized brand to be able to successfully compete within the industry.

Officers and Directors:
Gregory B. Penner, Chairman of the Walmart Inc. Board; **Doug McMillon,** President and CEO; **Dan Bartlett,** EVP Corporate Affairs; **Brett Biggs,** EVP and CFO; **Suresh Kumar,** EVP, Global CTO and CDO.

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Financial Summary:

Income Statement (USD millions, years ended January 31st)	2015	2016	2017	2018	2019
Revenue	485,651.0	582,130.0	485,873.0	500,343.0	514,405.0
Costs of Goods	(367,637.8)	(438,926.0)	(364,890.6)	(376,758.3)	(388,376.5)
Operating Profit (EBIT)	27,147.0	24,105.0	22,764.0	20,437.0	21,957.0
Net Profit	16,182.0	14,694.0	13,643.0	9,862.0	6,670.0
EPS (Diluted)	4.99	4.57	4.38	3.28	2.26
Dividends per Share	1.92	1.96	2.00	2.04	2.08
Balance Sheet					
Total Assets	203,490.0	199,581.0	198,825.0	204,522.0	219,295.0
Long-Term Debt	43,495.0	44,030.0	42,018.0	36,825.0	50,203.0
Total Equity	81,394.0	80,546.0	77,798.0	77,869.0	72,496.0
Statement of Cash Flow					
Cash Flows from Operations	28,564.0	27,389.0	31,673.0	28,337.0	27,753.0
Free Cash Flow	16,390.0	15,912.0	21,054.0	18,286.0	17,409.0
Cash Flows from Investing	(11,125.0)	(10,675.0)	(13,896.0)	(9,079.0)	(24,036.0)
Cash Flows from Financing	(15,071.0)	(16,122.0)	(19,072.0)	(19,875.0)	(2,537.0)
Key Ratios and Figures (%)					
Operating Margin, EBIT	5.6%	4.1%	4.7%	4.1%	4.3%
Return on Equity	20.1%	17.8%	17.4%	13.0%	9.0%
Total Shareholder Return	16.6%	(19.8%)	3.5%	63.8%	(8.0%)

Source: Walmart 2019 Annual Report; Wall Street Journal

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