



JUNE 10, 2024

WMT - \$65.88 **OUTPERFORM**

Price Target (Current) \$75.00

Price Target (Previous) \$70.00



WALMART INC.

WMT – 2024 Shareholders Meeting Takeaways—Strong and Best Yet to Come

On June 6 and 7, we attended Walmart’s 2024 shareholders meeting and participated in store tours, product displays, and food tastings.

TAG View: Our discussions with Walmart’s senior leadership increased our visibility and confidence in the company’s ability to drive profitable multi-year growth and share gains. There is an energy at the company and CEO Doug McMillon is pushing the entire team to pursue excellence every day. Over the past several years, Walmart pushed aggressively to lead in talent and technology to stay ahead of the curve in the game of retail. Importantly, the company continues to think ahead about improving merchandising, offering convenience, highlighting value, and leveraging technology to simplify and eliminate tasks to allow associates to spend more time with customers. We also are encouraged by the continued strong performance at Sam’s Club, reflected by the solid comps and increase in new members, enhancements to operations via greater use of technology, and enhanced quality products and brands, including its Member’s Mark private brand. Internationally, Walmart actively participates in growing markets, namely China, India, Mexico, and Southern Africa, which should continue to offer strong growth.

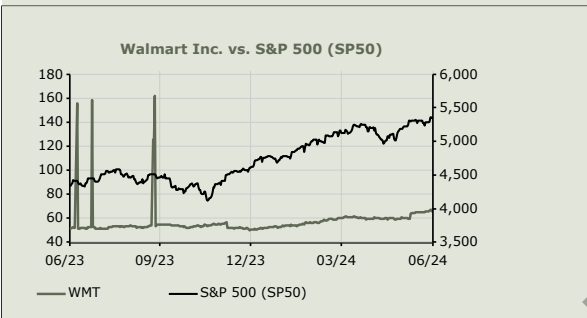
Behind the scenes, Walmart is working to become a fully unified retailer with a strong ecosystem by stepping up investment and use of data, software, robotics, generative AI, and automation while leveraging its store infrastructure to enhance productivity and profitability. Recent initiatives, like remodels, expansion of digital and a third-party marketplace, growth of its membership model, leverage of data analytics, and last-mile delivery via its Spark network, as well as expansion beyond retail, including advertising, merchant services, and financial services, should help build a powerful ecosystem. Importantly, new elements of the ecosystem are more profitable than traditional retail and collectively should help strengthen Walmart’s relationship with customers and generate profitable market share gains. This is visible in Walmart’s outlook, which is focused on growing profits faster than sales. Given greater confidence in the business strategy and execution, we are maintaining our Outperform rating and are raising our 12-month price target by \$5 to \$70, based on applying a higher P/E multiple of ~28x to our 2025 EPS estimate of \$2.65.

Consumer Health: Walmart indicated that consumers continue to be resilient and have remained choiceful and selective. Inflation is roughly flat YoY, despite deflation in general merchandise categories. As such, Walmart has stepped up its focus on growing units by sharpening price points. In fact, the company increased rollbacks by 45% to ~7,000 grocery items in 1Q24. Walmart is encouraged by consumers reaction to lower prices, which is resulting in higher unit sales across all income groups.

Broadly, we believe Walmart is well-positioned to gain market share across all income groups—regardless of the environment—given its focus on value, flexibility, and convenience. The expansion of quality merchandise, including premium and private brands, as well as convenience via Walmart+ membership and digital/ marketplace, should help gain and retain share among higher income households. The combination of more rollbacks, sharper prices, and ongoing investment in private brands, innovation, quality, and omni-channel convenience should help to retain its core lower-to-middle tier consumers. Walmart also has given greater leeway to store managers in merchandising and marketing, which combined with the greater use of technology, should help to localize stores to increase relevance for customers.

Market Statistics	06/07/2024
Market Capitalization (\$MM):	\$530,978.9
Enterprise Value (MM):	\$593,033.9
Shares Outstanding (MM):	8,059.8
Avg. Daily Trading Volume (Shrs, 000s):	18,476.9
Short Interest/Float:	0.5%
Insider Ownership (% of Total Shrs Out):	46.2%
Dividend Yield:	1.3%
Stock Exchange:	NYSE

Price Performance	06/07/2024
52-Week Range:	\$49.85-\$67.57
YTD % Change:	25.4%
YTD % Change Relative to Index:	13.3%
Implied Return to Price Target:	13.8%



Valuation Metrics(FYE January)	2023	2024E	2025E
P/E Ratio	29.7x	27.2x	24.8x
EV/Sales	0.9x	0.9x	0.8x
EV/EBITDA	15.2x	14.2x	13.2x
FCF Yield (using EV)	2.8%	2.8%	2.4%

Same-Store Sales			EPS (Operating)		
Period	Current	Previous	Period	Current	Previous
1Q23	7.4%	-	1Q23	\$0.49	-
2Q23	6.4%	-	2Q23	\$0.61	-
3Q23	4.9%	-	3Q23	\$0.51	-
4Q23	4.0%	-	4Q23	\$0.60	-
2023	5.6%	-	2023	\$2.22	-
1Q24	3.8%	-	1Q24	\$0.60	-
2Q24E	3.0%	-	2Q24E	\$0.65	-
3Q24E	3.0%	-	3Q24E	\$0.64	-
4Q24E	2.5%	-	4Q24E	\$0.63	-
2024E	3.1%	-	2024E	\$2.42	-
1Q25E	2.0%	-	1Q25E	\$0.63	-
2Q25E	3.0%	-	2Q25E	\$0.72	-
3Q25E	3.0%	-	3Q25E	\$0.60	-
4Q25E	3.0%	-	4Q25E	\$0.71	-
2025E	2.8%	-	2025E	\$2.65	-

Includes the acquisition of Flipkart.
Walmart US Same-Store Sales.
Source: FactSet, company reports, and TAG estimates.

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Private Brands Tour: Walmart is going on offense with private brands. The company continues to leverage private brands to differentiate the assortment in key categories—food, apparel, seasonal, and home—highlight value, build loyalty/repeat visits, and generate profits. The company is investing in product innovation, quality, packaging, and pricing, with a goal to highlight value and increase customer relevance. This also is critical to effectively competing against grocers, the likes of Aldi and Lidl, both primarily private branded deep discount grocers, and a wide range of discretionary fashion and home retailers and online sellers. In addition, the focus on private brands should allow the company to negotiate more effectively with national branded vendors.

- > **Walmart US:** At Walmart US, the company has a number of initiatives to democratize discretionary products. In fashion, the company now has 14 private brands (six brands over \$1B; two brands over \$2B), with multiple items at opening price points. The company also is elevating fashion, with exclusive brands, like Scoop and Sofia Vergara. In celebrations, Walmart wants to be the destination one-stop shop, with a full suite of relevant products, such as candy, costumes, and decor for Halloween. In home, just like apparel, the company continues to introduce trend-right, value-focused items, as well as elevating the category with select partnerships, such as with Drew Barrymore. In beauty, the company is improving the experience, such as launching a men's grooming line founded by LeBron James.
- > **New bettergoods Private Brand at Walmart US:** Walmart remains excited about the recent launch and ongoing expansion of its new bettergoods food brand, which is partly a replacement for Sam's Choice. The company started working on the brand about three years ago and began developing the food about 12-18 months ago. bettergoods products have three aspects—unique culinary experience/taste, such as hot honey seasoning; plant-based attributes, such as oatmilk frozen desserts; and "Made Without" to cater to a broad group of consumers that don't want sugar, artificial flavors, or gluten. The majority of products—about 70% of items—are priced under \$5. Unlike many private brands that provide direct alternatives to national brands at a lower price, several bettergoods items are unique in flavor and concept. The company is currently rolling out ~300 SKUs (by September), with more to come. By the way, the food we tried tasted great, ranking ~8 out of 10 to our palette.
- > **Sam's Club:** At Sam's Club, the company highlighted the success of its private brand, Member's Mark, which represents ~30% of Sam's Club sales. Recall, the company consolidated ~26 private brands in 2017 to the Member's Mark brand, while elevating the quality and offering below market prices. Sam's Club is leveraging member insights to design and create products with high quality, superior aesthetics, and attractive price. For example, Sam's Club developed two 90-rated wines for \$12.98 and \$17.98, which is much lower priced than similar rated branded wines. Similarly, Sam's Club has created grills and several lifestyle products, in addition to the food and beverage items it continues to roll out.

Path to Digital Profitability: In 2023, Walmart generated global digital sales of \$100B, with improvement in profitability (less losses than prior years). Looking ahead, Walmart continues to focus on reducing digital losses—with and without the media business—and reiterated confidence in its path to profitability, driven by lower cost-per-order (nearly 40% lower in 1Q24), higher volumes, share gains from marketplace, favorable product mix, benefit from newer business, such as advertising/media, and robust technology and automation. Walmart indicated that last mile delivery is the costliest part of the business—relative to first mile and middle mile—and it is working to shorten the last mile and improve on-demand basket and deliveries.

Sam's Club: The segment has successfully grown ~35% in 2020-2023, with increases in new members and renewals. Importantly, digitally engaged members spend 3x more. The company is starting to leverage data, which should further provide upside ahead. In the Sam's Club store visit, we saw several tech innovations, including **1) MyClub App:** an app that helps managers and associates plan the workday. The app allows access to several work applications that helps the manager allocate associates to areas that need labor hours, such as restocking and pricing; **2) Just Go:** a big archway near the exit with two lanes that had three cameras per lane taking photos to match with customer receipts. This process is 5x-6x faster than a human checking receipts at the exit. Early results indicate that 55% of members get a frictionless experience, with improvement expected ahead as system continues to be adjusted and trained; **3) Scan & Go:** currently one in three members use Scan & Go, with a higher percentage on weekends; and **4) Floor Cleaners:** the store added scanners (cameras) to its autonomous floor cleaners to read price signs and film shelves and stock position to help with inventory management.

International Update: E-commerce growth remains strong in the International business. In China, the company has an omni-channel model that is profitable, with ~80% of orders delivered in one hour. In India, Flipkart has a marketplace model, which continues to benefit from the premiumization of products—higher average order value—as well as the mix of discretionary products, such as apparel from Myntra. Note, Myntra has now been profitable for two consecutive quarters. Overall, Flipkart has seen strong growth in the past five years, with strength to continue supported by existing and new businesses, such as travel. The company remains positive about the IPO prospects of Flipkart, although it did not talk about the timing of the event.

Digital Payments: In India, PhonePe continues to grow strongly—market share on the Unified Payments Interface (UPI) of 49.2% vs. GooglePay at 37.5% and Paytm at 8.2% in May 2024. The company is not just processing payments, but adding value by expanding new services, such as insurance and travel. In Mexico, Cashi continues to see increased adoption and usage. In the US, financial services is still evolving. The company plans to expand revolving credit as well as Buy Now Pay Later (BNPL) options over the next few years. The closeness of banking and retail presents opportunity for Walmart.

Advertising (~\$3.4B in 2023): Walmart continues to see strong growth of its advertising business—given extensive data and insight on consumers, which is valuable to sellers and brands. Recently, Walmart expanded its data analytics and insights product—Walmart Luminate—to Mexico and Canada, which should further support the growth of this business.

WAL-MART STORES, INC. - MODEL SUMMARY

	2019	2020	2021	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24	2Q24E	3Q24E	4Q24E	2024E	2025E
Income Statement Highlights	TOTAL	TOTAL	TOTAL	TOTAL	APR	JUL	OCT	JAN	TOTAL	APR	JUL	OCT	JAN	TOTAL	TOTAL
Wal-Mart Stores	341,004.0	369,963.0	393,247.0	420,553.0	103,901.0	110,854.0	109,419.0	117,643.0	441,817.0	108,670.0	114,345.9	112,865.7	120,760.5	456,642.1	469,939.7
Sam's Club	58,792.0	63,910.0	73,556.0	84,345.0	20,499.0	21,830.0	21,998.0	21,852.0	86,179.0	21,435.0	22,735.9	22,910.9	22,758.9	89,840.7	93,370.5
International	120,130.0	121,360.0	100,959.0	100,983.0	26,604.0	27,596.0	28,022.0	32,419.0	114,641.0	29,833.0	30,217.6	30,263.8	34,364.1	124,678.5	134,652.8
Other	4,038.0	3,918.0	4,992.0	5,408.0	1,297.0	1,352.0	1,365.0	1,474.0	5,488.0	1,570.0	1,595.4	1,433.3	1,547.7	6,146.3	6,453.6
Total Sales	523,964.0	559,151.0	572,754.0	611,289.0	152,301.0	161,632.0	160,804.0	173,388.0	648,125.0	161,508.0	168,894.8	167,473.6	179,431.2	677,307.7	704,416.6
Total Gross Profit	125,321.0	134,918.0	138,762.0	142,160.0	35,720.0	38,430.0	38,256.0	40,089.0	152,495.0	38,507.0	40,305.4	40,172.0	41,739.0	160,723.4	168,182.1
Total SG&A Expenses	107,332.7	115,656.0	117,704.0	122,966.0	30,777.0	32,322.3	33,419.0	34,309.0	130,827.3	32,981.0	34,055.1	34,885.7	35,596.4	137,518.2	143,026.0
Total Operating Income	22,026.3	23,180.0	26,050.0	24,602.0	6,240.0	7,459.7	6,202.0	7,254.0	27,155.7	7,096.0	7,845.6	6,719.6	7,690.3	29,351.5	31,609.8
Pretax Income	19,761.5	21,070.9	24,214.0	22,896.0	5,683.0	6,965.7	5,665.0	6,705.0	25,018.7	6,496.0	7,269.4	6,149.2	7,122.6	27,037.3	29,326.9
Taxes (Benefit)	3,969.8	2,189.3	7,576.0	4,335.9	1,506.0	1,819.0	1,347.0	1,665.0	6,337.0	1,404.6	1,890.1	1,629.6	1,887.5	6,811.7	7,625.0
Net Income	15,471.6	18,685.6	16,371.0	18,948.1	3,954.0	4,984.7	4,128.0	4,856.0	17,922.7	4,888.4	5,212.5	4,324.0	5,045.6	19,470.5	21,008.4
Diluted Shares Outstanding	8,603.3	8,541.0	8,415.0	8,181.0	8,112.0	8,109.0	8,109.0	8,103.0	8,108.3	8,084.0	8,055.2	8,027.1	7,999.0	8,041.3	7,922.8
Diluted EPS	\$1.80	\$2.19	\$1.95	\$2.33	\$0.49	\$0.61	\$0.51	\$0.60	\$2.22	\$0.60	\$0.65	\$0.54	\$0.63	\$2.42	\$2.65
YoY change	16.2%	21.8%	(11.2%)	19.6%	49.8%	4.0%	2.2%	(33.8%)	(4.5%)	24.1%	5.3%	5.8%	5.3%	9.0%	9.5%
Select Growth Rates and Margins															
Wal-Mart Stores	2.8%	8.5%	6.3%	6.9%	7.2%	5.4%	4.4%	3.4%	5.1%	4.6%	3.2%	3.2%	2.7%	3.4%	2.9%
Sam's Club	1.6%	8.7%	15.1%	14.7%	4.5%	(0.3%)	2.8%	2.0%	2.2%	4.6%	4.2%	4.2%	4.2%	4.2%	3.9%
International	(0.6%)	1.0%	(16.8%)	0.0%	12.0%	13.3%	10.8%	17.6%	13.5%	12.1%	9.5%	8.0%	6.0%	8.8%	8.0%
Total Sales	1.9%	6.7%	2.4%	6.7%	7.6%	5.7%	5.2%	5.7%	6.0%	6.0%	4.5%	4.1%	3.5%	4.5%	4.0%
Walmart Store Comp	2.8%	8.6%	6.5%	6.6%	7.4%	6.4%	4.9%	4.0%	5.6%	3.8%	3.0%	3.0%	2.5%	3.1%	2.8%
Sam's Club (ex-fuel) comp	0.7%	11.8%	9.8%	10.5%	7.0%	5.5%	3.8%	3.1%	4.8%	4.4%	4.0%	4.0%	4.0%	4.1%	3.4%
Retail Gross Margin	24.1%	24.3%	24.4%	23.5%	23.7%	24.0%	24.0%	23.3%	23.7%	24.1%	24.1%	24.2%	23.5%	23.9%	24.1%
YoY bps change	(40)	20	14	(98)	(18)	50	32	39	27	42	12	20	15	22	15
SG&A Ratio	20.6%	20.8%	20.73%	20.30%	20.4%	20.2%	21.0%	20.0%	20.4%	20.6%	20.4%	21.0%	20.0%	20.5%	20.5%
YoY bps change	(35)	19	(10)	(44)	(58)	24	38	16	6	24	19	5	5	13	0
YoY growth	0.2%	7.8%	1.8%	4.5%	4.7%	7.1%	7.2%	6.5%	6.4%	7.2%	5.4%	4.4%	3.8%	5.1%	4.0%
Operating Margin	4.2%	4.1%	4.5%	4.0%	4.1%	4.6%	3.9%	4.2%	4.2%	4.4%	4.6%	4.0%	4.3%	4.3%	4.5%
YoY bps change	(6)	(6)	40	(52)	\$	44	(8)	28	17	30	3	16	10	14	15
YoY growth	0.3%	5.2%	12.4%	(5.6%)	17.3%	8.8%	3.0%	13.2%	10.4%	13.7%	5.2%	8.3%	6.0%	8.1%	7.7%
Tax Rate	20.1%	10.4%	31.3%	18.9%	26.5%	26.1%	23.8%	24.8%	25.3%	21.6%	26.0%	26.5%	26.5%	25.2%	26.0%
Other Key Metrics															
EBITDA	33,013.3	34,332.0	36,708.0	35,547.0	9,085.0	10,364.7	9,188.0	10,371.0	39,008.7	10,224.0	10,895.9	9,840.0	10,947.5	41,907.4	44,777.2
EBITDA Margin	6.3%	6.1%	6.4%	5.8%	6.0%	6.4%	5.7%	6.0%	6.0%	6.3%	6.5%	5.9%	6.1%	6.2%	6.4%
Depreciation & Amortization	10,987.0	11,152.0	10,658.0	10,945.0	2,845.0	2,905.0	2,986.0	3,117.0	11,853.0	3,128.0	3,050.3	3,120.4	3,257.3	12,555.9	13,167.4
Capital Expenditures	10,705.0	10,264.0	13,106.0	16,857.0	4,429.0	4,787.0	5,458.0	5,932.0	20,606.0	4,676.0	5,502.1	6,184.4	6,338.8	22,701.2	23,414.1

Source: Company Reports, and TAG Research

ADDENDUM

Important Disclosures:

Valuation Method for Target Price: Price-to-Earnings, enterprise-value-to-EBITDA, P/E to growth, price to free cash flow, and discounted cash flow analysis.

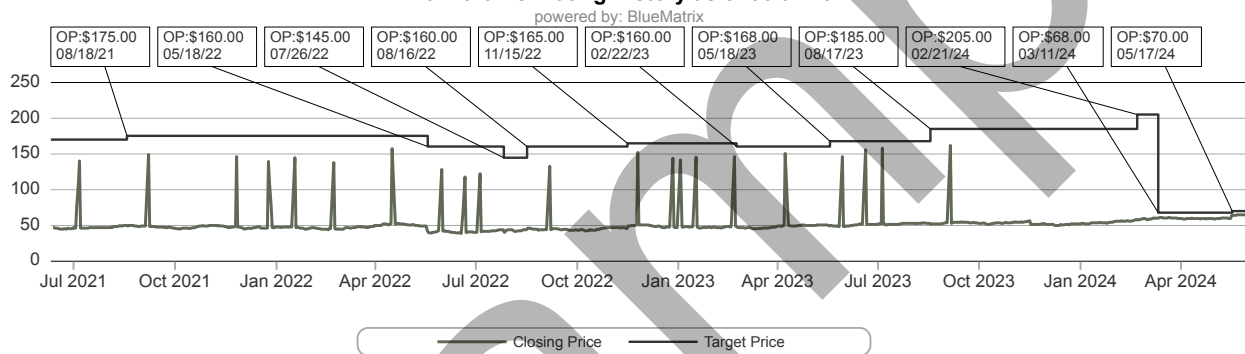
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Company Specific Disclosures

Walmart Inc. Rating History as of 06/07/2024



On September 16, 2012 TAG completed a transition from price target ranges to specific price targets. All price target changes prior to September 16, 2012, are displayed as price target averages.

* Telsey with ratings are effective as of 09/11/14

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution	Count	*Investment Banking
OUTPERFORM	43	50.00%	3	6.98%
MARKET PERFORM	43	50.00%	0	0.00%
UNDERPERFORM	0	0.00%	0	0.00%

On 09-11-2014 TAG launched a three-tiered rating system of Outperform, Market Perform, and Underperform to evaluate its stocks under coverage. Price targets continue to be used in conjunction with the new rating system.

Ratings Definition and Distribution

Our recommendation system is based on a stock’s expected total return relative to the industry universe over the next 12 months.

We divide stocks under coverage into three categories, each defined by a prospective rate of return:

Outperform – the stock is expected to outperform the average total return of the industry universe over the next 12 months.

Market Perform – the stock is expected to perform in line with the average total return of the industry universe over the next 12 months.

Underperform – the stock is expected to underperform the average total return of the industry universe over the next 12 months.

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