

April 22, 2026

Walmart (WMT)

Consumer Staples – Food & Staples Retailing

Stock Rating

SELL

Investment Thesis

We rate WMT a **SELL** with blended fair value of **\$85/share**, implying ~35% downside from current levels. Walmart remains one of the highest-quality retailers globally, benefiting from scale, grocery defensiveness, market share gains, and expanding high-margin revenue streams including advertising and membership income. However, these positives are more than reflected in the current valuation. At ~40x forward earnings and >6x PEG, Walmart trades at a premium to both defensive retailers and many faster-growing technology firms. Our DCF (\$80), DDM (\$71), and relative valuation (\$74) indicate the stock price is being supported more by scarcity, defensiveness, and AI narrative expansion than normalized earnings power.

Drivers of Thesis

- **Fundamentals disconnected from current price.** DCF of \$80.34, DDM of \$71.19, and relative P/E range of \$74 to \$128 all imply material downside from \$129.98. Stock trades at ~40x forward earnings with a PEG above 6.0, unsupported by underlying earnings growth.
- **AI narrative inflating valuation beyond fundamentals.** Stock is trading like a technology company, with price appreciation driven by AI announcements rather than earnings performance, reminiscent of dot-com era multiple expansion.
- **Limited upside with asymmetric downside.** Any supply chain disruption, missed quarter, or rotation out of defensive names back into growth would trigger significant multiple compression toward intrinsic value.

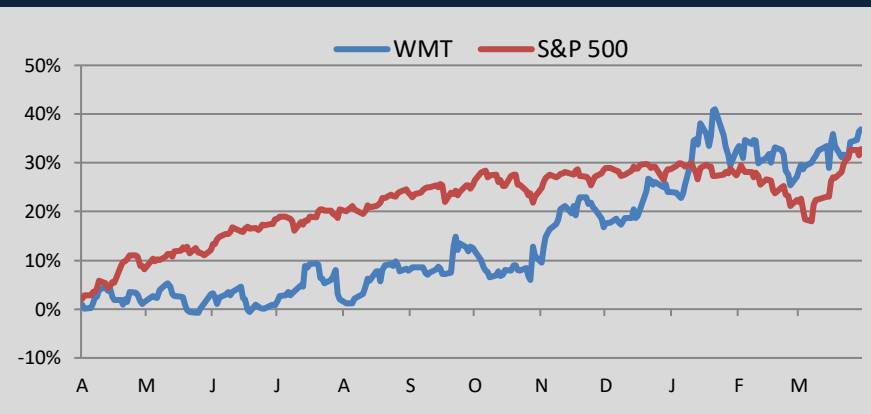
Risks to Thesis

- **Stock continues to climb despite overvaluation.** Perceived safety during market volatility and AI sentiment could sustain elevated multiples longer than fundamentals justify.
- **Advertising and membership margins exceed expectations.** Faster-than-expected monetization of Walmart Connect and Walmart+ could narrow the gap between intrinsic value and market price.
- **Continued market share gains compress downside.** Structural gains from higher-income consumers and ecommerce growth could support earnings beats that temporarily justify the premium.

Earnings Estimates

Year	2024	2025	2026	2027E	2028E	2029E
EPS	\$1.92	\$2.42	\$2.74	\$2.91	\$3.28	\$3.71
HF est.				\$2.87	\$3.33	\$4.05
growth	34.3%	26.0%	13.2%	3.4%	16.0%	21.6%

12 Month Performance



Target Price

\$85

Henry Fund DCF	\$74-91
Henry Fund DDM	\$61-81
Relative Multiple	\$74-128

Price Data

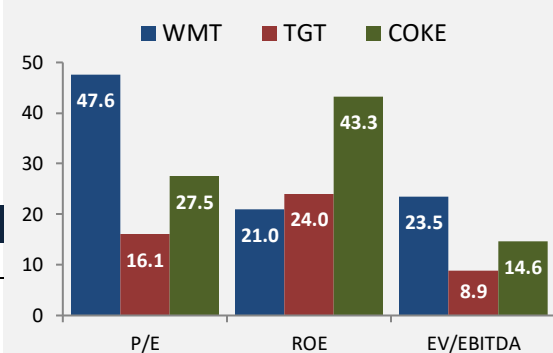
Current Price	\$129.98
52wk Range	\$91.89 – 134.69
Consensus 1yr Target	\$139.18

Key Statistics

Market Cap (T)	\$1.036
Shares Outstanding (B)	7.97
Institutional Ownership	38.8%
Beta	0.66
Dividend Yield	0.76%
Est. 5yr Growth	8.3%
Price/Earnings (TTM)	47.61
Price/Earnings (FY1)	44.05
Price/Sales (TTM)	1.46
Price/Book (mrq)	10.40

Profitability

Operating Margin	4.18%
Profit Margin	3.12%
Return on Assets (TTM)	7.82%
Return on Equity (TTM)	21.03%



Company Description

Walmart Inc. is the world's largest retailer by revenue, serving approximately 270 million customers weekly through more than 10,750 stores and digital platforms across 19 countries. The company operates three segments: Walmart U.S., Walmart International, and Sam's Club. Its business model is built on everyday low prices, scale-driven procurement advantages, and an increasingly digital ecosystem that integrates physical stores with ecommerce, third-party marketplace services, advertising, and membership programs through Walmart+. Over the past several years Walmart has evolved from a traditional brick-and-mortar retailer into a technology-enabled omni-channel platform, with high-margin advertising and membership revenue growing as a share of the total business mix.

COMPANY DESCRIPTION

Walmart Inc. is the world's largest retailer, operating a scaled omni-channel platform that combines physical stores, eCommerce, marketplace services, advertising, and membership programs. The company serves approximately 270 million customers weekly through more than 10,750 stores and digital platforms across 19 countries. Walmart's core competitive advantages remain its everyday low price strategy, unmatched procurement scale, extensive distribution network, and growing digital ecosystem.

Operations are organized into three reportable segments: Walmart U.S., Walmart International, and Sam's Club U.S. Walmart U.S. remains the primary earnings driver, while international markets and Sam's Club provide diversification and incremental growth opportunities.

Over the last several years, Walmart has successfully evolved beyond traditional brick-and-mortar retail through investments in automation, fulfillment, digital engagement, and high-margin ancillary revenue streams such as advertising and membership income. These strategic initiatives have strengthened long-term earnings durability and improved investor perception of Walmart as both a defensive retailer and technology-enabled operator.

However, while Walmart's strategic positioning has improved materially, we believe the current share price already discounts much of this progress. At a valuation multiple more commonly associated with higher-growth technology firms than mature retailers, investors appear to be capitalizing future execution well ahead of realized earnings power. As a result, we view Walmart as an outstanding business whose stock price has become disconnected from underlying fundamentals.

Revenue Overview

In fiscal 2026, Walmart Inc. generated over \$680 billion in total revenue, primarily from merchandise sales across grocery, consumables, health & wellness, general merchandise, membership income, and

emerging digital channels. Revenue remains highly diversified across categories, geographies, and customer demographics, making Walmart one of the most resilient revenue models in global retail.

Walmart U.S. remains the dominant contributor, benefiting from recurring grocery traffic and continued share gains among both lower-income and higher-income households. International operations provide exposure to faster-growing markets such as China and India, while Sam's Club adds a recurring membership-based revenue stream with stronger unit economics.

In recent years, Walmart has also developed faster-growing non-merchandise revenue sources, including advertising, marketplace commissions, fulfillment services, and membership income. These businesses carry structurally higher margins than traditional retail sales and have contributed to improving investor sentiment toward the company.

We forecast consolidated revenue growth in the low-to-mid single digits over the next five years, driven by steady comparable sales growth, eCommerce penetration, selective international expansion, and continued monetization of digital services. While durable, this growth profile remains consistent with a mature global retailer rather than a high-growth technology platform.

Despite these favorable characteristics, Walmart currently trades at a valuation implying stronger long-term growth than our forecast supports. We believe the market is placing an aggressive premium on revenue quality and strategic optionality, despite consolidated top-line growth that remains modest by historical premium-multiple standards.

Walmart US Segment

Walmart Inc. U.S. is the company's largest segment and primary earnings engine, generating approximately \$462.4 billion of fiscal 2025 net sales, or roughly 68% of consolidated revenue. The segment operates more than 4,600 stores across all 50 states, giving Walmart one of the most valuable retail footprints in the country.

That store base creates major strategic advantages, including national purchasing scale, last-mile fulfillment proximity, and high customer frequency. Walmart increasingly uses stores as both shopping destinations and digital fulfillment nodes, helping support same-day pickup and delivery economics.

While Walmart U.S. is an outstanding asset, it remains a mature domestic business with limited unit growth. Over the last 12 months, Walmart opened 12 new U.S. stores while remodeling 674 locations, reinforcing that future growth is more productivity-driven than expansion-driven.

Grocery

Grocery is Walmart U.S.'s largest category and the primary traffic driver for the enterprise. The category includes food, beverages, household consumables, cleaning products, pet supplies, and other recurring essentials. Grocery demand is highly resilient across economic cycles and reinforces Walmart's everyday low price positioning.

Recent share gains among higher-income households demonstrate Walmart's increasing relevance beyond its traditional core customer base. At the same time, lower-income consumers continue to rely on Walmart for value and convenience. A simple example of Walmart's everyday necessity-driven traffic is that bananas are widely cited as the company's best-selling item by unit volume, highlighting how frequently customers rely on Walmart for basic, recurring purchases.

While strategically valuable, grocery is also Walmart's lowest-margin major category. Its importance lies in driving frequency and basket attachment rather than generating outsized profitability. As a result, continued grocery share gains support revenue durability but do not meaningfully transform earnings power on their own.

General Merchandise

General Merchandise includes apparel, electronics, home goods, seasonal items, toys, automotive, and

discretionary household products. This category typically carries higher gross margins than grocery and therefore has greater importance to overall profitability.

Management has recently cited strength in apparel and selective improvement in discretionary categories. However, general merchandise remains more cyclical and sensitive to consumer confidence, inflation, and wallet pressure. Lower-income households facing stretched budgets may prioritize essentials over discretionary purchases, limiting upside.

Although stronger general merchandise trends would benefit margins, we view sustained acceleration as uncertain in the current macro environment. Given the category's volatility, we do not believe investors should capitalize on temporary strength at premium multiples.

Health & Wellness

Health & Wellness includes pharmacy, over-the-counter medications, vision services, and related health consumables. This category benefits from recurring demand, demographic tailwinds, and Walmart's large physical footprint, particularly in suburban and rural markets.

Pharmacy traffic supports store visits and can enhance cross-category purchasing behavior. However, profitability is often constrained by reimbursement dynamics, labor costs, and regulatory complexity. While Health & Wellness is a stable contributor, it is not likely to become a primary driver of valuation re-rating.

Revenue Framework for Walmart U.S.

We model Walmart U.S. revenue as store count multiplied by sales per store, with comparable sales driven by transaction growth, ticket size, and continued eCommerce integration. Unit expansion remains modest, with most future growth expected to come from productivity improvements rather than aggressive new store openings.

Walmart International

Walmart International generated approximately \$130.4 billion of fiscal 2026 revenue and operates in more than 18 countries through roughly 5,400 stores and numerous eCommerce platforms. The segment includes major markets such as Mexico, Canada, China, India, and Africa.

International provides geographic diversification and exposure to faster-growing consumer markets than the mature U.S. business. China has become one of the most attractive growth markets, with management recently citing 28% eCommerce growth. India exposure through Flipkart provides long-term digital optionality in one of the world's largest consumer economies.

Mexico and Canada remain stable contributors with strong grocery-led demand and established market positions. However, currency fluctuations, regulation, competitive intensity, and geopolitical complexity create more volatility than the domestic business.

Despite strong strategic value, Walmart International still contributes materially less profit than Walmart U.S. and is unlikely by itself to justify Walmart's current premium multiple. We view the segment as a positive contributor, but not a transformational valuation driver.

Sam's Club U.S.

Sam's Club generated more than \$90 billion in revenue and operates around 600 membership warehouse clubs across the United States and Puerto Rico. It remains one of Walmart's highest quality business lines due to recurring membership fees, strong customer loyalty, and efficient warehouse economics.

Membership income is especially valuable because it carries significantly higher margins than traditional merchandise sales. Sam's Club also benefits from private label penetration through Member's Mark and growing digital adoption through Scan & Go, curbside pickup, and app-based ordering.

Comparable sales have remained strong in recent years, supported by both small business and household demand. However, Sam's Club remains meaningfully smaller than Costco Wholesale Corporation and still represents a minority share of Walmart's total earnings base.

While Sam's Club improves Walmart's business mix and supports premium valuation relative to traditional retailers, it is not yet large enough to justify valuing Walmart primarily as a membership growth company.

Cost Structure Analysis

Walmart Inc. operates one of the most efficient large-scale retail cost structures in the world. The company's scale allows it to negotiate favorable supplier pricing, spread fixed costs across a massive revenue base, and continuously reinvest in logistics, automation, and technology. Walmart's Everyday Low Price strategy is supported by an Everyday Low Cost operating model, where efficiency is essential because merchandise margins remain thin.

Despite these advantages, Walmart is still fundamentally a low-margin retailer. Even with strong execution, operating margins remain near the low single digits, which limits the level of earnings power that can justify the company's current premium valuation multiple.

Gross Margin

Walmart's gross margin is heavily influenced by product mix. Grocery, which drives the majority of traffic and sales, carries structurally lower margins than General Merchandise, advertising, marketplace fees, and membership income.

As a result, mix shift has become one of the most important drivers of profitability. Faster growth in higher-margin businesses such as Walmart Connect advertising, third-party marketplace services, and membership income can lift consolidated margins without requiring dramatic merchandise price increases.

Management recently reported global advertising growth of 37%, including 41% growth for Walmart Connect in the U.S., demonstrating the attractiveness of these incremental revenue streams. These businesses require far less inventory investment than traditional retail sales and therefore produce superior incremental margins.

Operating Expenses

Operating expenses are primarily composed of labor, occupancy, transportation, technology, and store operating costs. Labor remains Walmart's single largest expense category due to its global workforce of more than 2 million associates.

To offset wage inflation and rising fulfillment costs, Walmart has aggressively invested in automation and productivity initiatives. Approximately 50% of eCommerce fulfillment center volume is now automated, and the company continues expanding AI-enabled inventory management, route optimization, and digital fulfillment systems.

Store remodels and supply chain modernization also remain major priorities, with 674 U.S. stores remodeled over the last year. These investments should improve long-term productivity, though they also require meaningful near-term capital spending.

Operating Margin Outlook

Management guided fiscal 2027 operating income growth of 6% to 8%, above expected sales growth of 3.5% to 4.5%, implying continued operating leverage. We expect modest operating margin improvement over time, supported by: Higher contribution from advertising and membership income, improved eCommerce economics, automation lowering labor intensity, better inventory forecasting, and reducing markdowns. However, Walmart's consolidated operating margin remains modest relative to many premium-valued companies. Because starting margins are low, even successful execution may not generate enough incremental profit growth to justify a valuation typically reserved for structurally higher-margin businesses.

Return on Invested Capital

Walmart's ROIC has improved dramatically over the past five years, rising from 5% in fiscal 2021 to 18% in fiscal 2026, driven by expanding NOPLAT as the higher-margin advertising, membership, and ecommerce businesses have grown as a share of revenue. Invested capital grew from \$133.4 billion in fiscal 2021 to \$159.8 billion in fiscal 2026, a relatively modest increase compared to the NOPLAT growth over the same period, reflecting the asset-light nature of the incremental revenue streams layering on top of the existing physical infrastructure.

Looking forward, we forecast ROIC continuing to expand from 16% in 2027E, temporarily compressing slightly as capital expenditures remain elevated at the peak of the automation investment cycle, before recovering to 19% by 2029E and reaching 20% by 2031E as capex moderates and operating margins expand. NOPLAT grows from \$25.6 billion in 2027E to \$40.6 billion in 2031E, against invested capital growing from \$172.8 billion to \$207.6 billion over the same period. The gap between our forecasted ROIC and our WACC of 7.09% produces positive and growing economic profit throughout the forecast horizon, confirming that Walmart is a genuinely value-creating business. The disconnect between that operational quality and our SELL rating is entirely a function of price, not business quality.

Walmart's cost structure is unquestionably strong and continues to improve through mix shift and productivity investments. However, investors already appear to be pricing in years of flawless execution, sustained margin gains, and continued monetization success. We believe Walmart deserves a premium multiple for operational excellence, but the current valuation implies a degree of margin expansion that may prove difficult for even best-in-class retail operators to achieve.

Debt Maturity & Liquidity Analysis

Walmart Inc. maintains one of the strongest balance sheets in global retail, supported by durable cash generation, defensive end-market exposure, and

consistent access to capital markets. The company ended fiscal 2026 with approximately \$10.7 billion of cash and cash equivalents and roughly \$51.5 billion of total debt, including short-term borrowings, long-term debt, and lease-related obligations.

This capital structure is manageable relative to Walmart's scale and earnings base. Annual operating cash flow has recently exceeded \$40 billion, providing substantial capacity to fund capital expenditures, dividends, debt service, and share repurchases simultaneously.

Debt Profile

Walmart's debt portfolio is diversified across maturities and currencies, reducing refinancing concentration risk in any single year. The company benefits from investment-grade credit ratings and historically favorable borrowing costs, allowing it to refinance obligations efficiently when needed.

Because Walmart generates stable cash flow through economic cycles, lenders generally view the company as a low-risk borrower. Grocery exposure and recurring consumer demand further strengthen credit quality compared with more discretionary retailers.

Interest expense may rise modestly over time as older, lower-coupon debt matures and is refinanced at higher market rates. However, this is unlikely to create material financial strain given Walmart's earnings scale.

Liquidity Position

Liquidity remains a core strength of the investment case. Walmart has significant internal funding capacity due to its high inventory turnover, recurring earnings profile, and substantial free cash flow generation. Even after dividends and capital expenditures, the company continues to retain flexibility for: Share repurchases, debt reduction, strategic acquisitions, technology investment, store remodels. The board recently authorized a \$30 billion share repurchase program, signaling confidence in future cash generation.

Capital Allocation

Management has historically balanced reinvestment with shareholder returns in a disciplined manner. Current priorities appear centered on supply chain automation, digital ecosystem expansion, and selective share repurchases.

Capital expenditures are expected to be near 3.5% of sales, reflecting continued spending on fulfillment modernization, store upgrades, and technology infrastructure. This level of reinvestment is significant in dollar terms, but appropriate given Walmart's scale. Management gave guidance that this is near the peak of CapEx spending, and over the coming years, it should return to normal levels within that 2% - 2.5% range.

ESG Analysis

Walmart Inc. is increasingly evaluated not only on financial performance, but also on environmental, social, and governance execution. Given Walmart's global scale, supply chain reach, and workforce size, ESG factors can materially influence operating costs, brand perception, regulatory risk, and long-term shareholder returns.

Walmart generally compares favorably to many retail peers due to its scale, disclosure practices, and ability to invest in sustainability and workforce initiatives. However, ESG strengths are incremental advantages rather than primary drivers of our valuation view.

Environmental

Walmart has made meaningful commitments toward emissions reduction, renewable energy procurement, waste reduction, and supply chain sustainability. The company has publicly targeted zero emissions across operations by 2040 and continues investing in fleet efficiency, facility modernization, and renewable power sourcing.

These initiatives can create real economic benefits over time. Lower energy consumption, optimized logistics routing, improved refrigeration systems, and

reduced packaging waste can all support cost savings in addition to environmental goals. Walmart's scale also gives it influence over suppliers, encouraging better reporting standards and efficiency improvements across its broader ecosystem. However, many environmental benefits accrue gradually over long periods. While positive for risk management and operating efficiency, they are unlikely to dramatically alter near-term earnings power.

Social

Walmart is one of the world's largest private employers, with approximately 2.1 million associates globally. As a result, labor strategy is one of the company's most important social and financial variables. Wages, benefits, training, retention, scheduling efficiency, and workplace culture all directly affect store execution and cost structure. Walmart has continued investing in employee training, digital tools, and career development programs aimed at improving retention and productivity.

The company also plays a major role in affordability for consumers. Its Everyday Low Price model is especially important during inflationary environments, when households become more price sensitive. This can strengthen brand trust and drive market share gains. Social risks remain present, particularly wage inflation, labor shortages, reputational scrutiny, and unionization pressure. Given Walmart's labor intensity, even modest workforce cost changes can impact margins.

Governance

Walmart benefits from a long-established governance structure, an experienced leadership team, and a generally disciplined capital allocation approach. Management has demonstrated willingness to reshape the portfolio over time, exiting weaker international markets while concentrating capital in stronger regions and digital growth opportunities.

The company has also balanced dividends, repurchases, and reinvestment responsibly. Walmart's consistent profitability and conservative leverage profile reflect stable governance practices. Executive incentives tied to sales growth, profitability, and return metrics help align management with shareholder interests.

RECENT DEVELOPMENTS

Recent Earnings Announcement

Walmart's most recent fiscal year results demonstrated continued momentum across the enterprise. Total revenue increased approximately 5.6%, while operating income grew roughly 10.8%, reflecting both sales growth and expense leverage.

Walmart U.S. comparable sales increased 4.6%, supported by traffic growth and continued share gains across income cohorts. Management specifically noted that households earning more than \$100,000 remained an important source of incremental share gains, showing Walmart's expanding appeal beyond its traditional customer base.

Global eCommerce sales increased 24%, while China's eCommerce growth reached 28%, demonstrating continued strength in digital adoption. These results support the company's omni-channel strategy and international monetization opportunity.

Advertising also remained a standout performer. Global advertising revenue increased 37%, including 41% growth in Walmart Connect within the U.S. This remains one of the most attractive components of the Walmart story, given its higher-margin profile.

Guidance & Outlook

Management guided fiscal 2027 sales growth of approximately 3.5% to 4.5%, with operating income growth of 6% to 8% and adjusted EPS of \$2.75 to \$2.85.

This outlook implies continued operating leverage and solid execution. However, it also suggests a

normalized mid-single-digit growth profile rather than the type of earnings acceleration often associated with premium valuation multiples. At current share prices, investors appear to be discounting not only successful execution but also sustained multiple years of upside surprises. That leaves less room for error should growth moderate or margins disappoint.

AI & Automation

Walmart has increasingly positioned itself as a technology-enabled retailer through automation, fulfillment optimization, and AI-based customer engagement tools. The company's Sparky AI assistant is designed to help users plan meals, shopping trips, events, and product discovery. Management noted that customers using Sparky generated average order values approximately 35% higher than non-users. Around half of Walmart app users have engaged with the tool. Additionally, roughly 50% of eCommerce fulfillment center volume is now automated, supporting labor efficiency and faster delivery economics.

Walmart has also benefited from strategic partnerships with leading AI platforms, allowing consumers to purchase goods directly through conversational interfaces rather than visiting traditional retail websites. Walmart became one of the first major retailers integrated for shopping within OpenAI-powered experiences and has also expanded commerce capabilities through Google Gemini ecosystems. These partnerships strengthen Walmart's digital relevance, improve customer convenience, and position the company favorably as commerce increasingly shifts toward AI-assisted discovery.

These initiatives are strategically valuable and should improve productivity, engagement, and conversion over time. However, we believe investor enthusiasm around AI may be overstating the near-term earnings contribution of these tools and partnerships. Walmart remains fundamentally a retail operator, not a software company, and long-term valuation should still be anchored to cash flow generation rather than technology narrative expansion.

Walmart +

Walmart continues expanding its ecosystem through Walmart+, same-day delivery, fast delivery options, fuel discounts, and integrated digital checkout. Management noted that sub-three-hour delivery grew 60% during the year, with 35% of store-fulfilled orders using faster delivery options. These services can improve retention, convenience, and basket size while generating incremental fee income. This ecosystem is clearly strengthening the business model. However, much of this strategic progress appears already reflected in valuation.

INDUSTRY TRENDS

Walmart Inc. operates in an industry undergoing rapid change, shaped by inflation dynamics, tariff policy, digital commerce expansion, automation, and shifting consumer behavior. Scale retailers with efficient supply chains are generally positioned to outperform weaker competitors, but the broader retail landscape remains highly competitive and structurally low margin.

Walmart is one of the best-positioned companies within these trends. However, many of these advantages are well understood by investors and already reflected in the current valuation.

Tariff & Trade Policy

Trade policy remains an important variable for large retailers due to imported merchandise exposure. Walmart's greatest sensitivity is within General Merchandise categories such as electronics, apparel, home goods, and seasonal products, where imported sourcing is more common.

Management has indicated that cost increases are typically addressed through a mix of supplier negotiations, sourcing diversification, selective price increases, and internal efficiency gains. Walmart's scale gives it more flexibility than smaller competitors when navigating tariff pressure.

Grocery exposure is comparatively less sensitive because a larger portion of consumables are sourced domestically. This creates some insulation relative to discretionary-heavy retailers.

While Walmart is better positioned than most peers, renewed tariff escalation could still pressure margins or reduce discretionary demand. We view tariffs as a manageable but real earnings risk.

Consumer Trade Down

Persistent inflation and tighter household budgets have reshaped shopping behavior. Lower-income consumers remain highly price sensitive and increasingly prioritize essentials over discretionary spending.

At the same time, higher-income households have continued shifting spending toward Walmart in search of convenience, value, and consistent pricing. Management specifically highlighted share gains among customers earning more than \$100,000.

This dynamic benefits Walmart because it can simultaneously retain core value shoppers while attracting more affluent consumers. Few retailers are positioned as effectively across income groups.

However, this trend may moderate if inflation eases and consumers rotate back toward specialty or premium retailers.

Ecommerce & Omni-Channel

Retail increasingly requires a seamless combination of physical stores, digital ordering, fast fulfillment, and flexible delivery options. Walmart's store footprint gives it a competitive advantage because locations can function as both retail stores and last-mile fulfillment nodes.

Recent growth in same-day and sub-three-hour delivery demonstrates rising demand for convenience. The company's ability to leverage existing stores rather than build a pure-play logistics

network improves capital efficiency relative to some competitors.

This trend supports long-term share gains, though digital retail also remains more operationally complex and margin-sensitive than traditional in-store transactions.

Inventory Innovation

Artificial intelligence and automation are becoming increasingly important across retail logistics. Predictive inventory systems, automated fulfillment, route optimization, labor scheduling, and personalized marketing all have the potential to improve margins over time.

Walmart is ahead of many peers in this area, with approximately 50% of its eCommerce fulfillment center volume automated and continued investment in AI-enabled operations.

Companies lacking scale may struggle to fund these investments, which could widen competitive gaps across the industry.

That said, AI in retail should primarily be viewed as an efficiency enhancer rather than a transformative profit engine. We believe public markets may currently be overvaluing AI exposure across several sectors, including retail.

Retail Media

Retailers increasingly monetize customer traffic and data through advertising platforms, third-party marketplace fees, subscriptions, and fulfillment services.

For Walmart, Walmart Connect is one of the clearest examples, growing 41% in the U.S. during the most recent year. These businesses carry significantly higher margins than merchandise sales and can lift blended profitability.

This is a positive structural trend, though still relatively small compared with Walmart's total

revenue base. Strong growth rates are easier to achieve from a smaller starting point, meaning future percentage growth should naturally moderate over time.

MARKETS AND COMPETITION

Competitive Landscape

Walmart competes across grocery, consumables, general merchandise, eCommerce, pharmacy, warehouse retail, and digital services.

Amazon.com, Inc. remains Walmart's most formidable digital competitor. Amazon's strengths include marketplace scale, Prime loyalty, logistics infrastructure, cloud profits through AWS, and a rapidly growing advertising business. Amazon now generates more annual revenue than Walmart, exceeding \$700 billion, and benefits from structurally higher-margin business segments than traditional retail.

Costco Wholesale Corporation competes through a high-volume membership warehouse model centered on low prices, limited SKU count, and strong renewal rates. Costco's recurring membership fee income creates one of the most attractive and durable earnings models in retail.

Target Corporation competes more heavily in discretionary categories such as apparel, home goods, beauty, and seasonal products. While Target benefits from merchandising strength and owned brands, its revenue mix is more cyclical than Walmart's grocery-led model.

Dollar General Corporation overlaps with Walmart among value-focused households, especially in rural and lower-income markets, though with narrower assortment, smaller store formats, and weaker digital capabilities.

The Kroger Co. competes primarily in grocery and pharmacy, particularly in suburban markets. Kroger is a useful benchmark for food retail economics, where margins are typically thin and valuation multiples remain modest.

Walmart's primary advantage is breadth. Few competitors can combine grocery traffic, general merchandise scale, pharmacy convenience, membership optionality, digital fulfillment, and advertising monetization within one ecosystem.

Porter's Five Forces

Competitive Rivalry, High

Competition remains intense across nearly every category Walmart serves. Consumers can easily compare prices online, switch stores based on convenience, or respond quickly to promotions. This naturally constrains pricing power and keeps margins low across the sector.

Supplier Power, Moderate to Low

Walmart's purchasing scale gives it significant leverage with suppliers. Few companies can match Walmart's order volume or shelf access. However, major branded consumer goods companies still retain some bargaining power due to brand demand.

Customer Power, High

Consumers have abundant alternatives and low switching costs. Loyalty can be improved through Walmart+, convenience, and omni-channel integration, but price sensitivity remains elevated, particularly among lower-income households.

Threat of New Entrants, Low at Scale

While small retail entrants can emerge, replicating Walmart's national footprint, logistics network, sourcing relationships, and capital base would require enormous investment. This creates substantial barriers to meaningful large-scale entry.

Threat of Substitutes, Moderate

Substitution risk comes from niche retailers, direct-to-consumer brands, warehouse clubs, online marketplaces, and specialty stores. Walmart mitigates

this through one-stop convenience and price leadership.

Peer Comparison

Walmart's valuation should be viewed relative not only to retailers but also to the quality of peer earnings models.

Walmart Inc. generated approximately \$681 billion in annual revenue, making it one of the largest companies globally by sales. However, operating margin remains near 4.2% and net margin near 3.1%, reflecting the economics of mass retail. Walmart currently trades near 47.6x trailing earnings.

Amazon.com, Inc. generates more annual revenue than Walmart and benefits from higher-margin businesses, including AWS, advertising, and marketplace services. Amazon's consolidated operating margin is materially stronger than Walmart's, yet Amazon trades at a lower earnings multiple, highlighting how aggressively Walmart shares are currently valued.

Costco Wholesale Corporation generates materially less revenue than Walmart, roughly one-third of Walmart's sales base, but commands a premium valuation because of recurring membership fees, elite renewal rates, and highly efficient warehouse economics.

Target Corporation generates roughly \$100 billion in annual revenue, far below Walmart's scale. Target has historically produced competitive margins in stronger discretionary environments, yet trades at a fraction of Walmart's multiple.

Dollar General Corporation serves a similar value-focused customer base but lacks Walmart's scale, digital monetization, and fulfillment infrastructure. Walmart deserves a premium, though the valuation spread appears wide.

The Kroger Co. generates more than \$150 billion in annual revenue but trades at a materially lower multiple, illustrating how pure grocery models rarely

receive premium valuations due to thin margins and limited growth.

ECONOMIC OUTLOOK

Consumer Spending

Consumer spending is the most important external variable for Walmart's revenue outlook. Walmart recently noted continued share gains from households earning more than \$100,000 annually, while lower-income consumers remain more financially pressured and increasingly selective with spending.

This dynamic is strategically significant. Historically, Walmart's customer base was more concentrated among lower and middle-income households. Recent higher-income adoption expands the addressable market and supports stronger basket sizes, better discretionary conversion, and increased membership adoption.

At the same time, lower-income households remain highly relevant to total traffic volume. When these consumers face pressure from rent, food, fuel, or debt service costs, shopping behavior often changes through: Smaller baskets, reduced discretionary purchases, delayed replacement purchases, greater private-label mix, and fewer impulse items. These behaviors can pressure General Merchandise sales even if grocery traffic remains stable. Our base case assumes Walmart continues gaining share across demographics, though mix remains tilted toward lower-margin essentials rather than broad discretionary acceleration.

Inflation

Inflation directly affects Walmart through both nominal sales growth and customer affordability. If prices rise 3%, reported revenue can increase even with flat unit volume, but real purchasing power may weaken if wage growth does not keep pace. For Walmart, moderate inflation can be manageable because scale advantages allow the company to price competitively while preserving traffic. However, elevated inflation creates several risks:

Lower-income customer stress, weaker discretionary demand, increased trade-down within baskets, resistance to price increases, and pressure on unit volumes. When inflation moderates toward the low-to-mid 2% range, Walmart often benefits through steadier purchasing patterns and improved discretionary conversion. Because Walmart's business depends on transaction frequency, stable real purchasing power is often more valuable than nominal price inflation.

VALUATION

Cost Assumptions

Cost of goods sold is modeled as a gradually declining percentage of revenue, with gross margins expanding from 24.9% in fiscal 2026 to approximately 25.0% in 2027E and 26.0% by 2031E. This modest improvement is driven by a mix shift toward higher-margin advertising revenue, Walmart+ membership income, and third-party marketplace fees, which carry materially higher incremental margins than core merchandise sales. SG&A as a percentage of revenue declines from approximately 18.8% in fiscal 2026 toward 17.9% by 2031E, reflecting operating leverage from automation investments, AI-enabled productivity gains, and scale efficiencies across the distribution network. We forecast operating margins expanding from 4.2% in fiscal 2026 to approximately 5.9% by 2031E, driven entirely by business mix evolution and cost efficiency rather than aggressive pricing assumptions.

CapEx Assumptions

Capital expenditures as a percentage of revenue have risen steadily from approximately 2.0% in fiscal 2020 to 3.7% in fiscal 2026, reflecting peak investment in supply chain automation, store remodels, and digital infrastructure. Management guided fiscal 2027 capex at approximately 3.5% of net sales, signaling that the company is approaching the peak of its annual spending cycle on automation and store modernization. Consistent with management's guidance and the expectation that capital intensity will gradually moderate as the buildout matures, we

forecast capex declining from 3.5% of sales in 2027E to 3.0% by 2031E. This declining capex rate is a meaningful driver of free cash flow expansion in our model, with free cash flow growing from \$12.7 billion in 2027E to \$32.8 billion in 2031E as revenue scales and capital intensity eases.

WACC Calculation

Our WACC of 7.09% reflects Walmart's defensive cash flow profile, investment-grade credit rating, and low systematic risk as a necessity-driven retailer. We use a beta of 0.64, a risk-free rate of 4.13%, and an equity risk premium of 5.0%, producing a cost of equity of 7.33%. Our pre-tax cost of debt of 4.54% is derived from Walmart's yield on its outstanding long-term debt obligations. Applying a marginal tax rate of 25.0% produces an after-tax cost of debt of approximately 3.41%. It is worth noting that our WACC of 7.09% is already conservative and reflects genuine defensive characteristics. The gap between our intrinsic value and the current trading price implies the market is effectively pricing Walmart using a cost of capital well below any reasonable fundamental framework, further supporting our SELL thesis.

DCF/EP

Our DCF and Economic Profit models produce a consistent intrinsic value of \$83.24 as of today, derived from a last fiscal year end intrinsic value of \$82.98. Free cash flow grows from \$12.7 billion in 2027E to \$32.8 billion in 2031E as revenue scales and capital intensity moderates. The continuing value is calculated using a CV NOPLAT growth rate of 3.0% and a CV year ROIC of 20.3%. Sensitivity analysis across WACC and CV growth assumptions produces a valuation range of \$69 to \$91, with the current trading price of \$129.98 sitting above every combination of assumptions in our model.

DDM

Our DDM produces an intrinsic value of \$71.19 using a cost of equity of 7.33%, a CV EPS growth rate of 2.5%, and a CV year ROE of 17.6%. We

discount projected dividends of \$0.99 in 2027E, \$1.00 in 2028E, \$1.05 in 2029E, and \$1.09 in 2030E, plus a terminal stock price derived from a 17.8x P/E multiple on our CV year EPS estimate of \$5.04, producing a future stock price of \$89.56. The DDM's implied value of \$71.19 is the most conservative of our three outputs, reflecting Walmart's modest dividend yield of approximately 0.76% and subdued payout ratio. With the payout ratio declining from 34.5% in 2027E toward 22.5% by 2031E as earnings growth outpaces dividend growth, the DDM understates intrinsic value relative to the DCF but nonetheless confirms meaningful downside from current levels.

Relative Valuation

Applying the peer average forward P/E of 25.8x to our fiscal 2027E EPS estimate of \$2.87 yields an implied price of \$74.10, and applying the same multiple to our 2028E EPS of \$3.33 yields \$75.44. Walmart currently trades at approximately 44x our 2027E EPS, a dramatic premium to a peer group that itself trades at elevated multiples. The peer group includes Costco at 48.5x, Amazon at 27.0x, Target at 16.0x, Kroger at 13.8x, Best Buy at 10.3x, Dollar General at 23.1x, Alibaba at 25.8x, and Home Depot at 26.4x. Walmart's PEG ratio of approximately 3.4x based on our 2027E EPS and 6.3% five-year growth estimate compares unfavorably to Amazon at 1.9x and is inconsistent with the growth profile of a mature grocery-anchored retailer. The relative model is the only methodology that produces any scenario approaching the current price, and only when using the PEG method with aggressive growth assumptions, further reinforcing our view that the current valuation is narrative-driven rather than fundamentals-driven.

KEYS TO MONITOR

Our SELL rating and \$83 target price are grounded in a fundamental disconnect between intrinsic value and market price rather than a deteriorating business. Walmart is executing well operationally, and that execution is unlikely to change our rating on its own. What would change our rating is either a meaningful

contraction in the stock's trading multiple or a fundamental earnings inflection that closes the gap between our model and the current price.

We would move to a HOLD if the stock price declines toward \$100, at which point the downside risk becomes more balanced and the multiple, while still elevated at approximately 35x our 2027E EPS of \$2.87, begins to approach a level where the advertising and membership growth optionality could partially justify the premium. We would consider moving to a BUY if the stock approaches \$83, consistent with our DCF intrinsic value, or if forward EPS estimates are revised meaningfully above \$3.50 on a sustained basis, which would indicate the margin expansion story is materializing faster than our model assumes.

The primary variables future analysts should monitor are as follows. First, the advertising revenue growth rate. Our thesis depends in part on the recognition that advertising is a high-margin business that is still small enough relative to total revenue that it does not yet close the valuation gap. If Walmart Connect and global advertising revenue sustain growth above 35% annually and advertising exceeds 2% of total revenue, that mix shift would warrant a re-examination of our operating margin assumptions and potentially our target price. Second, operating income growth relative to guidance. Management guided fiscal 2027 operating income growth of 6 to 8%. A miss below 6% would validate our thesis that the margin expansion story is slower than the market is pricing. Sustained beats above 10% for two or more consecutive quarters would cause us to revisit our assumptions. Third, the stock's trading multiple relative to earnings revisions. If the forward P/E compresses toward 30x without a corresponding decline in earnings estimates, that would suggest the market is beginning to re-rate the stock toward fundamentals and would increase our conviction in the SELL. Conversely, if the multiple holds above 40x through multiple quarters of earnings beats, it would suggest the AI and ecosystem narrative has become a more durable valuation framework than our fundamental model anticipates. Fourth, ecommerce profitability. Management has confirmed that e-commerce is now profitable with double-digit

incremental margins. If ecommerce as a percentage of total sales accelerates meaningfully above 25% while maintaining those margin characteristics, the blended margin profile of the business would improve faster than our model reflects. Finally, any significant supply chain disruption, meaningful loss of market share in grocery to a competitor, or broader consumer spending deterioration that pushes comparable sales below 2% would accelerate the multiple compression we are anticipating and represent downside to even our \$83 target.

DISCLAIMER

Henry Fund reports are created by graduate students in the Applied Securities Management program at the University of Iowa's Tippie College of Business. These reports provide potential employers and other interested parties an example of the analytical skills, investment knowledge, and communication abilities of our students. Henry Fund analysts are not registered investment advisors, brokers or licensed financial professionals. The investment opinion contained in this report does not represent an offer or solicitation to buy or sell any of the aforementioned securities. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Henry Fund may hold an investment position in the companies mentioned in this report.