

The Wolves of Court Street

# Walmart

# Background History



- 1962- Founded by Sam Walton in Rogers, Arkansas
- 1970- It became a publically traded company
- 1980- First Sam's Club opened
- 1987- Installed the largest private satellite communication system to link the company
- 1991- Walmart went global by opening a Sam's Club in Mexico
- 1994- Expanded into China
- 1999- Expanded into the UK
- 2014- More than 11,000 stores in 27 countries

**Walmart**



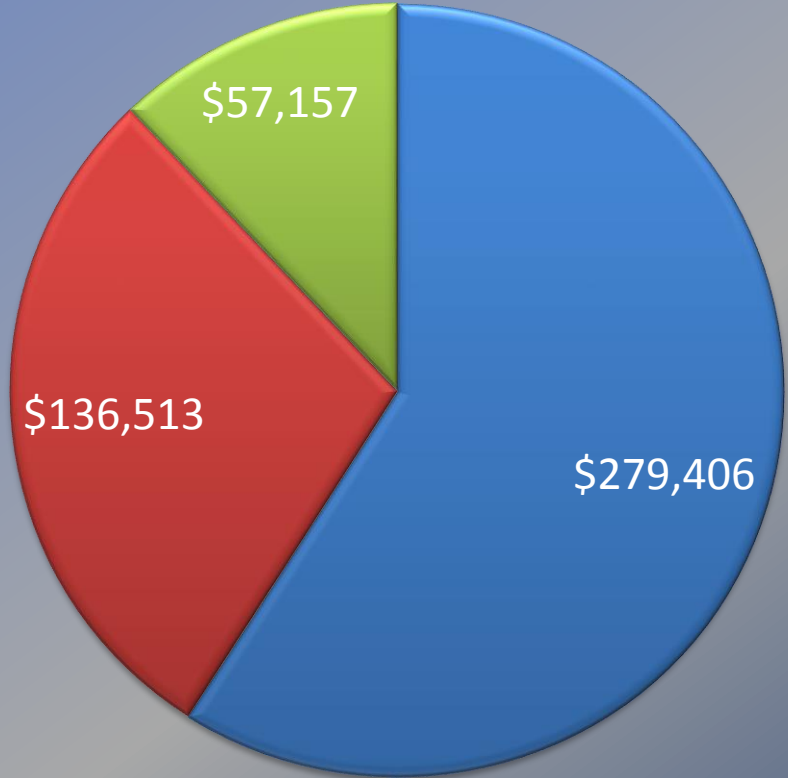
# Storefronts



# Walmart

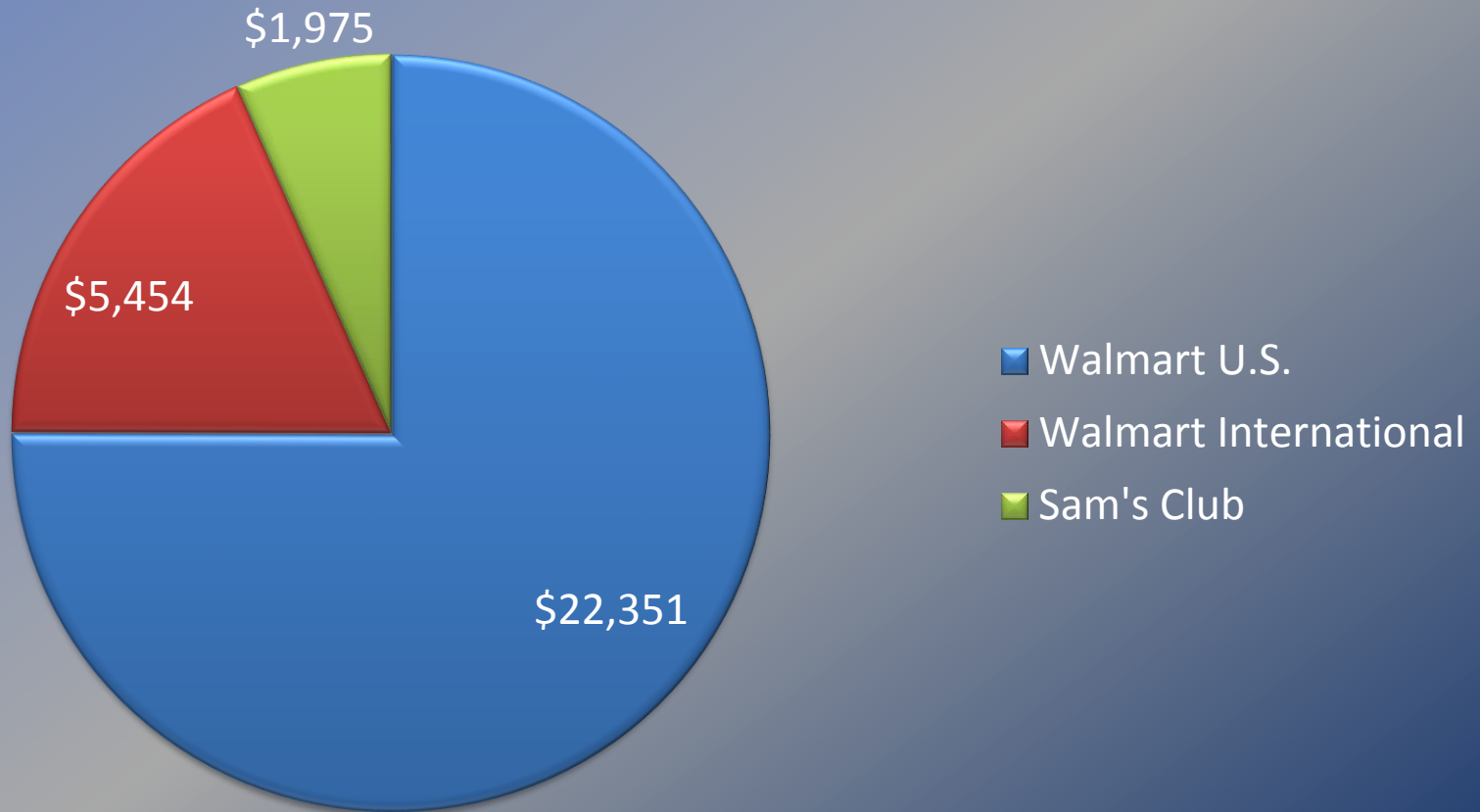
# Sales Breakdown – Geography

(in millions)



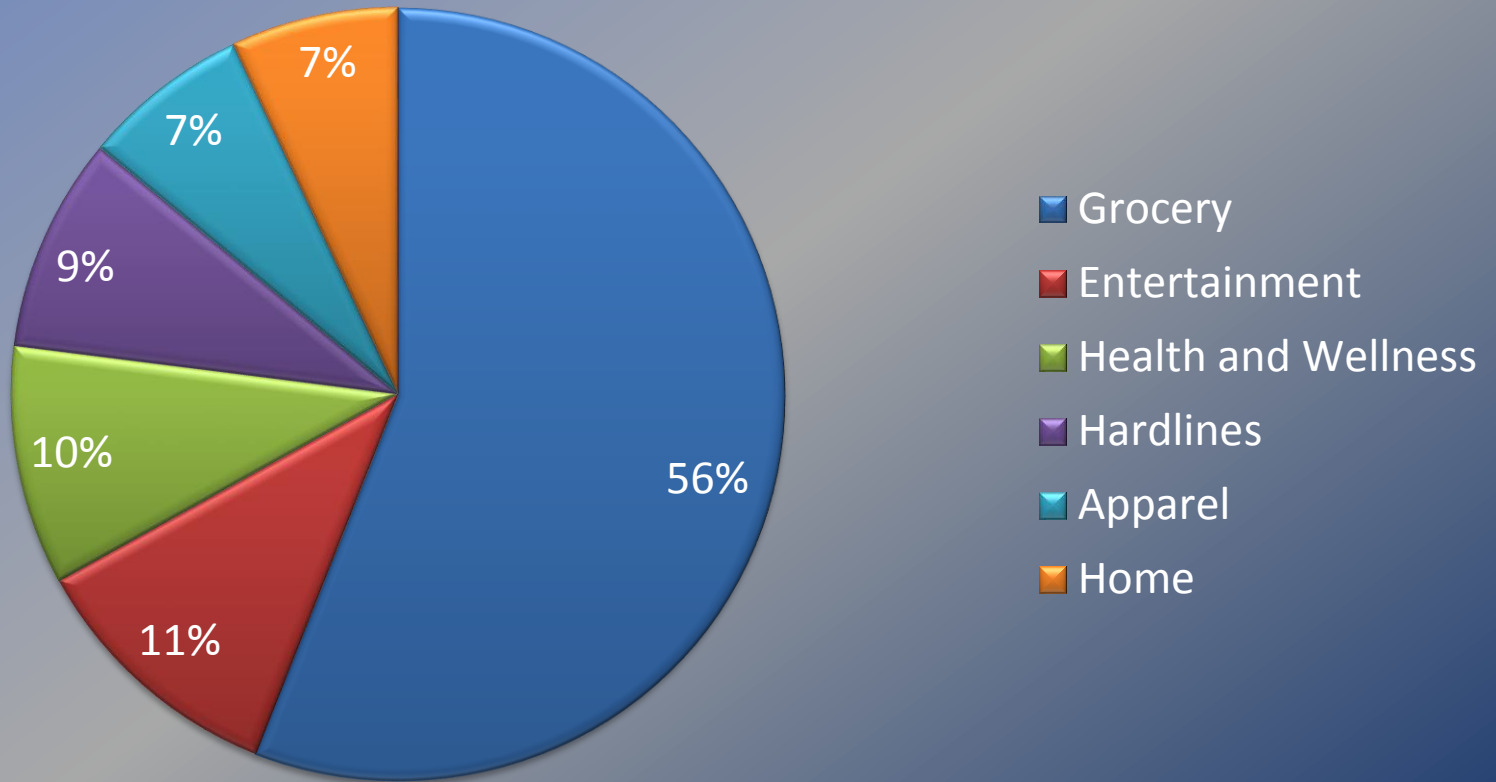
- Walmart U.S.
- Walmart International
- Sam's Club

# Operating Income (in Millions)



# Walmart

# Sales breakdown – by product



**Walmart**

# Establishing a Competitive Advantage



Insider ownership

Size

Infrastructure

**Walmart**



# Insider Ownership

Officers and Directors own 50.6% shares outstanding

Insiders have large stake in company better aligning goals of business with shareholders' goals

Berkshire Hathaway

– Owns 1.82% outstanding

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# Size



90 percent of all Americans live within 15 miles of a Walmart

More than 6,100 retail units operated in 26 countries

Nearly four times the size of The Home Depot, the country's second largest retailer

Almost twice the size of Target, Costco, and Sears (which includes Kmart) combined

# Walmart



# Infrastructure

‘Walmart is a logistics company’

- Dave Sather

10,900 distribution points worldwide

Most stores lie within 400 miles of distribution center

- Able to move stuff from warehouse to store more efficiently than any competitor due to scale and organization

# Walmart



# Infrastructure

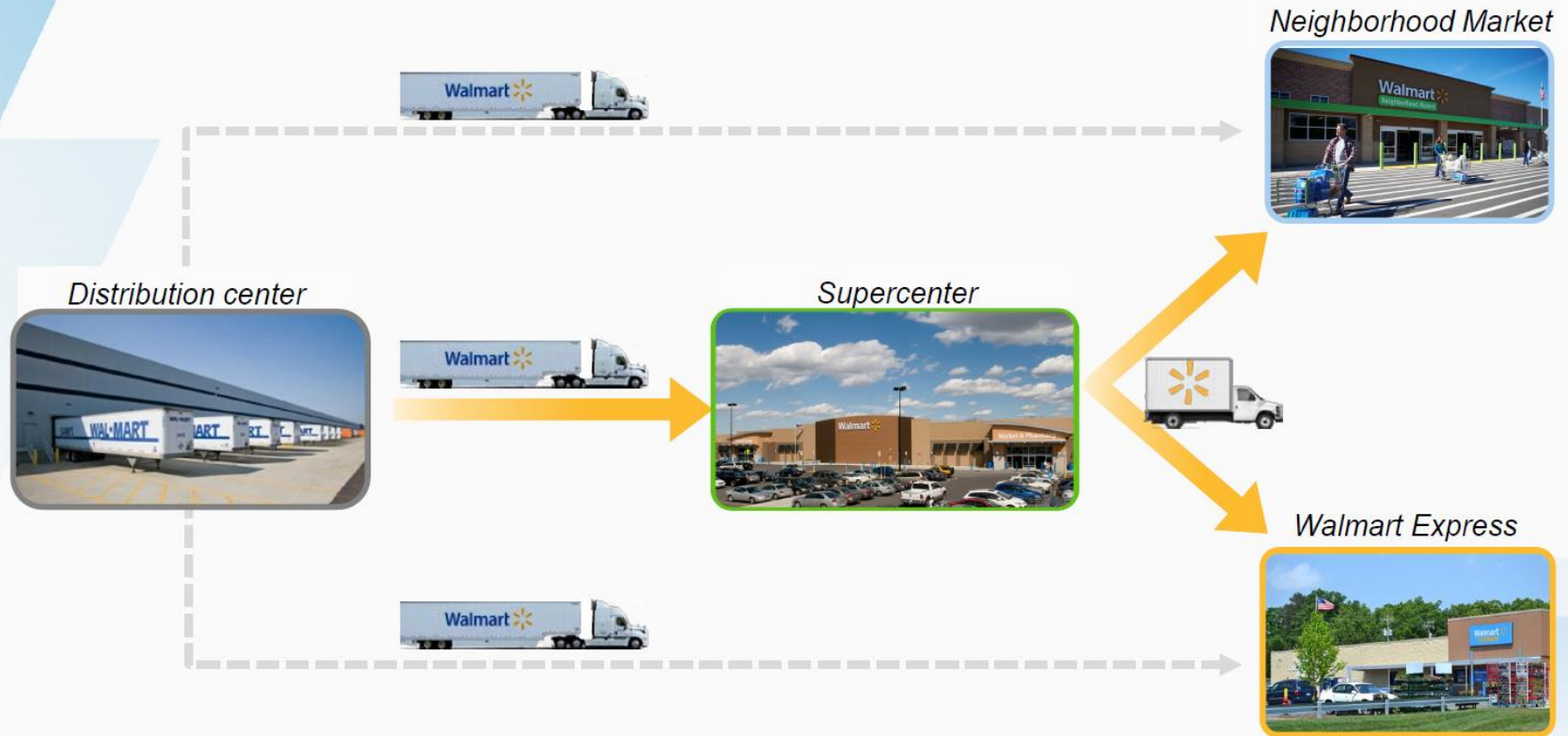
Owns 104 of the 132 Domestic Distribution Centers used in Fiscal 2014

Owns 53 of the 151 International Distribution Centers

Sam's Club's Distribution Centers utilize Cross-Docking → inventory sits less than 24 hours in warehouse

**Walmart**

# Blending Size and Infrastructure



# Walmart



# Risk Factors

Domestic/International economic downturns

Failure to retain qualified personnel

Supplier risk

Technology based systems

Ability to not identify consumer trends

Legal Proceedings\*

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# Lawsuit

Negative publicity with Tracy Morgan lawsuit

Walmart driver hit Tracy Morgan

Disproportionate headlines

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# News



Beginning to offer checking accounts

Green Dot targets middle to lower income families (ideal for Walmart's customer base)

\$89 billion untapped market

It is smartphone based

# Walmart

# News



Kevin Systrom appointed to Board of Directors

CEO of Instagram

Better communication with customers through social media

Also will try to grow the eCommerce

# Walmart





# Acquisitions

## **Stylr**

Helps people online shop as well

## **Adchemy**

Purchased to help Walmart search engine

Also will help with Walmart classification system

**2014 – Over \$10 billion spent on acquisitions for eCommerce**

# Walmart



# Growth

eCommerce

Next year, plans 200 new Neighborhood Markets in Mexico

Expects to open 110 facilities by 2016

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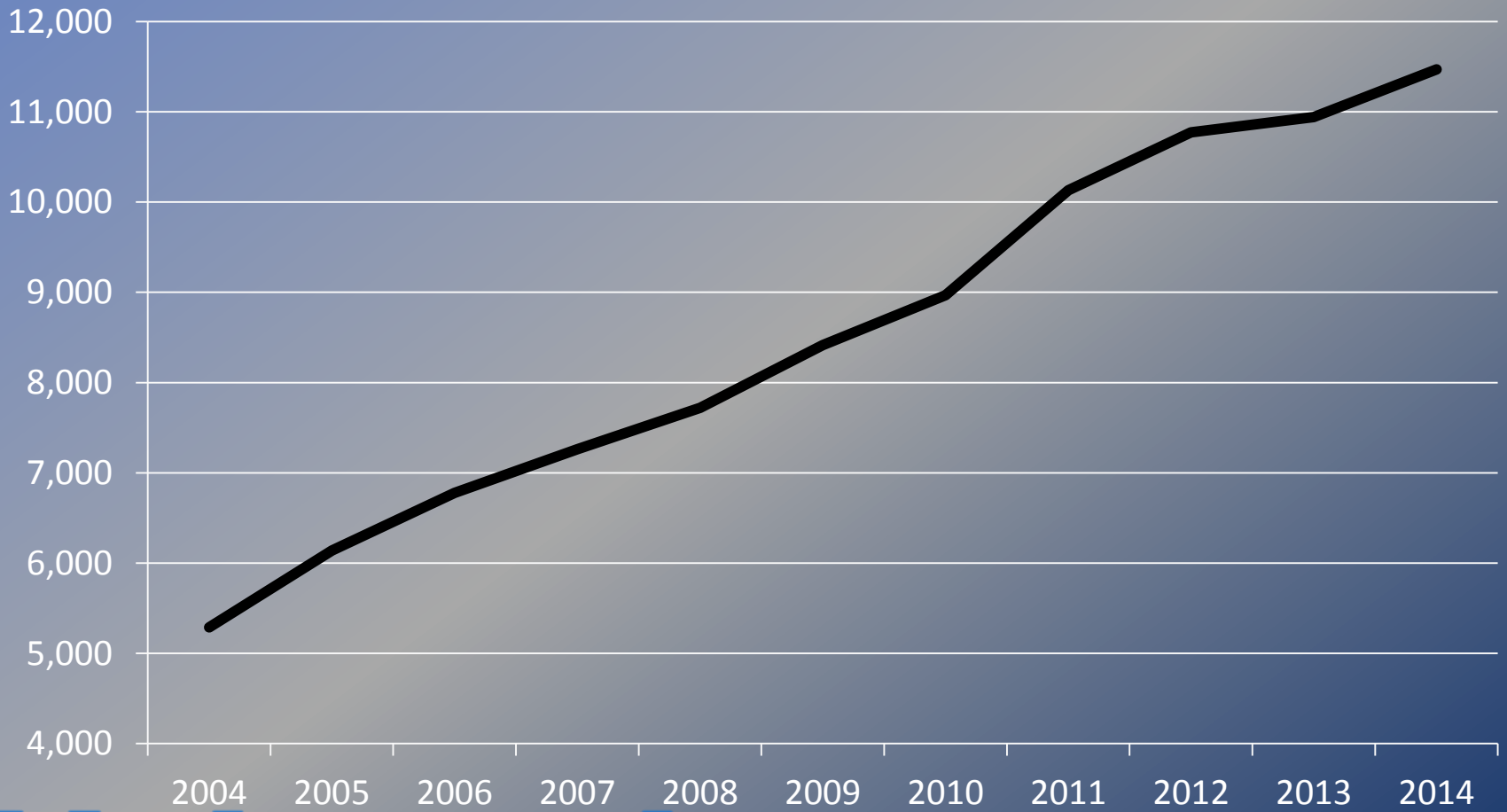


# eCommerce

- Global eCommerce footprint spans 10 countries
- Grew eCommerce sales in Brazil and China at nearly twice the market rate
- Pangaea
- Polaris

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# Number of Stores



**Walmart**



# Growth in 2014

Consolidated net sales increased \$7.5 billion to more than \$473 billion

Operating income grew 4% on a net sales increase of \$5 billion (Walmart US)

Net sales increased 1.3% to more than \$136 billion (Walmart International)

Global annual eCommerce sales rose about the \$10 billion mark (30% increase)

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# Shareholder Growth vs. Walmart Growth



If Walmart fails to grow (which it likely will grow) – still a logical and sound investment

Dividend Yield

– 2.5%

Share repurchases

– Cut shares outstanding nearly by 1/3 last decade

That produces around a 4% return per year

# Walmart

# Global Sustainability Campaign

- Encompasses corporate efforts related to:
  - Workplace
  - Compliance and sourcing
  - Social and Environmental Responsibility
  - All while still benefiting individual markets

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# Walmart Healthier Food Commitments



1. Reformulate thousands of everyday packaged food items by end of 2015.
2. Save customers money on healthier food.
3. Launch a simple front-of-package icon backed by strong nutritional criteria.
4. Open Walmart stores in food deserts by 2016.
5. Increase charitable support for nutrition programs.

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# Great for You



- Faster way to help customers identify healthier food options on own brand items
- Tools to help customers put Great for You into action
- Icon has been made available to national brand companies



Walmart

# Energy Commitments



1. Be supplied by 100% renewable energy.
2. Double fleet efficiency in the US by October 2015.
3. Reduce total kWh-per-square-foot energy intensity required to power buildings by 20% by Dec. 31, 2020.
4. Drive production or procurement of 7 billion kWh of renewable energy globally by Dec. 31, 2020. (Increase of 600+% vs. 2010)

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# Quantitative Analysis

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# Buffettology



Metric TTM	Value	Threshold	Pass?
Gross Profit Margin	24.79%	$\geq 20\%$	Yes
% SGA	77.67%	$\leq 80\%$	Yes
% R&D	0%	$\leq 10\%$	Yes
% Depreciation	7.55%	$\leq 10\%$	Yes
Interest % of OP	8.78%	$\leq 15\%$	Yes
Net Profit Margin	3.30%	$\geq 10\%$	No
Current Ratio	0.89	$\geq 1$	No
Obligation Ratio	4.07 Years	< 5 years	Yes (including Leases) (No Pensions or Preferred)

# Walmart

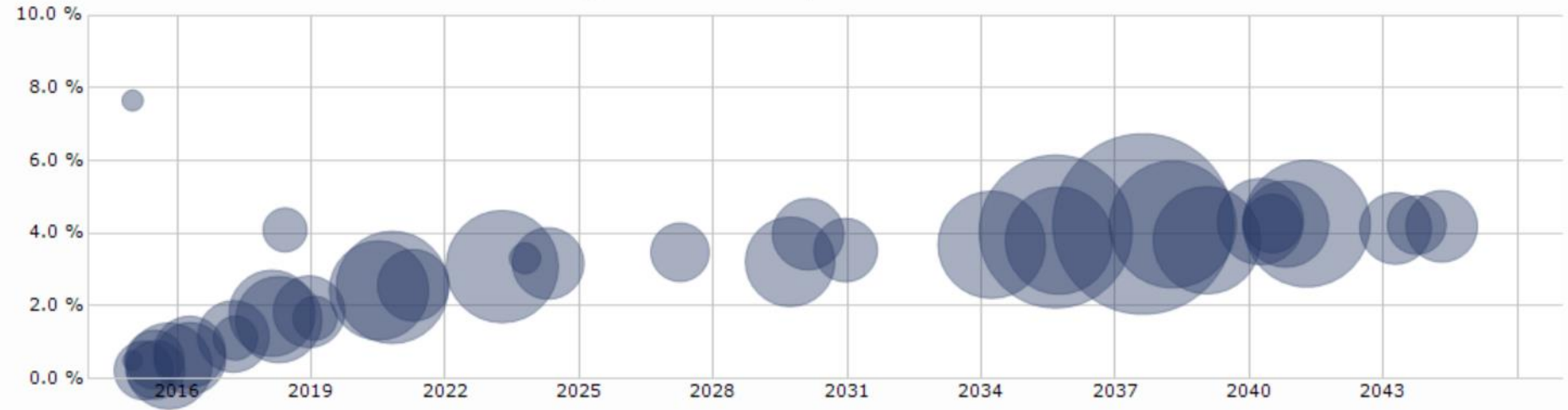
# Long-term Debt Structure



## Yield to Maturity

● Debt ● Preferred ● Convertible

● ● ● Circle size determined by issue amount



# Walmart



# Long-term Debt Structure

	Maturity Date	Amount \$(Mil)
Wal-Mart Stores 6.5%	8/15/2037	3,000.00
Wal-Mart Stores 5.25%	9/1/2035	2,500.00
Wal-Mart Stores 5.625%	4/15/2041	2,000.00
Wal-Mart Stores 6.2%	4/15/2038	2,000.00
Wal-Mart Stores 3.25%	10/25/2020	1,750.00
Wal-Mart Stores 2.55%	4/11/2023	1,750.00
Wal-Mart Stores In 5.25%	9/28/2035	1,660.70
Wal-Mart Stores In 4.875%	1/19/2039	1,660.70
Wal-Mart Stores In 5.625%	3/27/2034	1,660.70
Wal-Mart Stores 3.625%	7/8/2020	1,500.00

# More Buffettology



Metric TTM	Value	Threshold	Pass?
Return on Equity	20.39%	$\geq 15\%$	Yes
Return on Capital	12.84%	$\geq 15\%$	No
Dividend Payout Ratio	43.17%	$\leq 60\%$	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	76.71%	$\leq 25\%$	No
Net Earning Trend		Up	Yes
Retained Earnings Trend		Up	Yes

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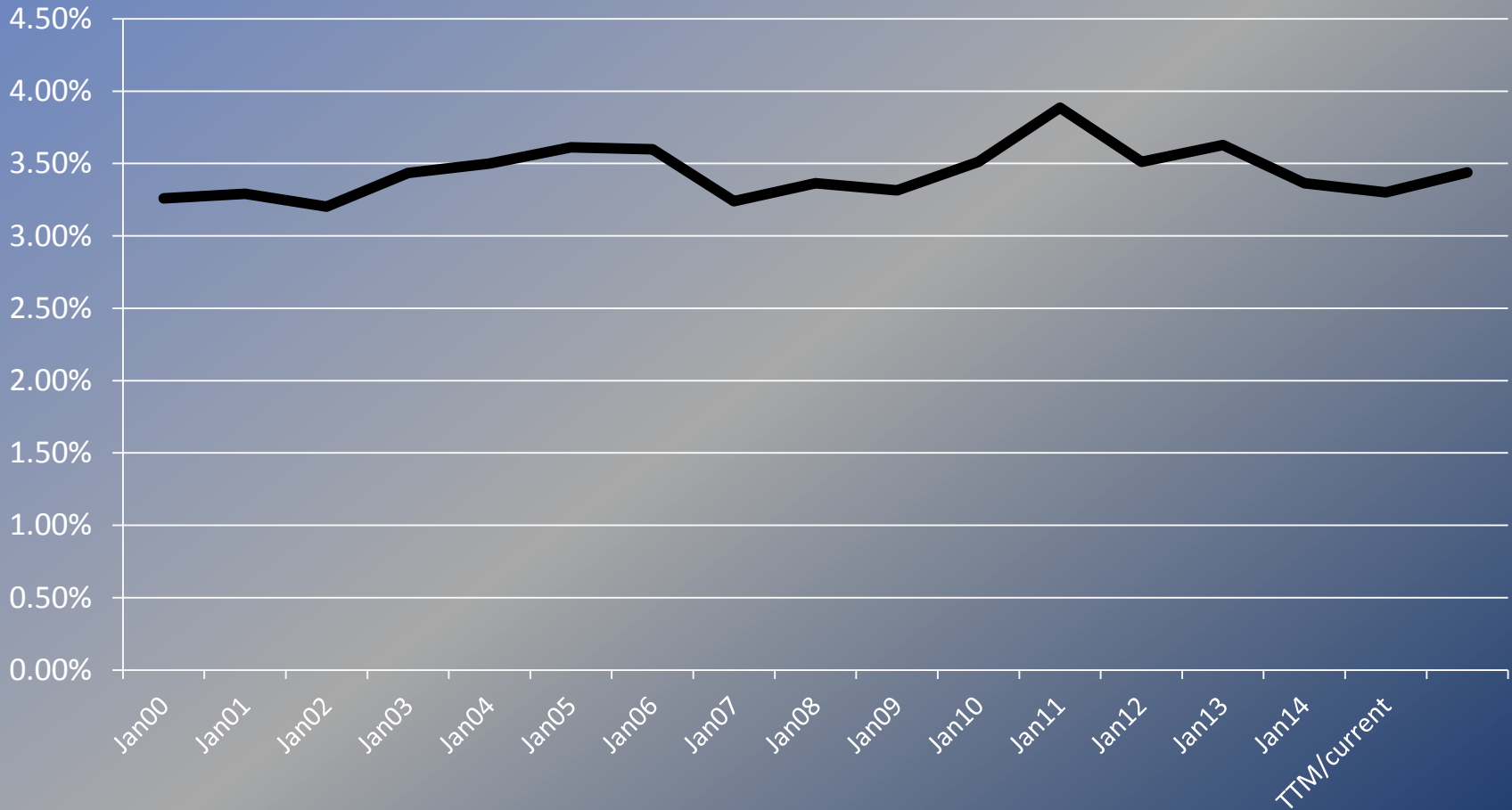
# Interpretation of Financial Statements



Trend	Increasing?	Trend	Increasing?
Sales per Share	Yes	Operating Profit Margin	Stable
Cashflows per Share	Yes	Number of Stores	Yes
Earnings per Share	Yes	Net Profit	Yes
Dividends Declared per Share	Yes	Net Profit Margin	Stable
Book Value per Share	Yes	Working Capital	No*
Revenues (Sales)	Yes	Shareholder's Equity	Yes
Gross Profit Margin	Stable	Return on Total Capital	Stable

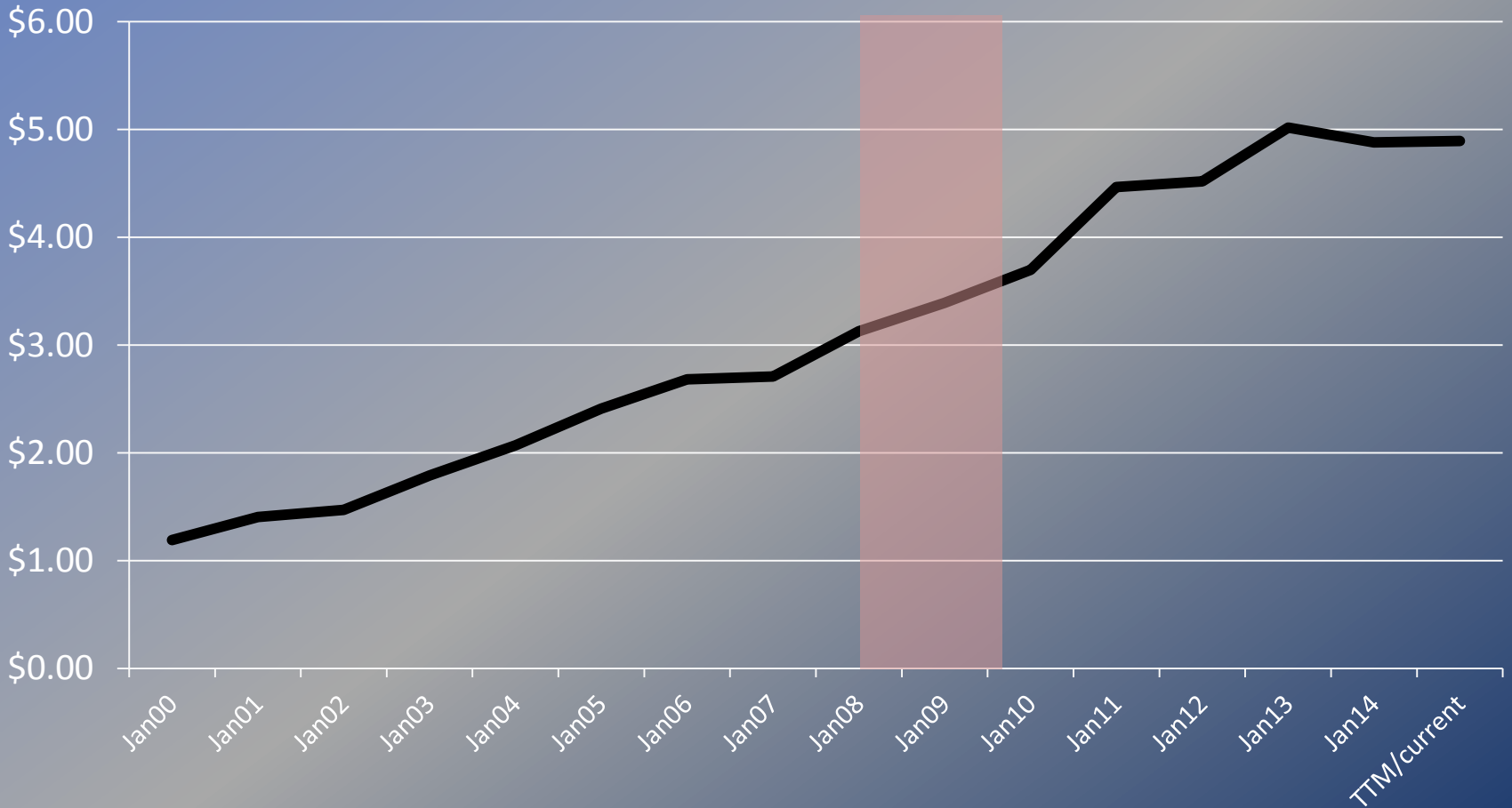


# Net Profit Margin



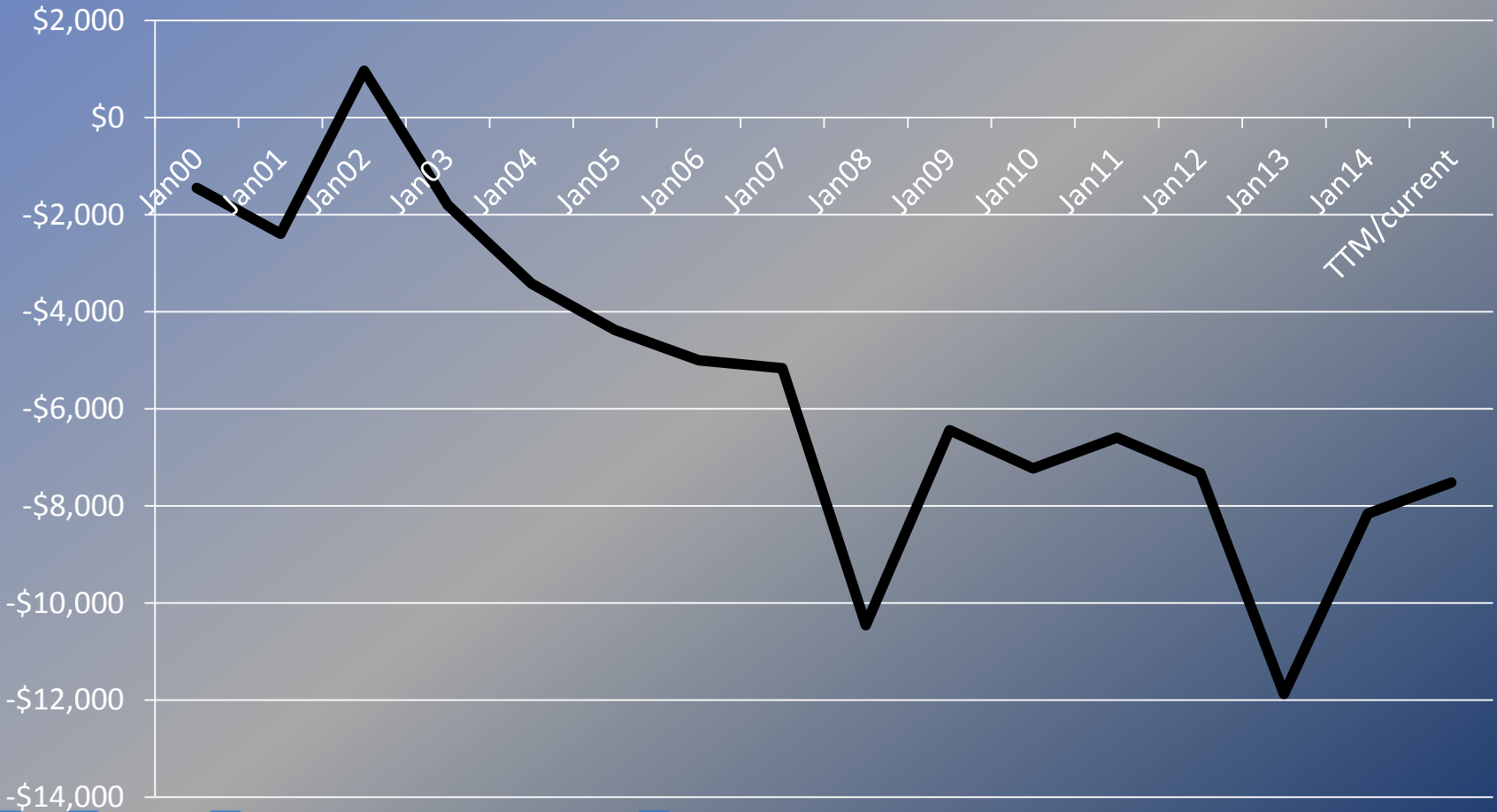
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# Earnings per Share



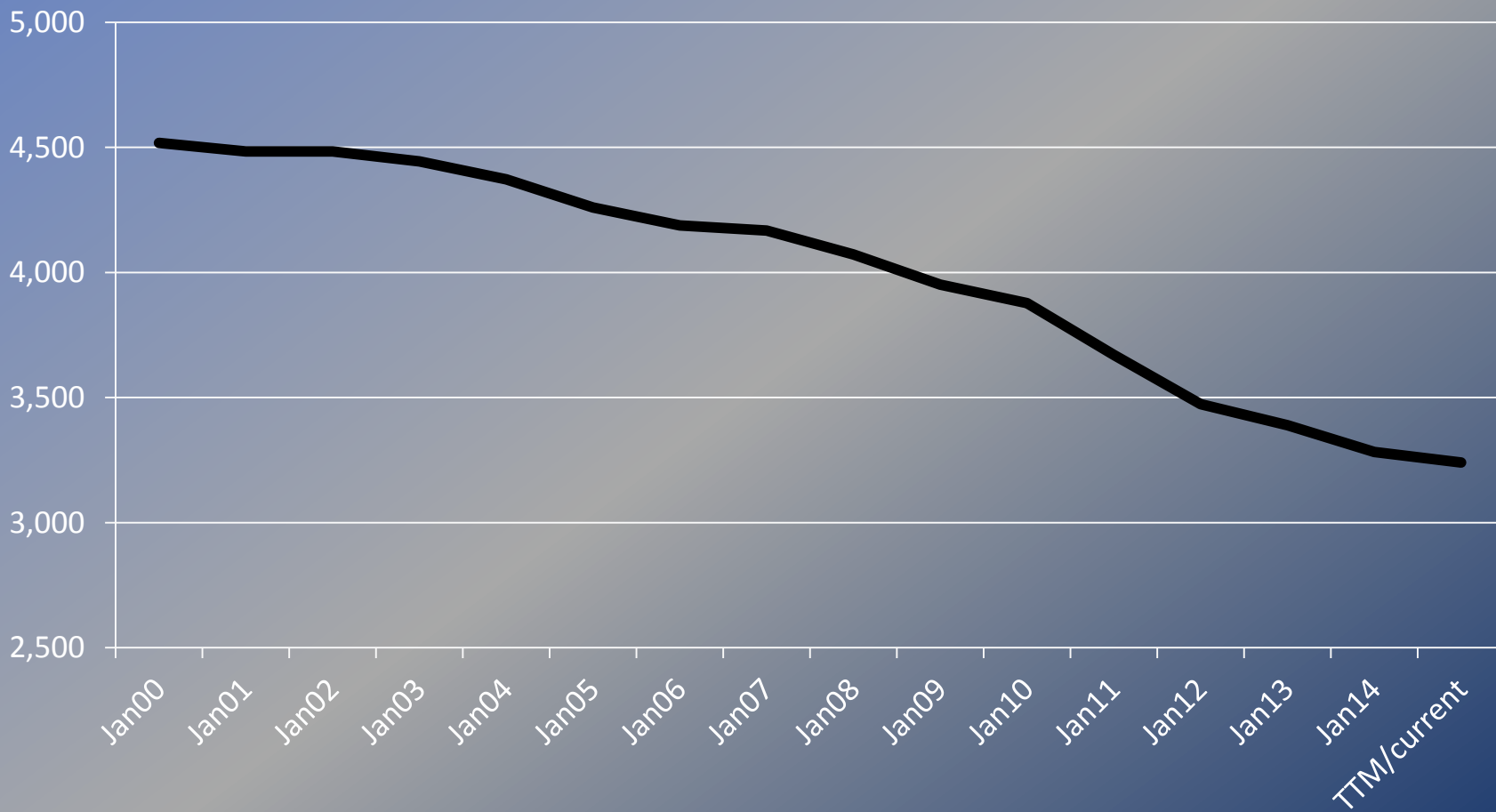
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# Working Capital



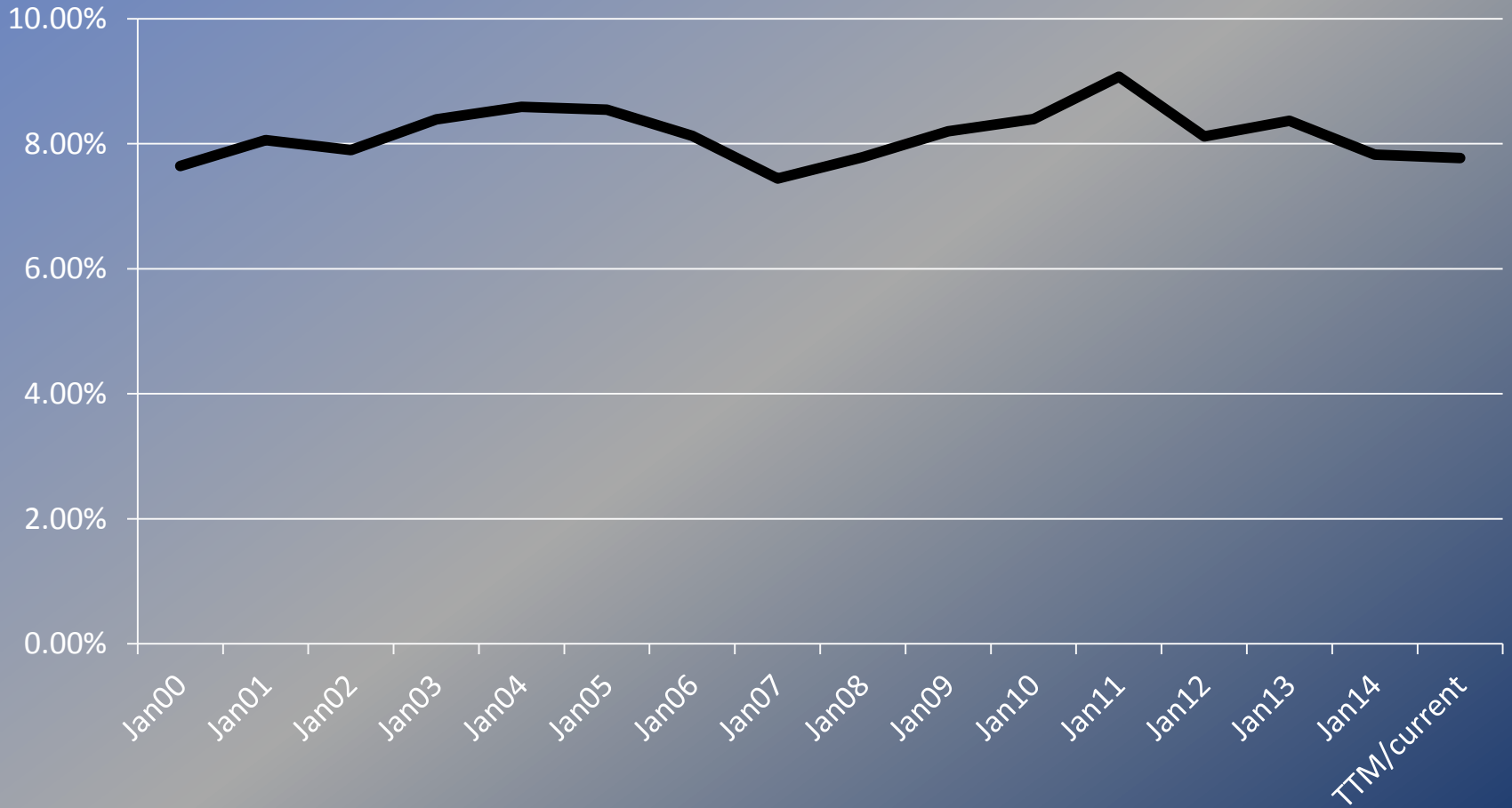
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# Shares Outstanding (in millions)



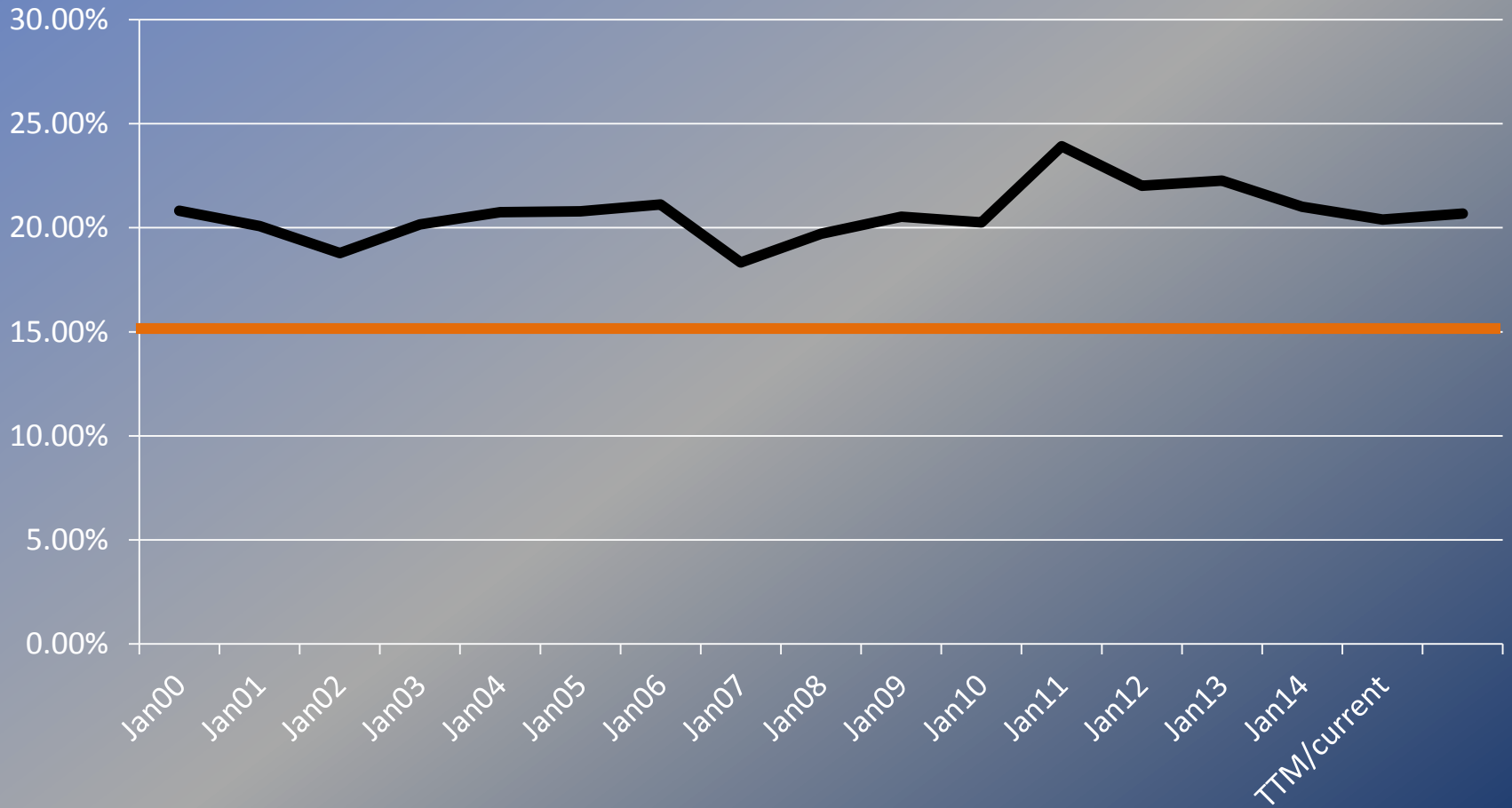
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# Return on Assets



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# Return on Equity



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# DuPont Analysis



Year	Net Profit Margin	Total Asset Turnover	Financial Leverage	Return on Equity
2008	3.36%	2.31	2.53	19.70%
2009	3.31%	2.47	2.50	20.53%
2010	3.51%	2.39	2.41	20.26%
2011	3.89%	2.34	2.64	23.91%
2012	3.51%	2.31	2.71	22.01%
2013	3.63%	2.31	2.66	22.27%
2014	3.36%	2.33	2.69	21.01%
TTM	3.30%	2.36	2.62	20.39%

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# DuPont Analysis

Company	Net Profit Margin	Total Asset Turnover	Financial Leverage	Return on Equity
WMT	3.36%	2.33	2.69	21.0%
TGT	2.07%	1.63	2.74	9.3%
COST	1.80%	3.47	2.80	17.5%
BIG	2.36%	3.05	1.93	13.9%

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# Conscious Investor



WMT:US Wal-Mart Stores Inc

Discount, Variety Stores

Last trade 2014-09-19

Return Analysis

	1/05	1/06	1/07	1/08	1/09	1/10	1/11	1/12	1/13	1/14	EPSttm	Years	HGROWTH	STAEGR <sup>®</sup>
EPS (\$)	2.410	2.680	2.710	3.130	3.390	3.700	4.460	4.520	5.020	4.880	\$4.880	10	9.16%	96.31%
SPS (\$)	67.365	75.012	83.513	94.268	102.228	107.822	119.980	130.764	141.570	147.323		10	9.21%	98.09%

	1/05	1/06	1/07	1/08	1/09	1/10	1/11	1/12	1/13	1/14		Current
NPM (%)	3.6	3.6	3.3	3.4	3.3	3.6	4.0	3.7	3.8	3.5		3.5%
ROE (%)	20.8	21.1	18.3	19.7	20.5	21.0	24.8	23.0	23.3	21.9		21.9%
Payout (%)	22.0	22.0	25.0	28.0	28.0	29.0	27.0	32.0	32.0	39.0		39.0%
Debt/Eq. (%)	48.0	57.0	50.0	52.0	53.0	51.0	64.0	66.0	54.0	58.0		58.0%

	1/05	1/06	1/07	1/08	1/09	1/10	1/11	1/12	1/13	1/14	High/Low	Current
P/E High	25.40	20.10	19.20	16.40	18.80	14.90	13.00	13.70	15.50	16.70	16.67	15.75
P/E Low	21.20	15.80	15.60	13.40	13.80	12.50	10.70	10.70	11.40	14.00	14.65	
Price High	61.31	53.74	52.15	51.44	63.85	55.20	57.90	62.00	77.60	81.37	\$81.37	\$76.84
Price Low	51.08	42.31	42.31	42.09	46.92	46.25	47.77	48.31	57.18	68.13	\$71.51	

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD <sup>®</sup>	Req Return	TARGD <sup>®</sup>	
Default	\$76.84	\$4.880	14.23	9.16%	33.8%	9.51%	10.00%	\$75.15	<input type="button" value="Copy"/>
Safety	\$76.84	\$4.880	12.82	6.00%	29.2%	4.05%	10.00%	\$58.18	<input type="button" value="Copy"/>

# Conscious Investor



WMT:US Wal-Mart Stores Inc

Discount, Variety Stores

Last trade 2014-09-19

Return Analysis

	1/05	1/06	1/07	1/08	1/09	1/10	1/11	1/12	1/13	1/14	EPSStm	Years	HGROWTH	STAEGR®
EPS (\$)	2.410	2.680	2.710	3.130	3.390	3.700	4.460	4.520	5.020	4.880	\$4.880	10	9.16%	96.31%
SPS (\$)	67.365	75.012	83.513	94.268	102.228	107.822	119.980	130.764	141.570	147.323		10	9.21%	98.09%

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# Conscious Investor



WMT:US Wal-Mart Stores Inc

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Last trade 2014-09-19

Return Analysis

	1/05	1/06	1/07	1/08	1/09	1/10	1/11	1/12	1/13	1/14	EPSttm	Years	HGROWTH	STAEGR <sup>®</sup>
EPS (\$)	2.410	2.680	2.710	3.130	3.390	3.700	4.460	4.520	5.020	4.880	\$4.880	6	8.36%	96.14%
SPS (\$)	67.365	75.012	83.513	94.268	102.228	107.822	119.980	130.764	141.570	147.323		6	8.11%	98.74%

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRETD <sup>®</sup>	Req Return	TARGD <sup>®</sup>	
Default	\$76.84	\$4.880	14.23	8.36%	33.8%	8.71%	10.00%	\$72.44	Copy
Safety	\$76.84	\$4.880	12.82	5.27%	29.2%	3.33%	10.00%	\$56.20	Copy

# Walmart

# Conscious Investor



WMT:US Wal-Mart Stores Inc

Discount, Variety Stores

Last trade 2014-09-19

Return Analysis

	1/05	1/06	1/07	1/08	1/09	1/10	1/11	1/12	1/13	1/14	EPSStm	Years	HGROWTH	STAEGR®
EPS (\$)	2.410	2.680	2.710	3.130	3.390	3.700	4.460	4.520	5.020	4.880	3		3.91%	97.70%
SPS (\$)	67.365	75.012	83.513	94.268	102.228	107.822	119.980	130.764	141.570	147.323	3		6.14%	99.46%

	Price	EPStm	P/E Ratio	HGrowth	Payout	STRETD®	Req Return	TARGD®	
Default	\$76.84	\$4.880	14.23	3.91%	33.8%	4.25%	10.00%	\$58.74	Copy
Safety	\$76.84	\$4.880	12.82	2.28%	29.2%	0.40%	10.00%	\$48.66	Copy

# Walmart

# Discounted Cash Flow - Default



Earnings Per Share: \$	<input type="text" value="4.78"/>	?
Growth Rate In the Next:	<input type="text" value="10"/> Years: <input type="text" value="8.60"/> %	?
Business Predictability	<input type="text" value="★★★★★"/>	?
Terminal Growth Rate:	<input type="text" value="4"/> %	?
Years of Terminal Growth:	<input type="text" value="10"/>	?
Discount Rate:	<input type="text" value="12"/> %	?

→

<b>DCF</b>	Reverse DCF <sup>NEW</sup>	
Tangible Book Value: \$	<input type="text" value="17.97"/> <input type="checkbox"/> Add to Fair Value	?
Growth Value:	\$ 40.5	?
Terminal Value:	\$ 23.9	?
<b>= Fair Value:</b>	<b>\$ 64.4</b>	?
Margin Of Safety:	<b>-18%</b>	

# Discounted Cash Flow – Tangible Book



Earnings Per Share : \$	<input type="text" value="4.78"/>	?
Growth Rate In the Next:	<input type="text" value="10"/> Years : <input type="text" value="8.60"/> %	?
Business Predictability	<input type="text" value="★★★★★"/>	?
Terminal Growth Rate:	<input type="text" value="4"/> %	?
Years of Terminal Growth:	<input type="text" value="10"/>	?
Discount Rate:	<input type="text" value="12"/> %	?

→

DCF	Reverse DCF <sup>NEW</sup>	
Tangible Book Value: \$	<input type="text" value="17.97"/> <input checked="" type="checkbox"/> Add to Fair Value	?
Growth Value:	\$ 40.5	?
Terminal Value:	\$ 23.9	?
<b>= Fair Value:</b>	<b>\$ 82.37</b>	?
Margin Of Safety:	8%	

# Walmart

# Discounted Cash Flow – Breakeven

Earnings Per Share : \$ <input type="text" value="4.78"/>	?
Growth Rate In the Next: <input type="text" value="10"/> Years	?
Business Predictability: <input type="text" value="★★★★★"/>	?
Terminal Growth Rate: <input type="text" value="4"/> %	?
Years of Terminal Growth: <input type="text" value="10"/>	?
Discount Rate: <input type="text" value="12"/> %	?

→

DCF	Reverse DCF <sup>NEW</sup>
<b>= Growth Rate: 7.02%</b>	
Revenue Growth Rate:	9.00%(10y) 8.60%(5y) 4.30%(1y)
EBITDA Growth Rate:	9.20%(10y) 8.00%(5y) -0.40%(1y)
Earnings Growth Rate:	8.60%(10y) 7.30%(5y) -6.60%(1y)
Free Cash Flow Growth Rate:	22.90%(10y) -0.90%(5y) 2.30%(1y)
Book Value Growth Rate:	8.20%(10y) 6.50%(5y) 9.80%(1y)

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# Price to Sales

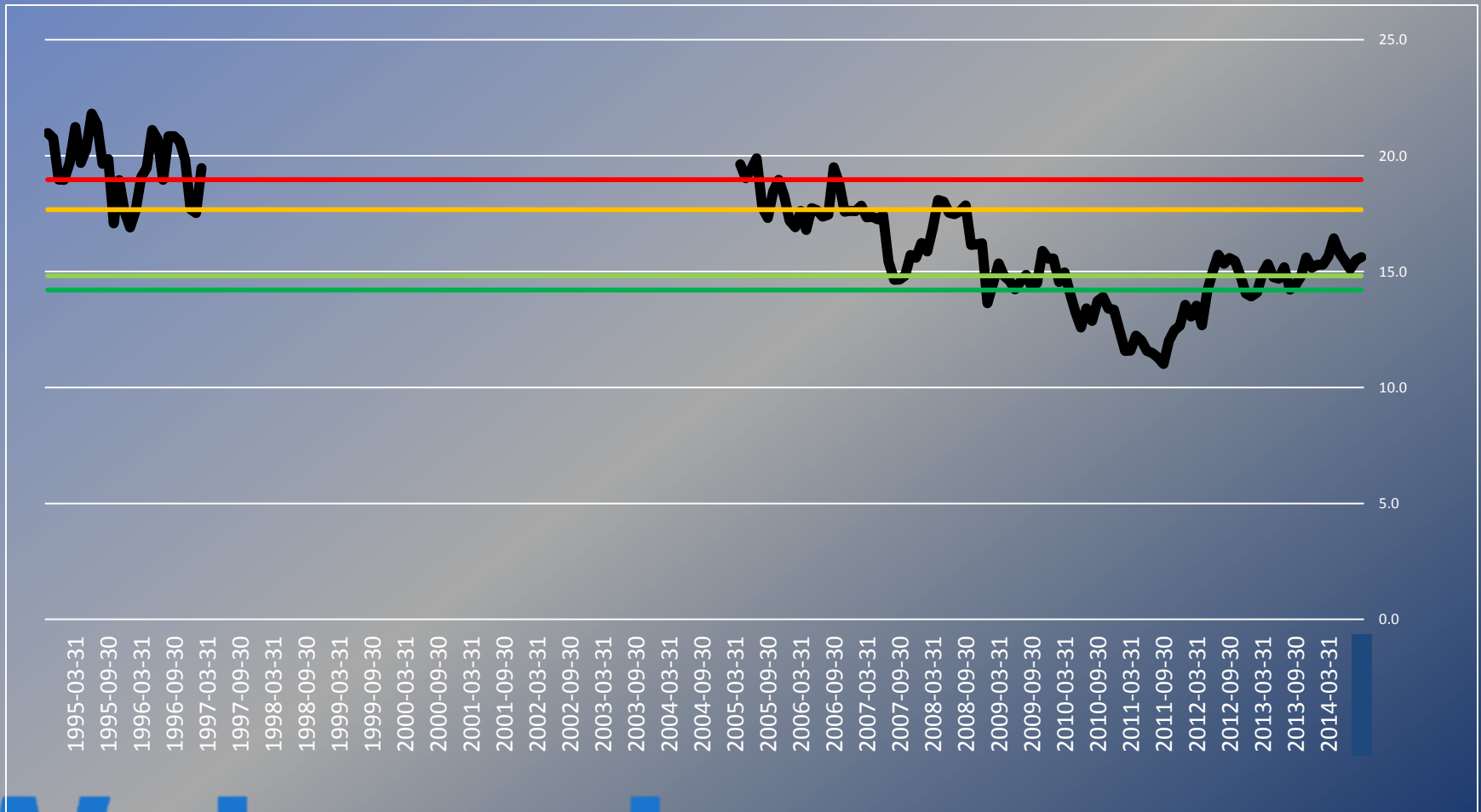


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# Price to Earnings



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# Price to Book



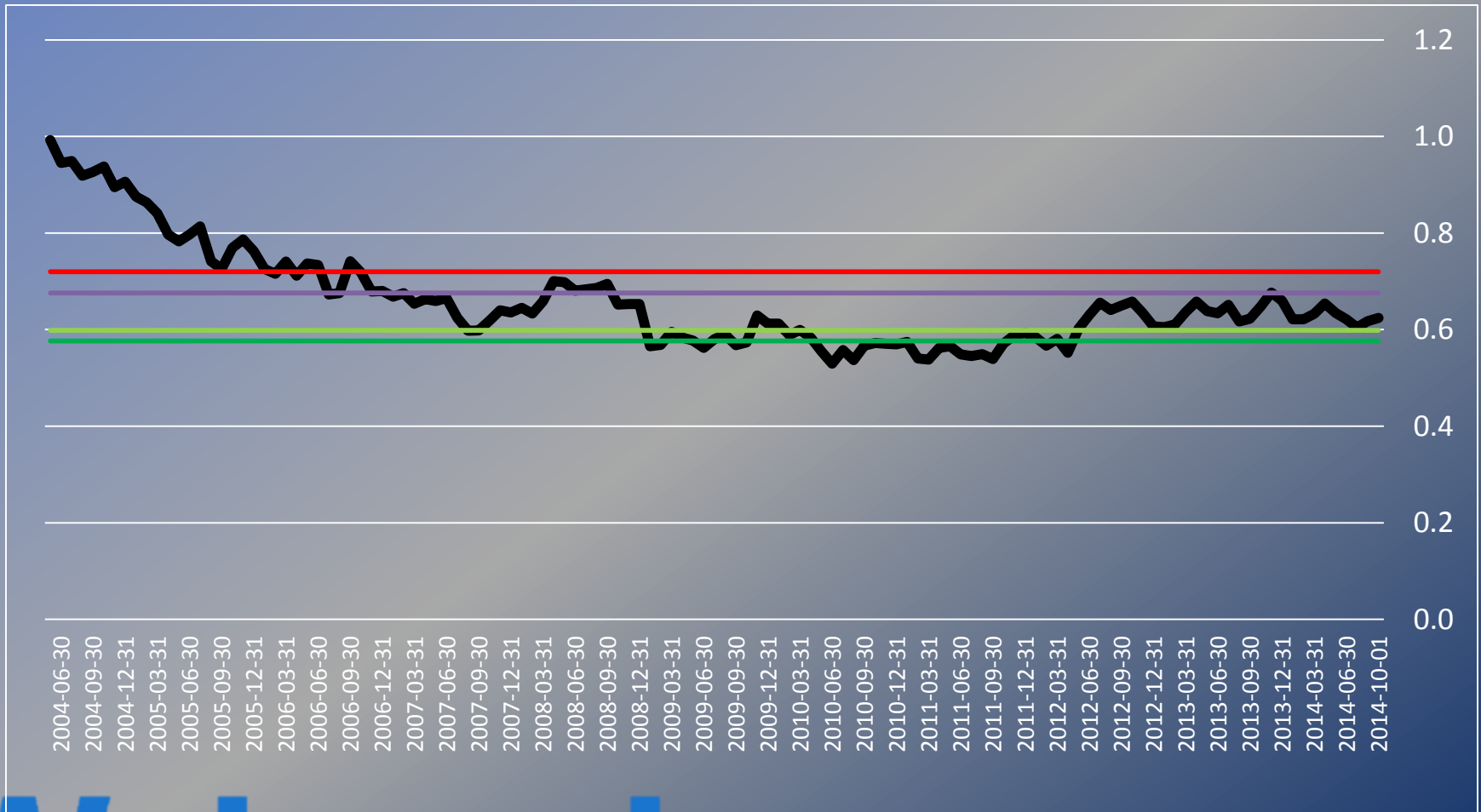
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# Price to Cashflow



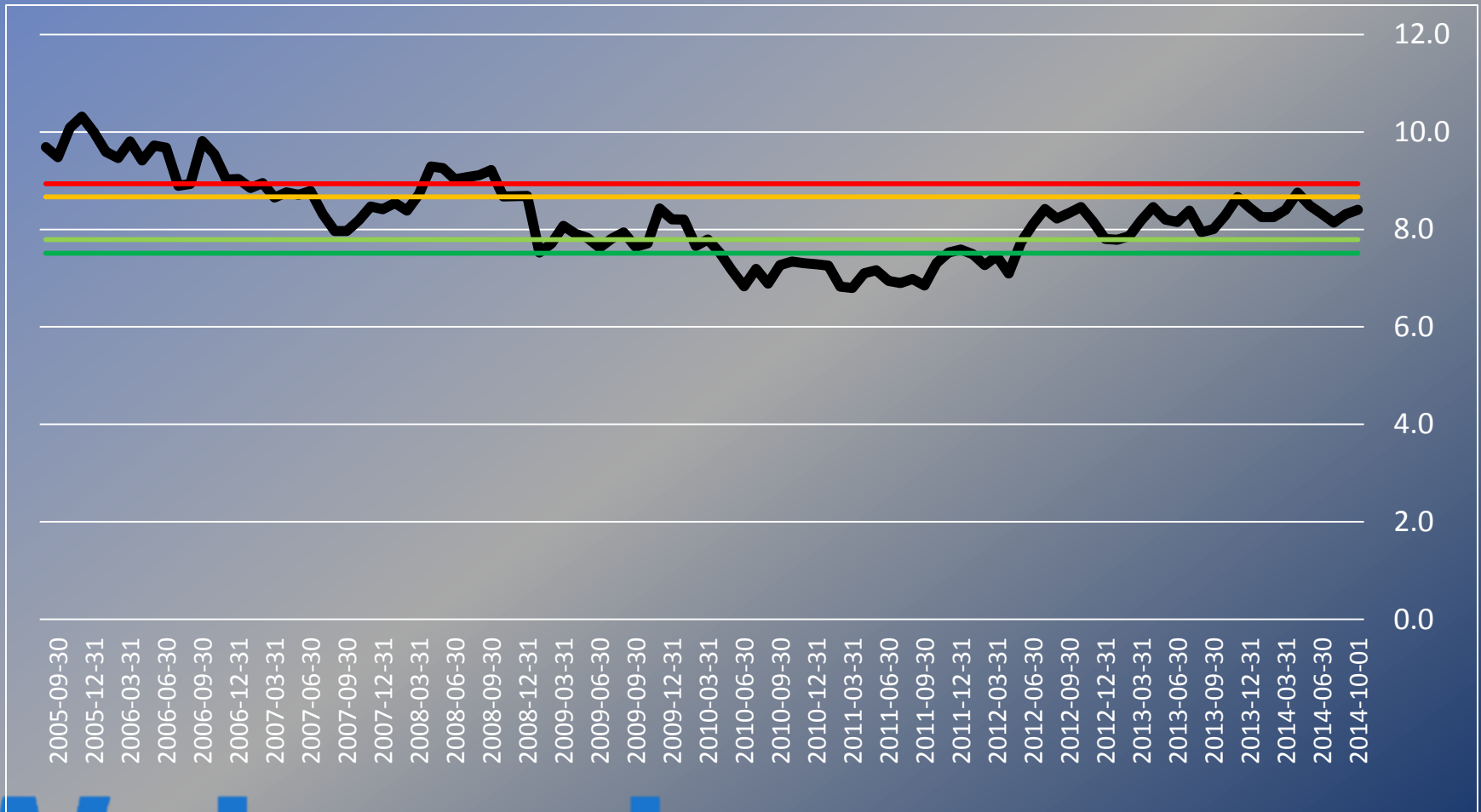
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# Enterprise Value / Revenue



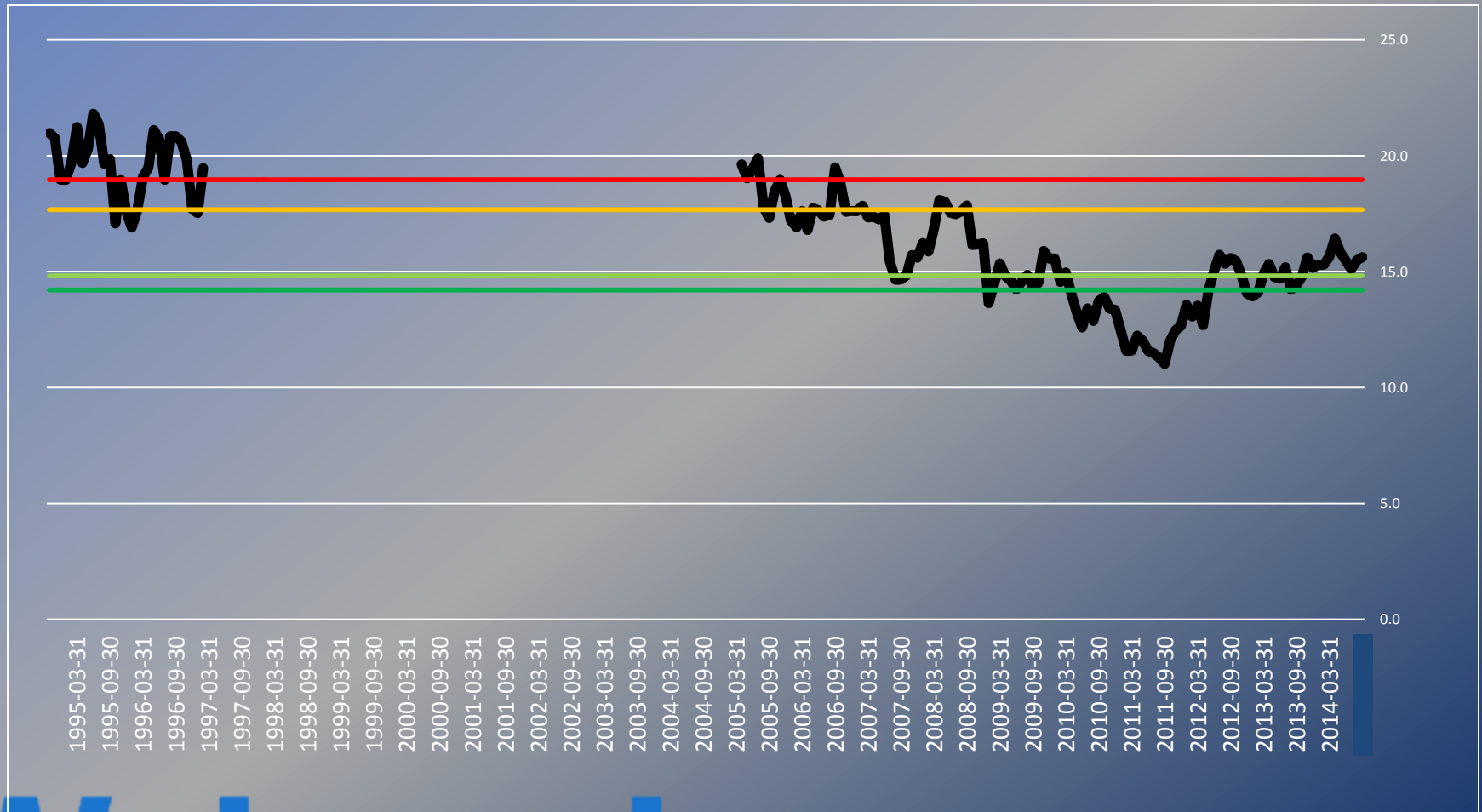
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# Enterprise Value/ EBITDA





# Price to Earnings



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# Predictability



## Value Line

Company's Financial Strength:  
A++


Earnings Predictability: 100


## Gurufocus

4.5 out of 5 Stars predictability

# Walmart

# Intra Portfolio – Price to Earnings



Ticker 	▲ Price / Earnings
▷ WRLD	7.1
▷ AIG	8.8
▷ IBM	11.8
▷ BBY	12.0
▷ BBBY	13.5
▷ BRK.B	15.2
▷ ORCL	15.9
▷ WMT	16.0
▷ MSFT	17.5
▷ LO	19.7
▷ WAG	20.1
▷ NSRGY	20.7
▷ PEP	20.9
▷ MDT	21.2
▷ AAP	21.7
▷ BDX	22.6
▷ KO	22.8
▷ CHRW	23.9

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# Intra Portfolio – Price to Sales



Ticker	Price / Sales
BBY	0.3
WMT	0.5
WAG	0.8
CHRW	0.8
AAP	1.2
BBBY	1.2
AIG	1.2
WRLD	1.3
BRK.B	1.7
IBM	2.0
PEP	2.2
NSRGY	2.2
BDX	2.6
LO	3.1
MDT	3.7
KO	4.1
MSFT	4.4
ORCL	4.5

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# Intra Portfolio – Price to Cashflow



Ticker 	▲ Price / Cash Flow
WRLD	2.9
BBY	7.4
WMT	10.4
BBBY	10.5
BDX	10.6
ORCL	11.3
IBM	11.5
MSFT	12.0
BRK.B	12.1
AIG	13.4
NSRGY	13.8
MDT	14.8
PEP	15.3
WAG	15.7
AAP	17.2
KO	17.3
LO	20.2
CHRW	23.6

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# Intra Portfolio – EV/ EBITDA



Ticker	EV / EBITDA
AIG	5.6
BBY	6.2
WRLD	6.7
BBBY	6.9
WMT	8.3
ORCL	8.6
BRK.B	8.8
IBM	9.1
MSFT	9.6
WAG	10.3
AAP	11.2
LO	12.1
BDX	12.3
MDT	12.5
PEP	13.0
CHRW	14.2
NSRGY	14.5
KO	15.2

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# Intra-industry



Company	Wal-Mart Stores Inc.	Target Corp	Costco Wholesale Corp	Big Lots Inc.
Number of Guru Holders	17	7	6	
Number of Guru Buys: Sells (12 months)	16 : 11	16 : 12	8 : 6	10 : 12
Revenue (mil)	\$476,294	\$72,596	\$105,156	\$5,302
P/E(ttm)	15.60	26.20	28.20	25.10
P/S	0.52	0.55	0.51	0.47
P/B	3.16	2.41	4.78	2.89
EV/EBIT	11.23	16.03	17.48	13.62
EV/Sales	0.62	0.73	0.50	0.46
Yield (%)	2.50	2.90	1.10	0.80
ROA (%)	7.75	3.38	6.30	5.47
ROE (%)	21.30	9.30	17.70	11.70
Operating Margin (%)	5.53	4.53	2.81	3.36
Net Margin (%)	3.30	2.07	1.80	1.87

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# Buffett's 7 Point Checklist



Buffett's 7 Points	Yes/No
1. Simple Business: It must be easy to understand.	Yes
2. Favorable Long-Term Prospects	Solid Return to Shareholders
3. Able and Honest Management	Yes
4. Consistent Earnings	Yes
5. Good Return on Equity: What is Our Threshold? How Can This Be Manipulated?	Yes
6. Little Debt	Yes
7. Very Attractive Price	Good Price

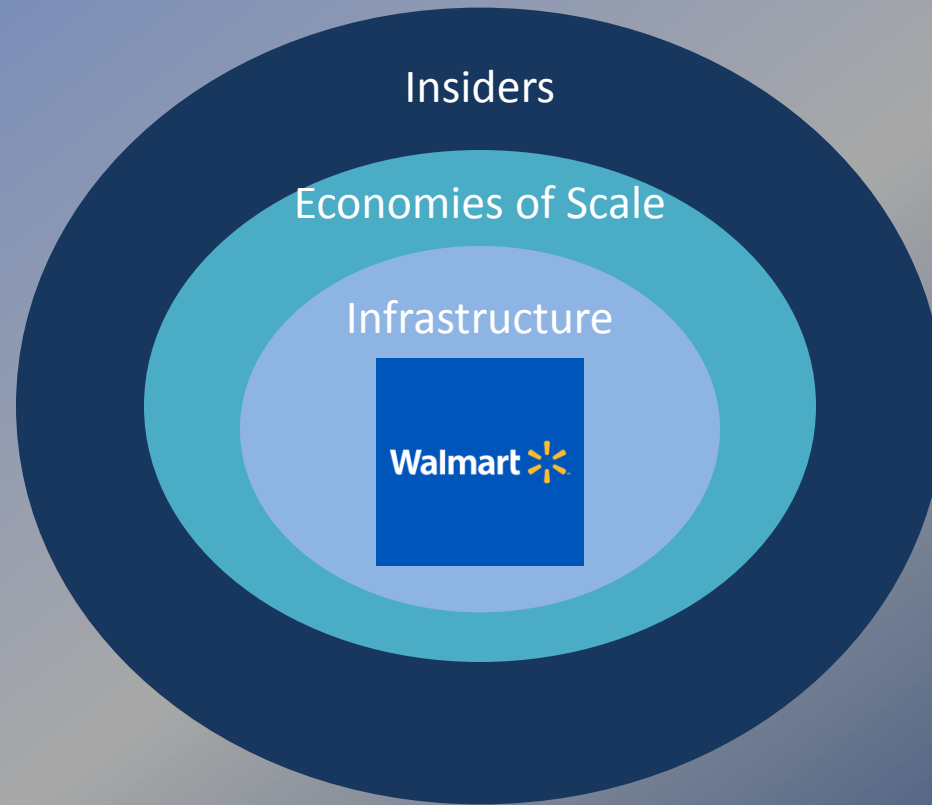
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# Qualitative Review

Qualitative Question	
What type of business is this: commodity or sustained competitive advantage?	Sustained Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	No
Does it require heavy capital infusion?	No
Does it require lots of research and development?	No
Can inventory become obsolete?	*Depends
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	No – Can change product mix
If I gave you \$1 billion could you develop a competitor?	Yes

# Competitive Advantage



Walmart

# Great Company



One in every four dollars Americans spend on groceries is spent at Walmart

\$0.07 out of every \$1 United States Consumers spent on goods was at Walmart in 2014

Walmart is the textbook 'forever' company

# Walmart



# Affordable Care Act



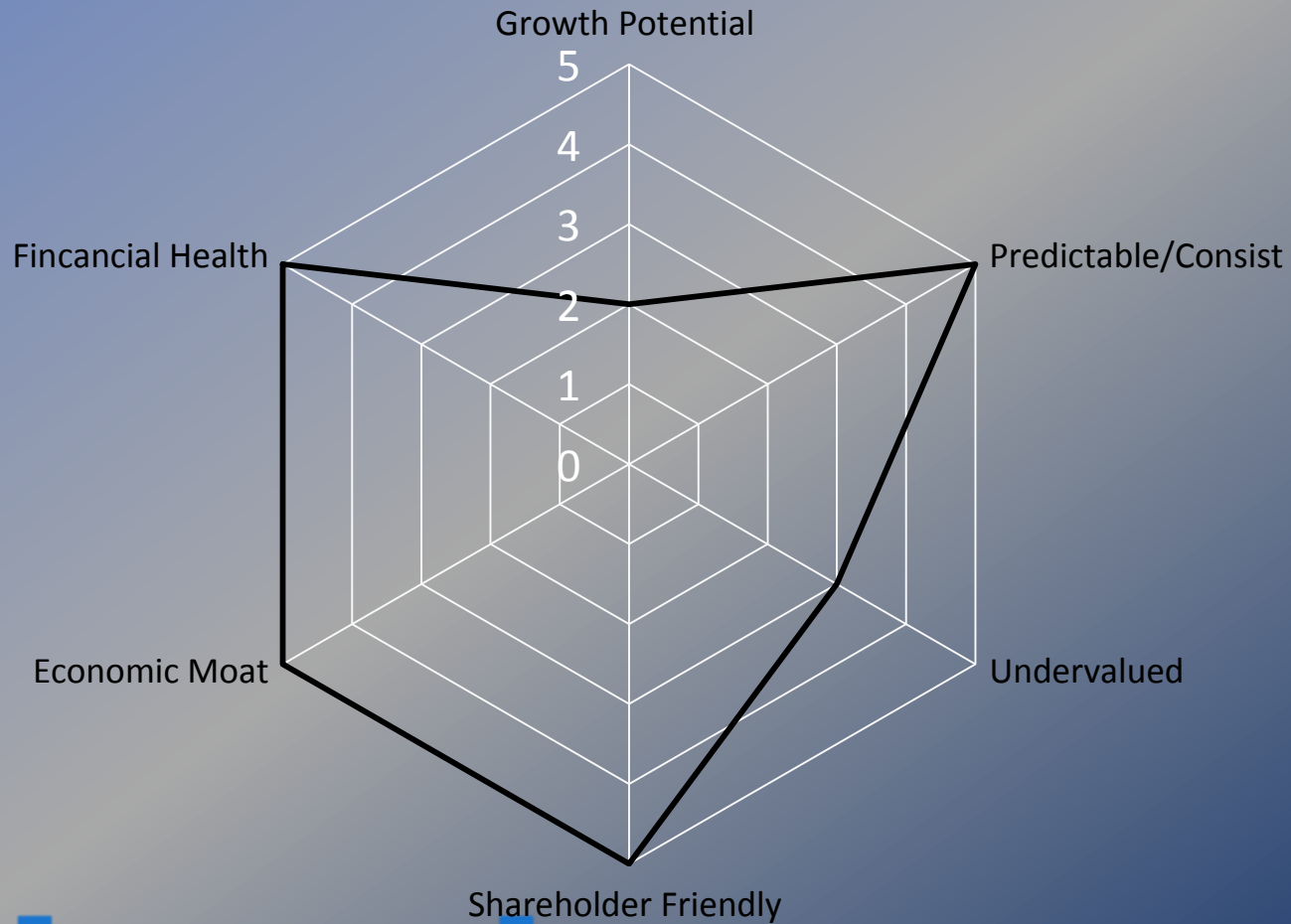
Increase cost structure of full-time employees  
Entire industry will feel this

Rural Walmarts may experience increase in  
traffic

**Walmart**



# Snapshot



Walmart

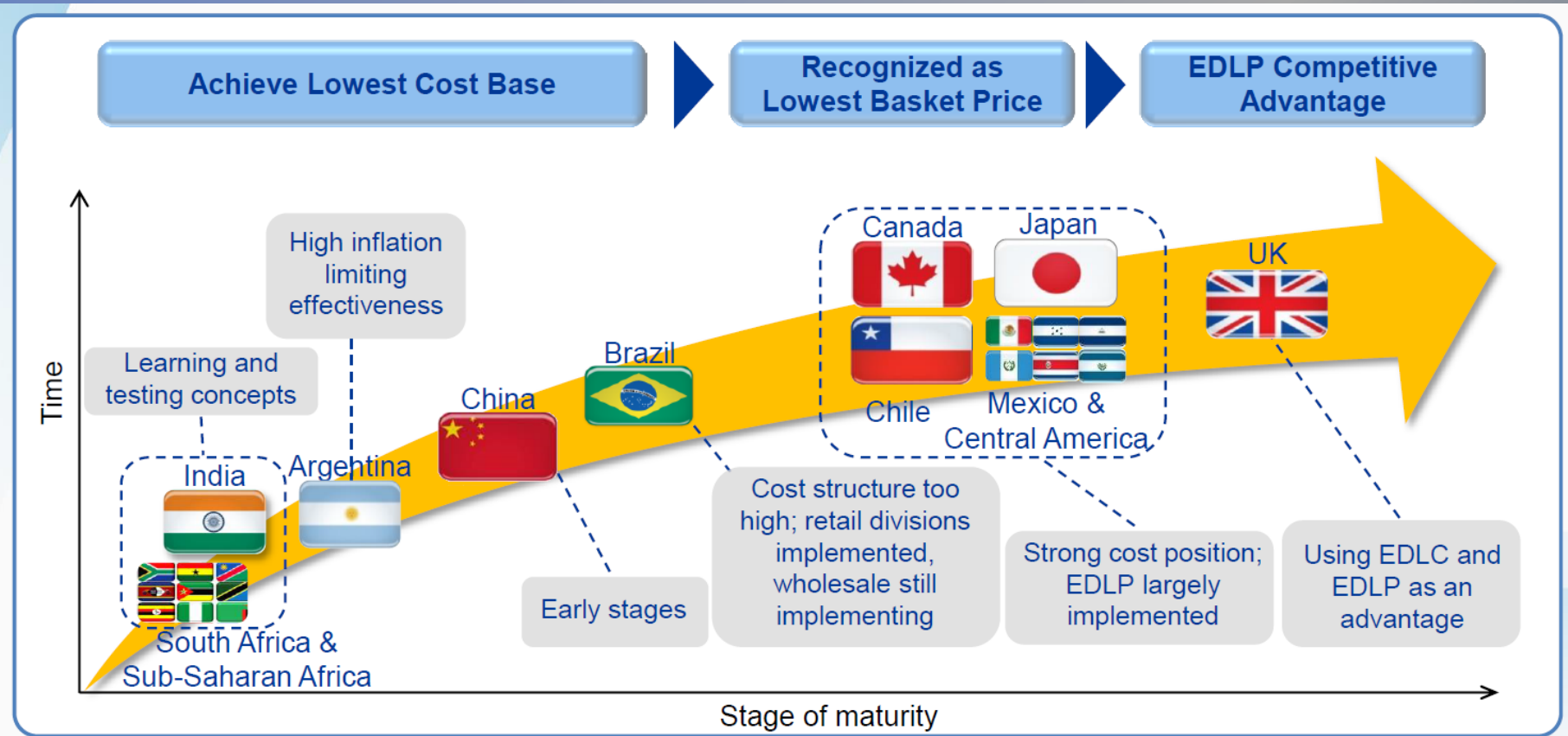
# Recommendation



Limit order at \$75.00

**Walmart**

# More on international growth



# Walmart

# Private Labels

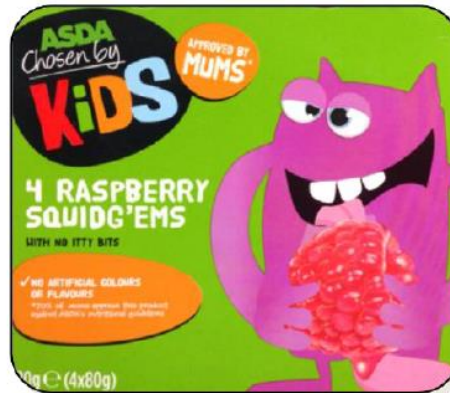


## Japan - food



Chosen by You

## UK - food



Chosen by Kids

## UK - apparel



George – kidswear

# Model to screw over competition



- EDLP: our commitment to price leadership and our pricing philosophy under which we price items at a low price every day so our customers trust that our prices will not change under frequent promotional activity;
- Rollbacks: our commitment to continually pass cost savings on to the customer by lowering prices on selected goods;
- Save Even More and Ad Match: strategies to meet or be below a competitor's advertised price;
- Store of the Community: a program to ensure the merchandise assortment in a particular store fits the demographic needs of the local community in which that store is located
- Clean, Fast and Friendly: our commitment to deliver a great customer experience through fast, friendly service in a clean environment.

Walmart