



APRIL 08, 2021

WMT - \$139.80 OUTPERFORM

Price Target (Current) \$162.00

Price Target (Previous) Same

WALMART INC.

WMT - Management Meeting Takeaways

On Wednesday, April 7, we hosted investor meetings with VP of Investor Relations Danial Binder and Senior Director II of Investor Relations Kary Brunner.

TAG View: The Walmart team sounded positive about business trends at the end of 4Q20 and the outlook for 2021. The company reiterated its plan to grow the Walmart US comp and operating income in 2021, despite the strong 2020 performance, although we understand the overall performance remains impacted by the sale of international businesses, including ASDA in the UK and Seiyu in Japan. Walmart US sales should continue to benefit from the following: 1) macro factors, such as an uptick in employment and the US government stimulus checks; 2) lapping headwinds from last year, such as shorter store hours and high out-of-stock levels; and 3) company specific initiatives, such as enhancements to digital and stores, partly offset by difficult COVID-19 related comparisons. In fact, we believe Walmart's near-term results should benefit from the third-round of US government stimulus checks, just like the prior two government payments, and are raising our 1Q21 EPS estimate by \$0.01 to \$1.22, with a higher Walmart US comp of 0.5% vs. (0.5%) previously.

Overall, Walmart US remains focused on maintaining its wide price gaps, rolling out pickup and delivery locations, expanding its Spark last-mile network, growing Walmart + memberships, enhancing merchandising, including discretionary and fashion products, growing the digital marketplace, including third-party (3P), and building its fulfillment network. Sam's Club continues to focus on expanding membership, adding new national brands and private label products, and refreshing the appearance of the store. Internationally, Walmart continues to focus on four key markets—Canada, China, Mexico, and India. In addition to retail and e-commerce, Walmart is working to build a powerful ecosystem, supplemented by advertising, financial services, health and wellness, and merchant services. These new elements of the ecosystem are more profitable than traditional retail operations and collectively should help increase market share and profits. Walmart's flywheel is gaining traction and should result in operating income growth to be faster than sales growth in 2022 and beyond, despite ongoing investments. We maintain our Outperform rating and 12-month price target of \$162, based on applying a P/E multiple of ~28x to our new 2022 EPS estimate of \$5.78.

Regain Market Share: In 2020, Walmart lost market share in select categories, particularly grocery, primarily due to COVID-19 related restrictions, such as shorter store operating hours and one-way entrances, out-of-stock on key items, and unfavorable changes in consumer shopping behavior to smaller/nearer-to-home stores. Furthermore, unlike many retailers, Walmart kept prices low on most items to better serve the customer, but it resulted in greater market share losses in terms of dollars than units. In 3Q20 and 4Q20, Walmart had a positive change in market share, narrowing its losses. In 2021, Walmart should see improvement in its market share as the company laps some COVID-19 restrictions and benefits from its price leadership position, including wider price gaps. Furthermore, as the impact of COVID-19 and stimulus wanes, consumers may re-focus on value and price.

Potential Upside from Stimulus: The Walmart team did not comment on the impact of the third-round of US government stimulus checks, but reminded us that the company has been a beneficiary of the first two rounds of US government stimulus checks in 2020 and early 2021.

Market Statistics	04/07/2021
Market Capitalization (\$MM):	\$394,671.5
Enterprise Value (MM):	\$446,782.5
Shares Outstanding (MM):	2,817.1
Avg. Daily Trading Volume (Shrs, 000s):	9,539.6
Short Interest/Float:	0.5%
Insider Ownership (% of Total Shrs Out):	48.8%
Dividend Yield:	1.6%
Stock Exchange:	NYSE

Price Performance	04/07/2021
52-Week Range:	\$112.34 - \$153.66
YTD % Change:	(2.8)%
YTD % Change Relative to Index:	(11.3)%
Implied Return to Price Target:	15.9%



Valuation Metrics (FYE Jan)	2020	2021E	2022E
P/E Ratio	25.5x	26.2x	24.2x
EV/Sales	0.8x	0.8x	0.8x
EV/EBITDA	13.0x	13.3x	12.6x
FCF Yield (using EV)	6.6%	2.8%	3.6%

Balance Sheet and Growth Metrics	2020	2021E	2022E
Debt/Capitalization	33.6%	34.2%	33.9%
Debt/EBITDA	1.3x	1.4x	1.3x
Adjusted Debt/EBITDAR	1.7x	2.0x	1.9x
ROIC	0.0%	0.0%	0.0%

Same-Store Sales			EPS (Operating)		
Period	Current	Previous	Period	Current	Previous
1Q20	10.0%	-	1Q20	\$1.18	-
2Q20	9.3%	-	2Q20	\$1.56	-
3Q20	6.4%	-	3Q20	\$1.34	-
4Q20	8.6%	-	4Q20	\$1.39	-
2020	8.6%	-	2020	\$5.48	-
1Q21E	0.5%	(0.5)%	1Q21E	\$1.22	\$1.21
2Q21E	0.0%	-	2Q21E	\$1.41	-
3Q21E	3.0%	-	3Q21E	\$1.23	-
4Q21E	3.0%	-	4Q21E	\$1.48	-
2021E	1.6%	1.4%	2021E	\$5.33	\$5.32
1Q22E	4.5%	-	1Q22E	\$1.26	\$1.25
2Q22E	4.0%	-	2Q22E	\$1.58	-
3Q22E	2.0%	-	3Q22E	\$1.37	-
4Q22E	2.0%	-	4Q22E	\$1.58	-
2022E	3.1%	-	2022E	\$5.78	\$5.77

Includes the acquisition of Flipkart.

Walmart US Same-Store Sales.

Source: FactSet, company reports, and TAG estimates.

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Potential Upside from Stimulus (continued): Recall, Walmart's general merchandise sales accelerated in as consumers spent stimulus checks on dining, home decor, lawn & garden, outdoor, and sporting goods. The food business also remained healthy, particularly online grocery. In our view, Walmart, like many other retailers, should see the benefit from the third round of US government stimulus checks—resulting in our decision to modestly raise 1Q21 estimates.

Port Congestion/Supply Chain: Like many retailers, Walmart has experienced some supply-chain headwinds related to the West Coast port congestion. That said, Walmart's large scale and its ability to divert ships to nearby ports—supported by its superior supply chain and logistics network—continues to ensure the company receives products on time. In addition, Walmart does not see any major supply chain issues related to the recent Suez Canal blockage.

Digital Gaining Traction: In 2020, Walmart US digital sales increased 79% to ~\$43B, representing 11.6% of segment sales. In 2021, Walmart aims to grow the business by integrating functionality in its app, enhancing its website, expanding pickup (~3,750 locations in 2020) and delivery (~3,000 locations in 2020), offering a wider assortment of general merchandise items via pickup, growing its third-party marketplace assortment, and increasing fulfillment capacity and speed. Walmart also remains focused on improving the quality and service levels of its Walmart + membership program, which should allow it to build loyalty, acquire new customers, and better leverage data. The company continues to build its Spark delivery network and partner with third-party providers to offer last mile delivery. At the back end, Walmart continues to automate store and distribution center processes, as well as rollout market fulfillment centers (aka micro-fulfillment centers) in over 100 locations over the next couple of years. In addition, the company is expanding the use of apps, such as Ask Sam to improve productivity.

Importantly, Walmart indicated that e-commerce profitability should continue to show improvement, driven by a more favorable product mix shift toward general merchandise items and third-party marketplace products, reduced variable cost per unit due in part to automation of operations, leverage of fixed costs, and the benefit from monetization of data and advertising.

Alternative Businesses: Walmart aims to increase its focus on high-margin alternative businesses—advertising, financial services, healthcare, fulfillment services, data analytics—to fuel sales and profits. The company is particularly bullish on advertising, noting that it should be the biggest needle mover in the short term, with potential to be a multi-billion dollar business over time. To generate advertising revenues, Walmart plans to leverage its website and app with targeted digital advertisements and buy buttons, self-checkout stations, and other parts of the store. Ultimately, Walmart Connect aims to help accounts to maximize their marketing decisions. As it relates to data analytics, Walmart is improving the way it collects and presents data to CPG partners, helping them make better and more targeted advertising and promotional decisions. Walmart also is optimistic about its potential to gain share in healthcare. The company currently has over 20 health clinics, and it continues to fine-tune the model by adjusting pricing, staffing, type of care (primary vs. pre-care), and location (on-site vs. pre-fabricated). Walmart plans to open dozens of health clinics in 2021.

Sam's Club Update: The company remains pleased with the success of Sam's Club sales and membership in 2020. At Sam's Club, the company continues to work on several initiatives. For example, Sam's Club added over 200 brands, including Beyond Meat and Casper, in 2020 and plans to add more brands in 2021, along with ongoing expansion of its private brand Member's Mark. In addition, the company is on a multi-year journey to refresh its stores. Key changes include: 1) walk-in coolers to be expanded beyond the core grocery area; 2) new category signage; 3) new signage and a dedicated checkout lane for Scan & Go; and 4) more omnichannel capabilities. On the 4Q20 earnings call, the company indicated that this new format is live in 56 locations, with plans to roll it out across half the store base by the end of 2021 and the entire chain by the end of 2022.

2021 Outlook: Walmart did not offer any updated information about trends in the current quarter and referred to the guidance provided at its analyst day on February 18, 2021.

- > **Sales:** The company expects Walmart US and Sam's Club, ex-fuel, to generate same-store sales of +LSD in 2021. Although Walmart is lapping difficult comparisons in every quarter of 2021, there are several drivers to help offset them, including: 1) the third round of US government stimulus payments; 2) more store operating hours, given Walmart Supercenters

now close at 11:00 pm vs. 8:30 pm in March-August 2020 and 10:00 pm in August-November 2020; 3) better in-stocks relative to last year; and 4) the reopening of second store entrances. In addition, Walmart will be lapping the traffic headwind from many customers choosing to shop at smaller, neighborhood grocers in 2020.

> **Earnings:** Walmart's 2021 outlook calls for EPS to be down slightly YoY (flat to up slightly in 1Q21, down MSD-HSD in 2Q21 and 3Q21, and up MSD-HSD in 4Q21) vs. \$5.48 in 2020, including headwinds from the sale of ASDA (~\$0.20) and Seiyu businesses, accelerated investments, and difficult comparisons. These investments include labor, supply chain, technology, and e-commerce. As it relates to labor, Walmart raised base hourly wages for 165,000 employees in October 2020 and another 425,000 in February 2021. As a result, roughly half its workforce in the US is now earning \$15+ per hour. In pricing, Walmart is confident that its consistent price investments over the past several years positions the company well against competitors, even if promotions across the industry pick up in 2021, which is a likely scenario. The company plans to leverage its scale to effectively negotiate with suppliers and offset some inflationary pressure in 2021.

WAL-MART STORES, INC. - MODEL SUMMARY

	2015 TOTAL	2018 TOTAL	1Q19 APR	2Q19 JUL	3Q19 OCT	4Q19 JAN	2019 TOTAL	1Q20 APR	2Q20 JUL	3Q20 OCT	4Q20 JAN	2020 TOTAL	1Q21E APR	2Q21E JUL	3Q21E OCT	4Q21E JAN	2021E TOTAL	2022E TOTAL
Income Statement Highlights																		
Wal-Mart Stores	298,378.0	331,666.0	80,344.0	85,200.0	83,189.0	92,271.0	341,004.0	88,743.0	93,282.0	88,353.0	99,586.0	369,963.0	89,408.6	93,615.2	91,224.5	102,821.5	376,969.8	389,557.1
Sam's Club	56,828.0	57,839.0	13,830.0	15,049.0	14,625.0	15,288.0	58,792.0	15,163.0	16,375.0	15,845.0	16,527.0	63,910.0	15,238.8	16,293.1	16,241.1	17,105.4	64,878.5	68,258.4
International	123,408.0	120,824.0	28,775.0	29,139.0	29,167.0	33,049.0	120,130.0	29,766.0	27,167.0	29,554.0	34,873.0	121,360.0	24,110.5	20,918.6	21,278.9	24,411.1	90,719.0	95,565.5
Other	3,516.0	4,076.0	976.0	989.0	1,010.0	1,063.0	4,038.0	950.0	918.0	956.0	1,094.0	3,818.0	978.5	973.1	994.2	1,137.8	4,083.6	4,246.9
Total Sales	482,130.0	514,405.0	123,925.0	130,377.0	127,991.0	141,671.0	523,964.0	134,622.0	137,742.0	134,708.0	152,079.0	559,151.0	129,736.3	131,700.0	129,738.7	145,475.8	536,650.9	557,627.9
Total Gross Profit	117,630.0	125,028.0	29,915.0	31,465.0	31,081.0	32,860.0	125,321.0	31,646.0	34,135.0	33,413.0	35,724.0	134,918.0	30,753.0	32,352.4	31,930.3	34,295.6	129,331.4	134,541.5
Total SG&A Expenses	96,230.0	107,147.0	25,946.0	26,871.0	27,086.9	28,001.0	107,904.9	27,372.0	28,537.0	28,591.0	31,156.0	115,856.0	26,623.2	27,526.8	27,842.4	29,423.5	111,416.0	115,450.8
Total Operating Income	24,916.0	21,957.0	4,945.0	5,583.0	5,004.1	5,922.0	21,454.1	5,224.0	6,516.0	5,778.0	5,662.0	23,180.0	5,108.3	5,798.7	5,082.1	6,009.8	21,988.9	23,337.6
Pretax Income	22,449.0	19,828.0	4,377.7	4,970.0	4,415.1	5,311.0	19,073.8	4,646.0	5,881.0	5,262.0	5,168.0	20,957.0	4,594.0	5,292.9	4,587.9	5,498.7	19,973.6	21,337.7
Taxes (Benefit)	7,272.9	4,852.2	1,049.0	1,260.0	1,062.1	1,207.7	4,578.8	1,186.7	1,466.5	1,324.3	1,143.0	5,120.4	1,148.5	1,323.2	1,147.0	1,374.7	4,993.4	5,334.4
Net Income	14,790.1	14,466.8	3,264.7	3,640.0	3,320.0	3,950.3	14,175.0	3,375.3	4,451.5	3,871.7	3,942.0	15,640.5	3,425.5	3,964.7	3,430.9	4,114.0	14,935.2	15,943.3
Diluted Shares Outstanding	3,237.5	2,945.5	2,886.0	2,869.0	2,861.0	2,855.0	2,867.8	2,849.0	2,840.0	2,849.0	2,826.0	2,847.0	2,816.0	2,806.0	2,796.9	2,787.8	2,801.7	2,757.5
Diluted EPS	\$4.57	\$4.91	\$1.13	\$1.27	\$1.16	\$1.38	\$4.94	\$1.18	\$1.56	\$1.34	\$1.39	\$5.48	\$1.22	\$1.41	\$1.23	\$1.48	\$5.33	\$5.78
YoY change	(9.8%)	11.6%	(0.9%)	(1.4%)	7.5%	(1.6%)	0.6%	4.7%	23.2%	15.9%	0.8%	10.9%	2.7%	(9.6%)	(8.8%)	5.8%	(2.8%)	8.5%
Select Growth Rates and Margins																		
Wal-Mart Stores	3.6%	4.1%	3.3%	2.9%	3.2%	1.9%	2.8%	10.5%	9.5%	6.2%	7.9%	8.5%	0.8%	0.2%	3.3%	3.3%	1.9%	3.3%
Sam's Club	(2.1%)	(2.3%)	1.5%	1.8%	0.7%	2.6%	1.6%	9.6%	8.8%	8.3%	8.1%	8.7%	0.5%	(0.5%)	2.5%	3.5%	1.5%	5.2%
International	(9.4%)	2.3%	(4.9%)	(1.1%)	1.3%	2.3%	(0.6%)	3.4%	(6.8%)	1.3%	5.5%	1.0%	(19.0%)	(23.0%)	(28.0%)	(30.0%)	(25.2%)	5.3%
Total Sales	(0.7%)	2.8%	1.0%	1.8%	2.5%	2.1%	1.9%	8.6%	5.6%	5.2%	7.3%	6.7%	(3.6%)	(4.4%)	(3.7%)	(4.3%)	(4.0%)	3.9%
Walmart Store Comp	1.2%	3.6%	3.4%	2.8%	3.2%	1.9%	2.8%	10.0%	9.3%	6.4%	8.6%	8.6%	0.5%	0.0%	3.0%	3.0%	1.6%	3.1%
Sam's Club (ex-fuel) comp	0.4%	3.8%	0.3%	1.2%	0.8%	0.8%	0.7%	12.0%	13.3%	11.1%	10.8%	11.8%	0.0%	(1.0%)	2.0%	3.0%	1.0%	5.0%
Retail Gross Margin	24.6%	24.5%	24.3%	24.3%	24.5%	23.4%	24.1%	23.7%	24.9%	25.0%	23.7%	24.3%	23.1%	24.7%	24.8%	23.8%	24.3%	24.3%
YoY bps change	29	(18)	(27)	(46)	(37)	(47)	(40)	(66)	63	50	29	20	21	(20)	(18)	10	(1)	3
SG&A Ratio	20.1%	21.0%	21.1%	20.8%	21.3%	19.9%	20.8%	20.5%	20.9%	21.4%	20.6%	20.8%	20.7%	21.1%	21.6%	20.4%	20.9%	20.9%
YoY bps change	81	1	(13)	(25)	(29)	(28)	(24)	(63)	9	4	72	8	20	20	25	(25)	9	(6)
YoY growth	3.4%	3.0%	0.5%	0.6%	1.1%	0.7%	0.7%	5.5%	6.2%	5.6%	11.3%	7.2%	-2.7%	-3.5%	-2.6%	-5.6%	-3.7%	3.6%
Operating Margin	5.2%	4.3%	4.0%	4.3%	3.9%	4.2%	4.1%	3.9%	4.7%	4.3%	3.7%	4.1%	3.9%	4.4%	3.9%	4.1%	4.1%	4.2%
YoY bps change	(50)	(31)	(21)	47	(8)	(19)	(17)	(11)	48	38	(46)	5	6	(33)	(37)	41	(5)	9
YoY growth	(9.4%)	(4.1%)	(4.1%)	(2.9%)	0.4%	(2.4%)	(2.3%)	5.8%	16.7%	15.5%	(4.4%)	8.0%	(2.2%)	(11.0%)	(12.0%)	6.1%	(5.1%)	6.1%
Tax Rate	32.4%	24.5%	24.0%	25.4%	24.1%	22.7%	24.0%	25.5%	24.9%	25.2%	22.1%	24.4%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Other Key Metrics																		
EBITDA	34,370.0	32,635.0	7,659.0	8,305.0	7,727.1	8,750.0	32,441.1	8,015.0	9,287.0	8,549.0	8,481.0	34,332.0	8,024.8	8,694.4	7,977.8	8,955.7	33,652.8	35,515.9
EBITDA Margin	7.1%	6.3%	6.2%	6.4%	6.0%	6.2%	6.2%	6.0%	6.7%	6.3%	5.6%	6.1%	6.2%	6.6%	6.1%	6.2%	6.3%	6.4%
Depreciation & Amortization	9,454.0	10,678.0	2,714.0	2,722.0	2,723.0	2,828.0	10,987.0	2,791.0	2,771.0	2,771.0	2,819.0	11,152.0	2,916.6	2,895.7	2,895.7	2,945.9	11,653.8	12,178.3
Capital Expenditures	11,477.0	10,344.0	2,205.0	2,666.0	2,894.0	2,940.0	10,705.0	1,752.0	1,817.0	2,869.0	3,826.0	10,264.0	2,803.2	2,907.2	4,016.6	4,273.0	14,000.0	14,536.2

Note: Our Estimates excludes ASDS and Seiyu in 2021
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.

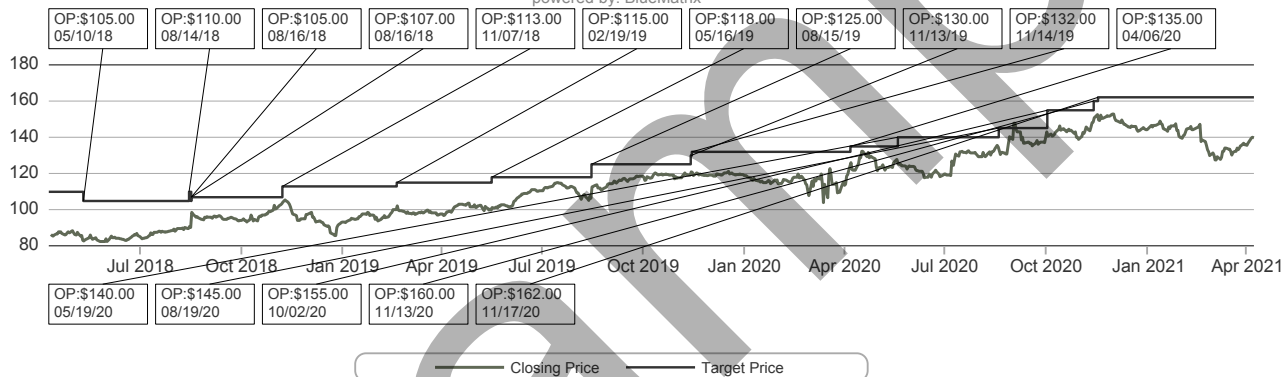
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Analyst Certification

The Research Analysts, Joseph Feldman, Sarang Vora, CFA, Cristina Fernández, CPA and Zeyn Burak, who prepared the research report hereby certify that the views expressed in this report accurately reflect the Analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Company Specific Disclosures**Walmart Inc. Rating History as of 04/07/2021**

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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	45	56.96%	6	13.33%
MARKET PERFORM	33	41.77%	0	0.00%
UNDERPERFORM	1	1.27%	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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See company-specific regulatory disclosures above for any of the following disclosures required as to companies referred to in this report: manager or co-manager in a pending transaction; 1% or other ownership; compensation for certain services; types of client relationships; managed/co-managed public offerings in prior periods; directorships; market making and/or specialist role.

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