SEPTEMBER 19, 2019

WMT - $117.16   OUTPERFORM

Price Target (Current) $125.00

Price Target (Previous)   Same

Market Statistics	09/18/2019
Market Capitalization ($MM):	$331,387.1
Enterprise Value (MM):	$403,580.1
Shares Outstanding (MM):	2,844.3
Avg. Daily Trading Volume (Shrs, 000s):	6,510.2
Short Interest/Float:	0.5%
Insider Ownership (% of Total Shrs Out):	50.6%
Dividend Yield:	1.8%
Stock Exchange:	NYSE

Price Performance	09/18/2019
52-Week Range:	$85.78 - $118.19
YTD % Change:	25.1%
YTD % Change Relative to Index:	5.2%
Implied Return to Price Target:	6.7%

Walmart Inc. vs. S&P 500 (SP50)

Valuation Metrics (FYE Jan)	2018	2019E	2020E
P/E Ratio	23.9x	23.7x	22.6x
PEG Ratio (using 5-Yr GR)	-	-	-
EV/Sales	0.8x	0.8x	0.7x
EV/EBITDA	12.4x	12.2x	11.8x
FCF Yield (using EV)	5.2%	5.3%	5.8%

Balance Sheet and Growth Metrics	2018	2019E	2020E
Debt/Capitalization	36.3%	45.4%	43.7%
Debt/EBITDA	1.4x	2.1x	1.9x
Adjusted Debt/EBITDAR	1.8x	2.5x	2.5x
ROIC	12.7%	0.0%	0.0%
5-Year Long Term EPS Growth Rate	-		

Same-Store Sales			EPS (Operating)		
Period	Current	Previous	Period	Current	Previous
1Q18	2.1%	-	1Q18	$1.14	-
2Q18	4.6%	-	2Q18	$1.29	-
3Q18	3.4%	-	3Q18	$1.08	-
4Q18	4.0%	-	4Q18	$1.41	-
2018	3.6%	-	2018	$4.91	-
1Q19	3.0%	-	1Q19	$1.13	-
2Q19	2.9%	-	2Q19	$1.27	-
3Q19E	3.5%	-	3Q19E	$1.08	-
4Q19E	2.5%	-	4Q19E	$1.47	-
2019E	3.0%	-	2019E	$4.95	-
1Q20E	2.0%	-	1Q20E	$1.14	-
2Q20E	3.0%	-	2Q20E	$1.33	-
3Q20E	2.5%	-	3Q20E	$1.17	-
4Q20E	2.5%	-	4Q20E	$1.53	-
2020E	2.5%	-	2020E	$5.18	-

Includes the acquisition of Flipkart.

Walmart US Same-Store Sales.

Source: FactSet, company reports, and TAG estimates.

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WALMART INC.

WMT - Takeaways From Management Meeting at Groceryshop

On September 15, we hosted a meeting with Tom Ward, SVP of Digital Operations and Online Grocery, at Groceryshop in Las Vegas.

TAG View: The tone of the meeting was positive, reflecting Walmart's continued success in rapidly transforming its grocery business with new digital capabilities. Although Walmart has made significant progress on its digital grocery transformation, the to-do list remains long—a good sign for continued sales drivers and market share gains. Walmart is acutely focused on removing friction from every digital progress—using data and artificial intelligence in decision making, partnering with apps, such as Tasty, and launching new technologies, such as Alphabot automation—to elevate the customer experience, enhance execution, and improve profitability. Furthermore, the company continues to add several general merchandise items to its online grocery offering, a logical extension that is already starting to bolster ticket and comp. At Groceryshop, Walmart sounded excited about the early success of its NextDay delivery, which is expected to cover 75%-80% of the population by the end of 2019. In addition, the company believes (and we agree) the rollout of its Delivery Unlimited program (similar to Amazon Prime) could be a game changer as it increases brand loyalty and drives repeat orders, particularly for everyday items. This powerful, flexible fulfillment model is supported by Walmart's ~4,700 stores (~90% of US population within 10 miles), making it a competitive advantage.

The meeting increased our confidence that Walmart is at the forefront of digital innovation in retail, successfully driving higher sales, productivity, and profitability. The focus on customer-centricity is enlarging Walmart's vision beyond e-commerce, resulting in a focus on building a powerful ecosystem, including advertising, merchant services, and digital payments. These new elements of the ecosystem are more profitable than traditional retail and collectively should continue to help grow market share and profitability in the years ahead**.**

TAG Thesis: We reiterate our Outperform rating on WMT. We continue to believe Walmart is among the few retailers that will prove successful in operating a truly omni-channel model, given its strong management team, focus on the customer, ability to leverage talent and technology, and solid financial flexibility. Walmart has been exerting its dominance in physical retail and generating new prowess in digital commerce for the past couple of years, which should support a premium valuation for the stock. Our 12-month price target remains $125, and is based on applying a P/E multiple of ~24x to our 2020 EPS of $5.18.

Key Details

Online Grocery Driven by New Markets, More Products, and Seamless Operations: The online grocery business is one of the fastest growing segments at Walmart. Importantly, Mr. Ward reiterated that digitalization has helped Walmart win new shoppers and increased the average spend of existing customers who shop in-store and online. Walmart continues to expand online grocery pickup locations to ~3,100 stores (~4,700 total Walmart US stores) by the end of 2019, up from ~2,100 stores in 2018 and ~1,100 in 2017. The company also has added select general merchandise items (more to come), which are starting to resonate with consumers and be added to the basket. For example, the Independence Day event in 2019 offered relevant general merchandise items, like grill lighters, along with food and consumables.

Online Grocery Driven by New Markets, More Products, and Seamless Operations (Continued): In our meeting, we were particularly impressed to observe Mr. Ward's (and Walmart's) acute focus on reducing friction in the shopping processes—critical to drive repeat visits and loyalty. For example, when an item in a customer's online grocery order is out of stock, Walmart uses data and artificial intelligence (AI) to decide on product substitution, without the associate having to make the decision. Similarly, Walmart added 1) pickup time slots, which helps fill less busy times (people like to avoid the rush) and increase pickup availability; 2) notification to the store that a customer is on the way and the ability to input the car model and color to reduce time searching for the vehicle upon arrival; and 3) a feature that allows a customer to add forgotten items to the same order within one hour of placing it. The company is expanding its Alphabot automated picking technology to an additional two or three new stores, after a successful initial test in Salem, NH. These actions should continue to allow Walmart to lead in the online grocery business.

NextDay Delivery Gaining Traction: Walmart is seeing early success with its NextDay delivery program and is on track to rollout NextDay to ~40 of the top 50 metro markets (75%-80% of the US population) in 2019. Over time, Walmart plans to expand the NextDay delivery assortment from ~220,000 SKUs today. Importantly, profitability is better than a typical online order, given NextDay orders are curated from one warehouse in one shipment. Recall, Amazon is rolling out one day delivery for Prime and Target is expanding Shipt nationwide, with broader assortment.

Delivery Unlimited Could Be Gaming Changing: Walmart is rapidly rolling out the Delivery Unlimited program to 1,400 stores by fall 2019 and 1,600 by the end of 2019 (covering ~50% of the US population), after a successful test in four markets—Miami, Houston, Tampa, and Salt Lake City. The Delivery Unlimited plan is available for an annual subscription of $98 or a monthly fee of $12.95. Like Amazon Prime (annual subscription of $119) and Target's Shipt (annual subscription of $99), Walmart's Delivery Unlimited allows customers to shop online and get groceries/products delivered at a selected time without paying the current per order fee of $9.95. In our view, an annual subscription, particularly related to grocery, should help increase reorder frequency and build customer loyalty to capture greater market share. Eventually, we could see Walmart increase the value of the program by offering more services, such as leveraging Vudu.

Digital Making Bigger Strides: We forecast Walmart US e-commerce sales growth of 35% to ~$22B (~6.5% of sales) in 2019 and ~28% to ~$28B (~8.0% of sales) in 2020. Broadly, the digital business should continue to benefit from a redesigned website, expanded marketplace offerings, new payment partnerships with Affirm/others, more exclusive retail partnerships (e.g., Bobbi Brown and KIDBOX), and the addition of celebrity products (e.g., Drew Barrymore, and Kristen Bell). The expansion of digitally-native and omni-channel brands—such as *Allswell, Bare Necessities*, *Bonobos*, and *Modcloth*—also should continue to help. In addition, same-day grocery pickup (~3,100 in 2019E) and delivery (~1,600 in 2019E) should continue to gain traction. The recent rollout of the NextDay delivery service and Delivery Unlimited subscription also should support digital growth.

TAG ESTIMATE: WALMART US E-COMMERCE				
	2017	**2018**	**2019E**	**2020E**
Walmart US Sales ($MM)	**$318,477**	**$331,666**	**$342,415**	**$352,027**
E-Commerce Sales ($MM)	$11,541	$16,169	$21,754	$27,737
E-Commerce Growth	44.3%	40%	35%	28%
Walmart US Comp	**2.1%**	**3.6%**	**3.0%**	**2.5%**
Store Comp	1.4%	2.1%	1.3%	0.8%
E-Commerce Comp	0.7%	1.5%	1.7%	1.7%
E-Commerce as % of Sales	3.6%	4.9%	6.4%	7.9%

Source: Company Reports and TAG Research

WAL-MART STORES, INC. - MODEL SUMMARY

	2016 TOTAL	2017 TOTAL	1Q18 APR	2Q18 JUL	3Q18 OCT	4Q18 JAN	2018 TOTAL	1Q19 APR	2Q19 JUL	3Q19E OCT	4Q19E JAN	2019E TOTAL	2020E TOTAL
Income Statement Highlights													
Wal-Mart Stores	307,833.0	318,477.0	77,748.0	82,815.0	80,583.0	90,520.0	331,666.0	80,344.0	85,200.0	83,725.7	93,145.1	342,414.8	352,026.7
Sam's Club	57,365.0	59,216.0	13,622.0	14,790.0	14,521.0	14,906.0	57,839.0	13,830.0	15,049.0	14,847.7	15,241.4	58,968.1	60,135.3
International	116,119.0	118,068.0	30,260.0	29,454.0	28,793.0	32,317.0	120,824.0	28,775.0	29,139.0	29,368.9	33,286.5	120,569.4	125,949.9
Other	4,021.0	4,582.0	1,060.0	969.0	997.0	1,050.0	4,076.0	976.0	989.0	1,026.9	1,081.5	4,073.4	4,092.9
Total Sales	485,338.0	500,343.0	122,690.0	128,028.0	124,894.0	138,793.0	514,405.0	123,925.0	130,377.0	128,969.2	142,754.5	526,025.7	542,204.8
Total Gross Profit	120,061.0	122,365.0	29,923.0	31,488.0	30,781.0	32,836.0	125,028.0	29,915.0	31,465.0	31,402.2	33,489.5	126,271.7	128,965.1
Total SG&A Expenses	101,483.0	104,045.0	25,829.0	26,707.0	26,792.0	27,819.0	107,147.0	25,946.0	26,871.0	27,474.9	28,116.9	108,408.7	110,562.7
Total Operating Income	22,599.0	22,902.0	5,154.0	5,750.0	4,986.0	6,067.0	21,957.0	4,945.0	5,583.0	4,954.2	6,454.2	21,936.4	22,495.4
Net Interest Income (Expense)	(2,267.0)	(2,178.0)	(487.0)	(503.0)	(534.0)	(605.0)	(2,129.0)	(625.0)	(585.0)	(615.6)	(614.4)	(2,440.0)	(2,436.0)
Pretax Income	20,332.0	20,329.0	4,667.0	5,247.0	4,452.0	5,462.0	19,828.0	4,377.7	4,970.0	4,338.6	5,839.7	19,526.1	20,059.4
Taxes (Benefit)	6,228.0	6,542.8	1,139.4	1,303.0	1,170.7	1,239.1	4,852.2	1,049.0	1,260.0	1,182.3	1,591.5	5,082.6	5,315.7
Net Income	13,454.0	13,246.3	3,385.6	3,810.0	3,174.3	4,096.9	14,466.8	3,264.7	3,640.0	3,076.4	4,168.4	14,149.5	14,443.7
Diluted Shares Outstanding	3,112.5	3,010.5	2,967.0	2,960.0	2,941.0	2,914.0	2,945.5	2,886.0	2,869.0	2,850.3	2,831.6	2,859.2	2,790.4
Diluted EPS	**$4.32**	**$4.40**	**$1.14**	**$1.29**	**$1.08**	**$1.41**	**$4.91**	**$1.13**	**$1.27**	**$1.08**	**$1.47**	**$4.95**	**$5.18**
YoY change	*(5.4%)*	*1.8%*	*14.4%*	*19.2%*	*8.0%*	*5.9%*	*11.6%*	*(0.9%)*	*(1.4%)*	*(0.0%)*	*4.7%*	*0.8%*	*4.6%*
Select Growth Rates and Margins													
Wal-Mart Stores	3.2%	3.5%	3.1%	5.2%	3.7%	4.6%	4.1%	3.3%	2.9%	3.9%	2.9%	3.2%	2.8%
Sam's Club	0.9%	3.2%	(2.7%)	(0.6%)	(2.3%)	(3.7%)	(2.3%)	1.5%	1.8%	2.3%	2.3%	2.0%	2.0%
International	(5.9%)	1.7%	11.7%	4.0%	(2.6%)	(2.3%)	2.3%	(4.9%)	(1.1%)	2.0%	3.0%	(0.2%)	4.5%
Other	14.4%	14.0%	4.3%	(31.1%)	(4.4%)	(6.0%)	(11.0%)	(7.9%)	2.1%	3.0%	3.0%	(0.1%)	0.5%
Total Sales	*0.7%*	*3.1%*	*4.4%*	*3.8%*	*1.4%*	*1.9%*	*2.8%*	*1.0%*	*1.8%*	*3.3%*	*2.9%*	*2.3%*	*3.1%*
Walmart Store Comp	**1.4%**	**2.1%**	**2.1%**	**4.5%**	**3.4%**	**4.2%**	**3.6%**	**3.4%**	**2.8%**	**3.5%**	**2.5%**	**3.0%**	**2.5%**
Sam's Club (ex-fuel) comp	**1.0%**	**2.0%**	**3.8%**	**5.0%**	**3.2%**	**3.3%**	**3.8%**	**0.3%**	**1.2%**	**1.5%**	**1.5%**	**1.1%**	**1.5%**
Retail Gross Margin	**24.9%**	**24.7%**	**24.6%**	**24.8%**	**24.8%**	**23.8%**	**24.5%**	**24.3%**	**24.3%**	**24.5%**	**23.6%**	**24.2%**	**24.0%**
YoY bps change	*37*	*(26)*	*(15)*	*(17)*	*(20)*	*(22)*	*(18)*	*(27)*	*(46)*	*(30)*	*(20)*	*(31)*	*(23)*
SG&A Ratio	**21.1%**	**21.0%**	**21.2%**	**21.0%**	**21.6%**	**20.2%**	**21.0%**	**21.1%**	**20.8%**	**21.5%**	**19.8%**	**20.8%**	**20.5%**
YoY bps change	*98*	*(10)*	*11*	*(19)*	*(1)*	*12*	*1*	*(13)*	*(25)*	*(15)*	*(35)*	*(23)*	*(22)*
YoY growth	5.5%	2.5%	4.9%	3.3%	1.4%	2.5%	3.0%	0.5%	0.6%	2.5%	1.1%	1.2%	2.0%
Operating Margin	**4.7%**	**4.6%**	**4.2%**	**4.5%**	**4.0%**	**4.4%**	**4.3%**	**4.0%**	**4.3%**	**3.8%**	**4.5%**	**4.2%**	**4.1%**
YoY bps change	*(51)*	*(8)*	*(25)*	*2*	*(23)*	*(39)*	*(31)*	*(21)*	*47*	*(15)*	*15*	*(10)*	*(2)*
YoY growth	(9.3%)	1.3%	(1.6%)	(3.7%)	(4.2%)	(6.5%)	(4.1%)	(4.1%)	(2.9%)	(0.6%)	6.4%	(0.1%)	2.5%
Tax Rate	30.6%	32.2%	24.4%	24.8%	26.3%	22.7%	24.5%	24.0%	25.4%	27.3%	27.3%	26.0%	26.5%
Other Key Metrincs													
EBITDA	32,679.0	33,431.0	7,832.0	8,404.0	7,601.0	8,798.0	32,635.0	7,659.0	8,305.0	7,713.1	9,335.4	33,012.4	34,069.8
EBITDA Margin	6.7%	6.7%	6.4%	6.6%	6.1%	6.3%	6.3%	6.2%	6.4%	6.0%	6.5%	6.3%	6.3%
Depreciation & Amortization	10,080.0	10,529.0	2,678.0	2,654.0	2,615.0	2,731.0	10,678.0	2,714.0	2,722.0	2,758.8	2,881.2	11,076.0	11,574.5
Capital Expenditures	10,619.0	10,051.0	1,818.0	2,464.0	2,732.0	3,330.0	10,344.0	2,205.0	2,666.0	2,923.2	3,205.8	11,000.0	11,330.0
Free Cash Flow	20,911.0	18,286.0	3,343.0	3,470.0	3,481.0	7,115.0	17,409.0	1,358.0	4,956.0	916.1	10,486.3	17,716.4	19,314.5
Shares Repurchased	(8,298.0)	(8,296.0)	(539.0)	(1,305.0)	(2,317.0)	(3,249.0)	(7,410.0)	(2,135.0)	(1,572.0)	(2,150.0)	(2,150.0)	(8,007.0)	(8,000.0)

Source: Company reports, and TAG research and estimates.

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.

Investment Risks: Telsey Advisory Group's (TAG's) equity research department covers consumer-focused sectors including apparel manufacturers, cannabis, children's and teen retailers, consumer electronics retailers, cosmetics, department stores, discounters, footwear, home furnishings retailers, home improvement retailers, internet, luxury goods, office supply retailers, off-price retailers, restaurants, specialty apparel retailers, sporting goods retailers, and supermarkets. Risks across or specific to one or more of these sectors include volatility of commodity costs, consumer spending, currency, rising interest rates, weaker consumer confidence and unemployment rates. Additionally, access to capital, supply chain disruptions, commodity costs, private label distribution, currency, geopolitical uncertainty, unfavorable government regulations, lack of appropriate real estate sites, and the use of the World Wide Web to sell merchandise represent unique industry risks.

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Company Specific Disclosures

Walmart Inc. Rating History as of 09/18/2019
powered by: BlueMatrix
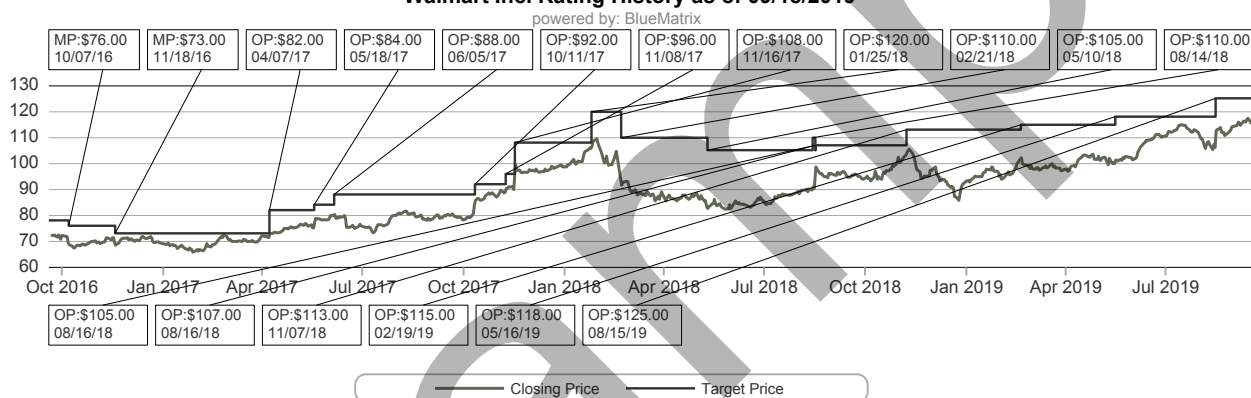
On September 16, 2012 TAG completed a transition from price target ranges to specific price targets. All price target changes prior to September 16, 2012, are displayed as price target averages.

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

Ratings Distribution & Investment Banking Disclosure

Rating	Count	Ratings Distribution	Count	*Investment Banking
OUTPERFORM	30	38.46%	2	6.67%
MARKET PERFORM	47	60.26%	0	0.00%
UNDERPERFORM	1	1.28%	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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