Walmart is the world's largest retailer, operating retail stores under the formats of Walmart Stores, Supercenters, Neighborhood Markets and Sam's Club locations in the United States as well as a growing ecommerce business. Internationally Wal-Mart also operates locations in several countries, including Canada, China & Mexico.

Name	Ticker	Yield	Growth	D + G
Walmart Inc.	WMT	1.70%	8.50%	10.20%

Highlights:

Our view on WMT is subject to a number of macroeconomic and company specific factors that, on the upside, include better-than-expected top-line growth and/ or margin expansion in the U.S. stemming from its strategic initiatives; International operating margin and/or ROIC that improves faster than our forecast; weakening of the dollar against other major currencies would benefit revenue and operating profit; and higher-than expected square footage growth in the U.S. and/or abroad. Moreover, a recession could drive an investor flight to safety, positively impacting WMT's stock performance via absolute and / or relative P/E multiple expansion.

Bull Case:

- ***Playing Offense -*** Staying ahead of consumer demands and expectations is what great retailers do. Efforts to broaden the online assortment (expanding Marketplace), improve the customer value proposition (Walmart+), and enhance convenience (pickup/delivery) have helped fuel impressive ecommerce growth. Further, the step- up in capex in recent years (to build increased supply chain/fulfillment capacity, scale automation in its DCs/ FCs, and further modernize the company's technology stack/capabilities), should extend WMT's omni-channel leadership in the marketplace and fuel faster (and more profitable) growth over the intermediate/long-term.
- ***Runway for Earnings Growth -*** Management's goal of growing EBIT faster than sales (4%+) has been reaffirmed over the past few quarters, but CFO John David Rainey alluded to an upside case in which EBIT grows 2x the rate of sales. Of note, gross margin is expected to meet/exceed prior peak (while maintaining price gaps), and WMT expects to reach enterprise level ecommerce profitability in the next few years. Importantly, ROIC is expected to improve over the next several years given high visibility into payback from investments.
- ***WMT Is the Value Leader and an Outsized Trade-Down Beneficiary -*** We believe Walmart is likely to benefit meaningfully from a consumer trade-down given a notable lift in comps during the last recession. And given the heavy inflationary pressure on the consumer, we believe WMT's price leadership is more important for gaining market share now than in prior years. To this end, WMT comp sales show a 37% correlation with Food at Home inflation. Additionally, we view WMT's inventory position as better than that of other retailers given significant early clearance efforts by the company this quarter and carrying into next quarter. Furthermore, we think WMT's strong mix of food sales (~56% of sales) likely underpins the company's margin profile and provides stability, particularly vs peers that may experience larger mix shift headwinds as consumers shift more towards needs-based spending.

Bear Case:

- ***The Stock Has Great Expectations –*** One of our biggest concerns is sales growth. WMT is a $611B company as of FY23 and it's hard to move a needle that big. We're skeptical about the company's ability to deliver mid-single digit topline over time. With that said, if recent staples-driven traffic gains prove sticky and shoppers make their way over to the general merchandise side of the store, we may well be seeing an emerging path to WMT's long-term aspiration.
- ***Economic Conditions*** - A contraction in consumer spending resulting from macro factors such as higher interest rates, rising fuel/energy costs, weakness in the housing market, and increased unemployment could negatively impact sales, especially given WMT's heavy exposure to low-income consumers.
- ***Headline Media Risk*** - Given the size, scale, and global reach of WMT, the company's actions and operations are often subject to strict media scrutiny. Any such "negative press" could negatively impact the price of WMT common stock.

Overall Thesis:

In late 2013, Walmart management made the tough decision that sustained reinvestment was necessary to re-establish competitive positioning. While this was a painful exercise (as margins re-based lower), the company emerged stronger and now has a much more sustainable top-line outlook, in our view. We also believe the company is pivoting investment spend away from the operating expense line (wages + price) and toward capex (automation). This paired with continued cost discipline and alternative profit streams (Walmart Connect + Marketplace) should allow for both operating margin expansion and a steady improvement in ROIC. We believe WMT's omni-channel transformation in the US will continue to gain momentum and support more sustainable and predictable positive same-store sales and traffic at US Supercenters and US ecommerce and gross merchandise value ("GMV") growth that should support P/E multiple expansion.

Walmart

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