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The main objective of this study is to present the Walmart’s financial performance, making the important valuation of the company. The study used quantitative method using secondary sources. The finding of this descriptive study is that Walmart is the lucrative choice for the past, present and future investors with the estimation of terminal value at the end of the fiscal year 2026 estimated US $580 billion and the fundamental value of US $736 billion. The result shows that due to the emergence of stronger competitors and for being matured, Walmart is not performing as expected by investors, but its gigantic market size will make it capable of doing business profitably over a longer period of time. The ultimate decision given for the investors is to buy. The assumption is made on in-depth financial analysis with reliable data and calculation. The study has noteworthy importance to the financial market stakeholders.

Key words: Walmart, Financial Analysis, Retailing, Market Analysis, Valuation.

INTRODUCTION

Retail business is one of the prominent sectors worldwide. It is the United States of America (USA) 2nd largest sector contributing about 12% of employment, US $3.8 trillion and US $4.2 trillion including foods in sales. Privately owned multi-store retail chain in the (USA) can publicly trade on the stock exchange, although about 90% of the USA retail store are single-stored, but they account for less than half of all retail sales (Marcilla, 2014; Optus, 2013). The data provided for the retail sector of the United Kingdom (UK) in 2014 found output US $144 billion (5.6%), employment 2,789,000 (10%), business 300,000 (5.7%) where for Wholesale sector output was US $94 billion (3.7%), employment 1,123,000 (4%), business 300,000 (2.5%) (Rhodes, 2015). In 2015, e-commerce sales were US $341.7 billion, a 14.6% increase from 2014 where total retail sales increased 1.4% which was 7.3% of total retail sales (U.S. Department of Commerce, 2016). Multichannel retailers dominate today’s retail landscape that enjoy both benefits and face many challenges (Zhang et al., 2010). Retail sector in recent year in is in pressure because of the evolution and growth of supermarkets, online retailing
and recession (Madrid-Guijarro, García-Pérez-de-Lema, & Van Auken, 2017). The ever growing sector and its market leader needs frequent analysis, hence there are numerous researches done based on the retail business showing Walmart’s effect on diverse groups, causes of growth, business suitability in developing countries, business model evaluation, supplier performance and its power and more time to time but few were found in the field of financial analysis and valuation. Realizing the need of analyzing the world’s largest retail business organization, Walmart’s financial condition and financial market valuation, the researchers try to conclude stating its financial position in the market based on calculation of its fundamental market value for showing whether or not this giant market leading company is and will be profitable enough for investment.

This study attempts to present Walmart in depth, especially showing the financial data analysis and future growth prospects and possible forecasts. The objective of this study is to present the fundamental analysis in industry level and company level showing details of financial condition of Wal-mart Stores, Inc. and give an overview of the retail market for sustainability and consistency for growth (market efficiency). Again, this study aims at helping enhance financial concerns’ (investors, competitors, and market analyst) understanding about the company. There is also shown the SWOT analysis and at the end, given a recommendation for future expansion strategy for Walmart and purchasing decision for investors.

The study has a contribution in the related sector, retail firms, Walmart itself, and other stakeholders by providing important past financial performance, and future forecasts. The valuation is essentially important for financial investors as well as the retail sector analyst. The overall research is a source for conducting future study in the related field for financial analysts and other business researchers.

The report is fragmented into several sections which are also divided in any sub-sections. The remaining sections of this study mention research methodology, then theoretical framework. After that Walmart business presentation section included where market dynamics are described along with SWOT analysis and Free Cash Flow (FCF). The main part of the report is based on the market valuation and comparison has shown fragmenting into several sections by valuation approach, calculation of growth rate, Weighed Average Cost of Capital (WACC), terminal value, fundamental value. Finally, fundamental analysis, recommendation and conclusion are given. These sections essentially focus on topics of efficient market hypothesis, basics of consolidated accounts, key ratios, valuation & cost of capital basics, value drivers analysis especially following Peterson Drake & Fabozzis’ (2012) organizational framework.

METHODOLOGY

The financial performance of a retail company be analyzed in light of how its segment and competitors fared. The company’s future prospects should be assessed with the outlook for the segment, retail industry, and the economy (Souers, 2011, March 24). This is a descriptive study based solely on secondary data. These data are based on the company website, annual reports of the target company in different years, different financial websites, journal articles, newspapers, and book chapters. These data were both quantitative and qualitative in nature used to prepare the whole report. This report is based on two (See figure 1) analyses (Financial & Fundamental).
This report is based on some scholars in the field of financial investment approach and theory. British born American economist and professional Benjamin Graham (1894-1976) considered as the father of “value investing”. This analysis includes price which reflects objective measure as well value reflects a subjective measure (See equation 1).

**Equation 1 Price vs. value calculation.**

\[ P \equiv V \equiv \frac{E(x)}{k} \]

Thus, the price (P) is the representation of value (V) advocated by American Nobel laureate in Economics (2013), Eugene Fama (1939 - ) who is referred to as the father of modern finance. It is the division of expectation or expected value, the weighted average value of a random variable by the average weight. Value at risk and contribute to systemic risk are very different when measuring the risk of a financial institution (Lahdenperä & Koppinen, 2009). In this study, Harvard professor Williams (John Burr Williams; 1900 - 1989) Valuation Model (1938) for the discounted cash flow (See equation 2), a globally accepted method is used to find out the fundamental value of Walmart (See equation 3).

**Equation 2 Fundamental Value Calculation.**

\[
V = \sum_{i=1}^{T} \frac{FCF_i}{(1+WACC)^i} + \left( \frac{FCF_i (1+g)}{k} \right) \times \frac{1}{g(1+WACC)^6} 
\]

"K" is the risk factor that indicates the more the value of K is, the less the fundamental value of the firm is. "T" is the finite horizon between 10 years. FCF is the free cash flow.

**Equation 3 Compound Annual Growth Rate.**

\[
CAGR_{t, t+n} = \left( \frac{FCF_{t+n}}{FCF_{t}} \right)^\frac{1}{n} - 1
\]
THEORETICAL FRAMEWORK

Overview of Retailing

Firstly, assuming the necessity of defining the sector, the retail sector is defined. It is the economic sector that consists of the individual and companies involved in selling finished goods to the end consumers (Marcilla, 2014). The retail sector can be divided into two terms, namely specialized and non-specialized where non-specialized stores sell a variety of products such as supermarkets, department stores or convenience shops. In 2013, non-specialized retail sector accounted for 20% of retail business in the UK, 51% of retail turnover and 47% of employment (Rhodes, 2015, October 2). The retail industry possesses high competition, wide range of businesses, logistical and execution risks which are affected by macroeconomic factors like unemployment, mass traffic and consumer spending. There are some global retail key industry characteristics that include high standards of execution, high fixed cost, multiple growth models, and markets are to be local or regional in nature (Taylor, Chambers & Smith, 2011, June 30). Retail business model innovations are best viewed as the changes in design components (Sorescu, Frambahc, Singh, Rangaswamy & Bridges, 2011). There are six perspectives in retail innovation, namely (i) reducing effort for customers, (ii) consumers as innovation drivers, (iii) business model innovation, (iv) brand development, (v) education, training and skills, and (vi) emerging technology systems (European Commission, 2014). There are significant changes in the field of recent retail sector that help retailers, service providers, and manufacturers improve their practices and processes in a number of areas (Grewal & Levy, 2007). Effective retailing in the culturally rich and highly successful retail environment (American Girl Place) contexts is an intensely ideological affair. The centrality of retail place in ideological branding, experience acts as a link between cultural concept and strong retail brand ideology (Borghini et al., 2009).

Result of a statistic of top 250 retailers in the world done by Deloitte (2014) in 2012 shown that the aggregate retail revenue of top 250 companies were US $4.29 trillion and average revenue was US $17.15 billion; minimum revenue US $3.80 billion required to be among 250; composite revenue growth 4.9% and from 2007 to 2012 composite CAGR in revenue 4.6%; composite net profit margin 3.1%, return on assets 5.0%, revenue from foreign operations 24.3%, average number of countries where number of retailers operated 10.0 and 63.2% with foreign operations. According to Damodaran (2016, January 5), total retail markets in the world are 41,889 and 7,480 in the United States with net margin of 6.4%. Retail industry faced the experience of a decline in 2008 by 3.7%, which was the largest drop since 1980. As a result, some retailers like Circuit City, Steve and Barry’s anchor store closed their business in March 2009. At that time some reduced their selling price, e.g., Costco reduced average prices by 40%, others cut jobs, for example Marcy’s laid off employees, but Walmart was able to generating huge sales that resulted in a high profit experience (Yang, 2009, May 1). Currently USA retail industry is in crisis because of fast-moving competition and ultra-competitive global retailing environment and at the beginning of 2014, some largest retail chains announced store closing including Walmart, Costco, Home Depot, Best Buy etc.

“Tough economic times and emerging technologies are prompting consumers to change their buying behaviour, and smart retailers are responding with innovative in-store offerings (Cho & Trincia, 2012, p. 47)”.
Walmart Analysis: Critics and Praise from Literature

There are a number of researchers and financial analysts who made criticisms against Walmart. Stone (1997) stated that there is strong evidence that rural communities in the United States have been more adversely impacted by the discount mass Merchandisers (sometimes referred to as the Walmart phenomenon) than by any other factors. The biggest challenge to the retail industry coming from the world’s largest retailer Walmart that the incumbent store lost 17% and small proportion of customers account for the large proportion of losses e.g., 10% households account for 45% of the stores’ lost revenue while 20% customer account for almost 70% of the lost revenues (Singh, Hansen & Blattberg, 2004). From 1988 to 1994, Walmart’s supplier had a less gross margin following pricing concessions (low cost strategy and lower returns as market strategy) and dependency model of market power and do not perform financially well (Bloom & Perry, 2001; Mottner & Smith, 2009). Opening up the Walmart, country-level retail employment reduces by about 150 workers, implying each Walmart worker replaces about 1.4 retail workers, a 2.7% reduction in average retail employment as well as leads to decline in country-level retail earnings of about US $1.4 million, a 1.5%, resulting in a backdrop of rising retail employment, and lower employment growth and decline of middle class (Angotti, Paul, Gray & Williams, 2010; Neumark, Zhang & Ciccarella, 2008). Walmart employees earn lower average wages and receive less generous benefits than employees earn from many other large retailers. During 1992 to 2000, due to entry of a single Walmart store in a country lowered average retail wages in that country by 0.5% to 0.9%, in the general merchandise sector by 1% for each new Walmart store and for grocery store by 1.5% (Dube, Furman, 2005: Lester & Eidlin, 2007).

Walmart’s sale was greater than the world’s next three retailers combined sales namely Carrefour (France), Home Depot (USA), and Metro (Germany). In the long run, Wal-Mart’s impact on local, national, and global economies depend on the general-equilibrium responses of other firms, consumers, workers, and governments and on the strategic interactions between these players including Kmart, Target, or Costco and Wal-Mart (Basker, 2007). The Walmart ranked number one or two publicly traded companies in the USA and the world and the world’s most important privately controlled economic institution, have a range of effects resulting from the way of doing business in the case of wage rates, prices, and economies on a local, national, and global scale (Fishman, 2006). Last TMT, Walmart generated US $484 billion revenue recognizing that if Walmart is a country, assuming revenue equals GDP, it would be the world’s 28th largest countries in the world. According to Moody’s analysis focusing on four broad factors of (i) Business and Cash Flow Volatility, (ii) Market Presence, (iii) Execution Ability, (iv) Financial Ratios, Wal-Mart Stores, Inc. positioned 21st with rating Aa2 where Costco Wholesale Corporation positioned 4th having rating point A2 (Taylor, Chambers & Smith, 2011, June 30). Among top 50 e-retailers in 2012, Walmart’s sales rank are 3rd with e-commerce revenue of US $7,500, a 1.6% of total retail revenue and 20% growth rate where Costco’s position 18th with e-commerce revenue of US $2,100, at 2.1% of total retail revenue and 9% growth rate (Deloitte, 2014).

Walmart’s performance metrics emphasize 3 priorities of growth, leverage and returns for improving shareholders’ value (United States Securities and Exchange Commission, 2013, January 31). Walmart’s more than half revenue generates from grocery sales. Its financial success is based on low-cost labor, limited health benefits, and leveraging of government subsidies. Walmart’s performance has improved mainly for the adoption of new technologies and lower prices obtained from vendors. David Glass’s tenure characterized by business model aimed at increasing volume, e.g., building new stores, increasing product variety,
everyday low prices (EDLP), & high powered incentives for store managers. Lee Scott lessened EDLP as well as modified Walmart’s human resource practices by stimulating employees’ opportunities to the social pressure. The effectiveness of a business does not depend on its design, but on its implementation (Basker, 2007; Brea-Solís, Casadesus-Masanell & Grifell-Tatjé, 2014; Furman, 2005). Because of Walmart influence post-entry supplier profit increased by 17.77% where incumbents’ profits decreased only marginally for the total market. Supplier shipment increases to 45% markets and profit increases are highest for markets where incumbents offer wide variety of products and carry items that Walmart does not sell (Huang, Nijs, Hansen & Anderson, 2012). Walmart’s productivity is overwhelmed by its sophisticated inventory systems to pricing innovations. It was the largest private employer in the country and 8 of 10 shoppers shopped at Walmart (Furman, 2005). Walmart doesn’t hurt workers in case of employment opportunities and compensation and it is not the prime cause of death of downtown of increase of urban sprawl and USA imports rise hence it is neither saint nor a major sinner (Carden, 2007; Vedder & Cox, 2006).

According to Wal-Mart Stores, Inc., (2015), Walmart’s belief is that cash flows from continuing operations and its current position and access to capital markets will continue to be enough to meet the operating cash needs, including funding to seasonal buildups, capital expenditures, dividend payments and share repurchases. The concentration on a single business strategy works as the major success as about 95% revenues earned from the grocery business (Gough, 2013, April 9; Wei, Wang, Zhang & Ao, 2014). It has strong commercial paper and long-term debt ratings (See table 1) that enable to refinance debt becoming the favorable rates in capital markets.

Table 1 Walmart Debt Ratings by Different Rating Agency.

<table>
<thead>
<tr>
<th>Rating agency</th>
<th>Commercial paper</th>
<th>Long-term debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard &amp; Poor’s</td>
<td>A-1+ (capacity to meet its financial commitment on the obligation is strong)</td>
<td>AA (very strong capacity to meet its financial commitments)</td>
</tr>
<tr>
<td>Moody’s Investors Service</td>
<td>P-1 (High grade)</td>
<td>Aa2 (high quality and very low credit risk; Best ability to repay short-term debt)</td>
</tr>
<tr>
<td>Fitch Ratings</td>
<td>F1+ (High grade)</td>
<td>AA (High grade)</td>
</tr>
</tbody>
</table>

Source: Walmart 2015 annual report

According to Walmart 2015 report, credit rating is subject to revision any time and is not the guarantee to continue consistently over time. Credit ratings are affected by several factors like changes in operating performance, economic environment, condition of the retail industry, financial position, including total debt and capitalization, and changes in business strategy. Downgrade of credit ratings increases borrowing costs and impair the ability to access capital and capital markets. Walmart continually monitors its credit rating and long-term financing capacity using qualitative and quantitative factors. It calculates debt-to-total capitalization as support of making long-term financing decisions where total capitalization defined as debt and shareholders’ equity. Debt-to-total capitalization as of January 31, 2015 was 38.2% and January 31, 2014 was 42.6% (Wal-Mart Stores, Inc., 2015).
Generally, in any country, Walmart starts its operation, it becomes successful in cases like UK, Canada, Mexico, Brazil, Argentina but it is a matter of thought that in two countries namely Germany and South Korea its strategy failed. The reasons of failure in Germany, where they started its business in 1997 with the acquisition of 2 German companies Werkauf and Interspar by starting with a relatively small number of stores (95) causing hamper in economies of scale though was large enough build up a reputation at the beginning. Again, lack of consumer research, inadequate understanding of people, laws etc. act. By being aware of the German location preferences to shop, pricing regulations, the competitors they face and the new differentiation strategy could relief from such failure (Marcilla, 2014). Again, Walmart has stressed its well-known standardization of operations, whereas Carrefour better adapted to the Chinese economic culture (Chuang, Donegan, Ganon, & Wei, 2011). Recently, Walmart announced to shut down 154 locations in the USA, including 102 express locations, 23 neighborhood markets, 12 super centers, 4 Sam’s Clubs and others. Again, internationally it plans to close 115 stores in Latin America, though it expects to open new 50-60 super centers and 85-95 neighborhood markets in the USA in the fiscal year 2017 between 200 and 400 locations internationally. For this purpose, around 16,000 associates will be involved (Downing, 2016, January 29).

“Every Description of Wal-Mart is built on Superlatives: it is the world’s largest private employer, it generates the most sales, and it occupies the top spot in many U.S retail categories – from food to footwear to toys and television sets (Gereffi & Ong, 2007, p. 47)”

PRESENTATION OF WALMART

Business Dynamics and Financial Trends

Every week, on an average Walmart experiences 260 million customers in more than 11,500 stores and websites in 28 countries with 2.2 million associates (1.4 million in US only) worldwide (57% women). According to a Walmart 2015 annual report, in fiscal year 2015 its net sales were US $486 billion (1.9% increase) where global e-commerce sales were 12.2 billion (a 22% growth rate) and net profit US $27,147 million (1% growth) with revenue growth of more than US $9 billion, EPS US $4.99 (about 3% increase than earlier year) and 16% shareholder return (See table 2). According to Forbes (2015), it is number 20 world’s most valuable brands, 16 world’s biggest public companies among 2,000 companies where number 1 by the sale; 18 by profits; 135 in assets; 12 in market value.

Table 2 Comparison of Walmart’s fundamental ratios for 2 years.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Fiscal year Jan, 2015</th>
<th>Fiscal year Jan, 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROI (%)</td>
<td>16.90</td>
<td>17.00</td>
</tr>
<tr>
<td>ROA (%)</td>
<td>8.01</td>
<td>8.10</td>
</tr>
<tr>
<td>ROE (%)</td>
<td>20.76</td>
<td>21.00</td>
</tr>
<tr>
<td>Financial Leverage</td>
<td>2.50</td>
<td>2.69</td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>0.54</td>
<td>0.58</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>8.11</td>
<td>8.08</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>0.97</td>
<td>0.88</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.24</td>
<td>0.20</td>
</tr>
<tr>
<td>Gross Margin (%)</td>
<td>24.3</td>
<td>24.3</td>
</tr>
</tbody>
</table>
### SWOT Analysis of Walmart

SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis is the technique used for the structured planning to oversee and search for the company’s internal strengths and weaknesses as well as external opportunities and threats from the environment outside the business. Based on the knowledge of the business environment in which Walmart operates, assumptions believed to be reasonable, the SWOT analysis of Walmart (See table 3) is summarized in the table below:

#### Table 3 Walmart SWOT Analysis.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>✷ The largest in size with greater scale of operations internationally</td>
<td>✷ Disruption in the e-commerce websites and mobile applications</td>
</tr>
<tr>
<td>✷ Consumer confidence and acceptance of stores, clubs and e-commerce sites (loyal clientele)</td>
<td>✷ Disruption in the supply chain for unavailability of goods and transports to carry out</td>
</tr>
<tr>
<td>✷ Combination of digital and physical retail initiatives</td>
<td>✷ Costs for relocation of stores, clubs and facilities</td>
</tr>
<tr>
<td>✷ Strong historical financial performance and Economies of scale</td>
<td>✷ Labor lawsuits</td>
</tr>
<tr>
<td>✷ Lower prices (cost leadership) of goods and services</td>
<td>✷ Lack of differentiation</td>
</tr>
<tr>
<td>✷ Consistent, high quality goods supply available on demand</td>
<td>✷ High employee turnover</td>
</tr>
<tr>
<td>✷ Availability of competent, knowledgeable and capable personnel</td>
<td>✷ Negative publicity and public perception</td>
</tr>
</tbody>
</table>
| ✷ Availability of attractive investment opportunities and digital retail acquisition for online shopping | ✷ Matured markets and limited product expansion
| ✷ Business expansion in new markets                                      |                                                                           |
| ✷ Availability of utilities for new and expanded units                   |                                                                           |
| ✷ Availability of skilled labors& efficient materials                    |                                                                           |
| ✷ Emerging markets                                                      |                                                                           |
| ✷ Alternative store formats                                               |                                                                           |
| ✷ Fast paced internet sales                                              |                                                                           |

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>✷ Globally changing market condition</td>
<td>✷ Inflation and deflation</td>
</tr>
<tr>
<td>✷ Inflation and deflation</td>
<td>✷ Currency volatility &amp; Market saturation</td>
</tr>
<tr>
<td>✷ Changes in laws-regulations and tax rates</td>
<td>✷ Cyber-attacks, online gaming &amp; costs for information security</td>
</tr>
<tr>
<td>✷ Unanticipated changes in business goals, conflict of interests &amp; local communities’ resistance</td>
<td>✷ Intense competition and increasing competitors’ powers</td>
</tr>
</tbody>
</table>

### Free Cash Flow (FCF) Forecasts

Table 4 Historical Financial Data.

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>348,650</td>
<td>378,799</td>
<td>405,607</td>
<td>408,214</td>
<td>421,849</td>
<td>446,950</td>
<td>469,162</td>
<td>476,294</td>
<td>485,651</td>
<td>482,130</td>
</tr>
<tr>
<td>Gross Margin %</td>
<td>24.2</td>
<td>24.4</td>
<td>24.5</td>
<td>25.4</td>
<td>25.3</td>
<td>25.0</td>
<td>24.9</td>
<td>24.8</td>
<td>25.1</td>
<td></td>
</tr>
<tr>
<td>Operating Income</td>
<td>20,497</td>
<td>21,996</td>
<td>22,798</td>
<td>23,950</td>
<td>25,542</td>
<td>26,558</td>
<td>27,801</td>
<td>26,872</td>
<td>27,147</td>
<td>24,105</td>
</tr>
<tr>
<td>Operating Margin %</td>
<td>5.9</td>
<td>5.8</td>
<td>5.6</td>
<td>5.9</td>
<td>6.1</td>
<td>5.9</td>
<td>5.6</td>
<td>5.6</td>
<td>5.0</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>11,284</td>
<td>12,731</td>
<td>13,400</td>
<td>14,335</td>
<td>16,389</td>
<td>15,699</td>
<td>16,999</td>
<td>16,022</td>
<td>16,363</td>
<td>14,694</td>
</tr>
<tr>
<td>Earnings Per Share USD</td>
<td>2.71</td>
<td>3.13</td>
<td>3.39</td>
<td>3.70</td>
<td>4.47</td>
<td>5.02</td>
<td>4.88</td>
<td>5.05</td>
<td>4.57</td>
<td></td>
</tr>
<tr>
<td>Dividends USD</td>
<td>0.67</td>
<td>0.88</td>
<td>0.95</td>
<td>1.09</td>
<td>1.21</td>
<td>1.46</td>
<td>1.59</td>
<td>1.88</td>
<td>1.92</td>
<td>1.96</td>
</tr>
<tr>
<td>Payout Ratio %</td>
<td>23.0</td>
<td>27.9</td>
<td>27.2</td>
<td>30.5</td>
<td>29.0</td>
<td>32.2</td>
<td>32.0</td>
<td>34.8</td>
<td>40.2</td>
<td>41.8</td>
</tr>
<tr>
<td>Book Value Per Share USD</td>
<td>14.91</td>
<td>16.26</td>
<td>16.71</td>
<td>17.88</td>
<td>19.49</td>
<td>20.86</td>
<td>22.30</td>
<td>22.70</td>
<td>24.51</td>
<td>25.16</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>4,498</td>
<td>5,417</td>
<td>11,648</td>
<td>14,065</td>
<td>10,944</td>
<td>10,745</td>
<td>10,743</td>
<td>10,142</td>
<td>16,390</td>
<td>15,912</td>
</tr>
<tr>
<td>Free Cash Flow Per Share USD</td>
<td>1.08</td>
<td>1.33</td>
<td>2.19</td>
<td>3.32</td>
<td>2.98</td>
<td>3.09</td>
<td>4.21</td>
<td>2.88</td>
<td>4.18</td>
<td>4.93</td>
</tr>
<tr>
<td>Working Capital</td>
<td>-5,166</td>
<td>-10,869</td>
<td>-6,441</td>
<td>-7,230</td>
<td>-6,591</td>
<td>-7,325</td>
<td>-11,878</td>
<td>-8,160</td>
<td>-1,994</td>
<td>-4,380</td>
</tr>
</tbody>
</table>

### Cash Flow Ratios

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>EBT Margin</td>
<td>5.44</td>
<td>5.33</td>
<td>5.15</td>
<td>5.41</td>
<td>5.58</td>
<td>5.46</td>
<td>5.49</td>
<td>5.18</td>
<td>5.11</td>
<td>4.49</td>
</tr>
<tr>
<td>Tax Rate %</td>
<td>33.56</td>
<td>34.20</td>
<td>34.19</td>
<td>32.35</td>
<td>32.20</td>
<td>32.56</td>
<td>31.01</td>
<td>32.87</td>
<td>32.20</td>
<td>30.31</td>
</tr>
<tr>
<td>Asset Turnover (Average)</td>
<td>2.41</td>
<td>2.41</td>
<td>2.48</td>
<td>2.44</td>
<td>2.40</td>
<td>2.39</td>
<td>2.37</td>
<td>2.34</td>
<td>2.38</td>
<td>2.39</td>
</tr>
<tr>
<td>Return on Assets %</td>
<td>7.80</td>
<td>8.09</td>
<td>8.20</td>
<td>8.58</td>
<td>9.33</td>
<td>8.39</td>
<td>8.57</td>
<td>7.86</td>
<td>8.01</td>
<td>7.29</td>
</tr>
<tr>
<td>Financial Leverage (Average)</td>
<td>2.46</td>
<td>2.53</td>
<td>2.50</td>
<td>2.41</td>
<td>2.64</td>
<td>2.71</td>
<td>2.66</td>
<td>2.69</td>
<td>2.50</td>
<td>2.48</td>
</tr>
<tr>
<td>Return on Equity %</td>
<td>19.67</td>
<td>20.18</td>
<td>20.63</td>
<td>21.08</td>
<td>23.53</td>
<td>22.45</td>
<td>23.02</td>
<td>21.00</td>
<td>20.76</td>
<td>18.15</td>
</tr>
<tr>
<td>Cap Ex as a % of Sales</td>
<td>4.49</td>
<td>3.94</td>
<td>2.84</td>
<td>2.98</td>
<td>3.01</td>
<td>3.02</td>
<td>2.75</td>
<td>2.75</td>
<td>2.51</td>
<td>2.38</td>
</tr>
<tr>
<td>Free Cash Flow/Sales %</td>
<td>1.29</td>
<td>1.43</td>
<td>2.87</td>
<td>3.45</td>
<td>2.59</td>
<td>2.40</td>
<td>2.71</td>
<td>2.13</td>
<td>3.37</td>
<td>3.30</td>
</tr>
<tr>
<td>Free Cash Flow/Net Income</td>
<td>0.40</td>
<td>0.43</td>
<td>0.87</td>
<td>0.98</td>
<td>0.67</td>
<td>0.68</td>
<td>0.75</td>
<td>0.63</td>
<td>1.00</td>
<td>1.08</td>
</tr>
<tr>
<td>------------------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>0.90</td>
<td>0.81</td>
<td>0.88</td>
<td>0.87</td>
<td>0.89</td>
<td>0.88</td>
<td>0.83</td>
<td>0.88</td>
<td>0.97</td>
<td>0.93</td>
</tr>
<tr>
<td>Quick Ratio</td>
<td>0.20</td>
<td>0.16</td>
<td>0.20</td>
<td>0.22</td>
<td>0.21</td>
<td>0.20</td>
<td>0.20</td>
<td>0.20</td>
<td>0.24</td>
<td>0.22</td>
</tr>
<tr>
<td>Financial Leverage</td>
<td>2.46</td>
<td>2.53</td>
<td>2.50</td>
<td>2.41</td>
<td>2.64</td>
<td>2.71</td>
<td>2.66</td>
<td>2.69</td>
<td>2.50</td>
<td>2.48</td>
</tr>
<tr>
<td>Debt/Equity</td>
<td>0.50</td>
<td>0.52</td>
<td>0.53</td>
<td>0.51</td>
<td>0.64</td>
<td>0.66</td>
<td>0.54</td>
<td>0.58</td>
<td>0.54</td>
<td>0.55</td>
</tr>
<tr>
<td>Inventory Turnover</td>
<td>8.02</td>
<td>8.32</td>
<td>8.79</td>
<td>9.00</td>
<td>9.08</td>
<td>8.70</td>
<td>8.34</td>
<td>8.08</td>
<td>8.11</td>
<td>8.06</td>
</tr>
</tbody>
</table>

Source: Morningstar.com (2016), E.g., Amount in USD Million
Table 5 Historical FCF from 2006 to 2016.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount USD in Million</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>4,498</td>
<td>31.75</td>
</tr>
<tr>
<td>2008</td>
<td>5,417</td>
<td>16.97</td>
</tr>
<tr>
<td>2009</td>
<td>11,648</td>
<td>53.49</td>
</tr>
<tr>
<td>2010</td>
<td>14,065</td>
<td>17.18</td>
</tr>
<tr>
<td>2011</td>
<td>10,944</td>
<td>-28.52</td>
</tr>
<tr>
<td>2012</td>
<td>10,745</td>
<td>-1.85</td>
</tr>
<tr>
<td>2013</td>
<td>12,693</td>
<td>15.35</td>
</tr>
<tr>
<td>2014</td>
<td>10,142</td>
<td>-25.15</td>
</tr>
<tr>
<td>2015</td>
<td>16,390</td>
<td>38.12</td>
</tr>
<tr>
<td>2016</td>
<td>15,912</td>
<td>-3.00</td>
</tr>
</tbody>
</table>

Source: Morningstar.com (2016)

Table 6 Forecasted FCF from 2017 to 2026.

<table>
<thead>
<tr>
<th>Year</th>
<th>Calculation Using Formula</th>
<th>Amount USD in Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>FCF(_1) = 15,912 (1 + 0.0398)</td>
<td>16,545</td>
</tr>
<tr>
<td>2018</td>
<td>FCF(_2) = 16,545 (1 + 0.0398)</td>
<td>17,204</td>
</tr>
<tr>
<td>2019</td>
<td>FCF(_3) = 17,204 (1 + 0.0398)</td>
<td>17,889</td>
</tr>
<tr>
<td>2020</td>
<td>FCF(_4) = 17,889 (1 + 0.0398)</td>
<td>18,600</td>
</tr>
<tr>
<td>2021</td>
<td>FCF(_5) = 18,600 (1 + 0.0398)</td>
<td>19,341</td>
</tr>
<tr>
<td>2022</td>
<td>FCF(_6) = 19,341 (1 + 0.0398)</td>
<td>20,111</td>
</tr>
<tr>
<td>2023</td>
<td>FCF(_7) = 20,111 (1 + 0.0398)</td>
<td>20,911</td>
</tr>
<tr>
<td>2024</td>
<td>FCF(_8) = 20,911 (1 + 0.0398)</td>
<td>21,743</td>
</tr>
<tr>
<td>2025</td>
<td>FCF(_9) = 21,743 (1 + 0.0398)</td>
<td>22,609</td>
</tr>
<tr>
<td>2026</td>
<td>FCF(_{10}) = 22,609 (1 + 0.0398)</td>
<td>23,508</td>
</tr>
</tbody>
</table>

Equation 4 Calculation of Forecasted Free Cash Flow.

\[
\text{FFC} \, t+1 = \text{FCF} \, t \times (1 + \text{CAGR})
\]

Calculation 1 Calculation of CAGR from 2009 to 2016.

\[
\frac{\text{FCF}_{2016}}{\text{FCF}_{2009}}^{\frac{1}{8}} - 1 = \sqrt[8]{\frac{15,912}{11,648}} - 1
\]

\[
= \sqrt[8]{1.36607} - 1
\]

\[
= 1.0398 - 1 = 0.0398 \approx 3.98\%
\]

The tables (See tables 4, 5 & 6) showing the previous 10 years FCF and next 10 years forecasted FCF (See equation 4) indicates the changes in the FCF in different years where historical mean (average) FCF is US $10,502 million, median US $10,944 total of US $115,524 million for 10 years period from 2007 to 2016 having significant changes with outlier between US $3,070 and US $16,390.Walmart enjoyed the maximum percentage change in the FCF in 2009 (53.49%) and lowest FCF occurred in 2011 (-28.52%). Instead having fluctuations in FCF, it has consistent growth in different years with a considerable
amount which attract investors and debenture holders. The expected FCF for the year 2017 is forecasted US $16,545 million which may reach to US $23,508 million in 2026 with the increasing percentage change of about 3.83% estimated in FCF over 10 years periods from 2017 to 2026. The forecasts made on the basis of using formula where CAGR calculated for 8 years (2009-2016) omitting earlier two years FCF because in these years, Walmart had lower FCF comparing from the years of 2009 that may affect to obtain accurate CAGR hence researchers use 8 years’ CAGR to find forecasted FCF. The CAGR assumed from the 8 years FCF data from 2009 to 2016 as there is some consistency and found to be 3.98% (See calculation 1).

WALMART VALUATION AND COMPARISON

Perpetual Growth Rate

Calculation 2 CAGR Calculation.

Calculation of CAGR from 2007 to 2016.

\[
\text{CAGR}_{2007, 2016} = \left( \frac{\text{FCF}_{2016}}{\text{FCF}_{2007}} \right)^{\frac{1}{10}} - 1
\]

\[
= \frac{15,912}{4,498} - 1
\]

\[
= 3.53757 - 1
\]

\[
= 1.1347 - 1
\]

\[
= 0.1347
\]

\[
\approx 13.47\%
\]

Calculation of CAGR from 2012 to 2016

\[
\text{CAGR}_{2012, 2016} = \left( \frac{\text{FCF}_{2016}}{\text{FCF}_{2012}} \right)^{\frac{1}{5}} - 1
\]

\[
= \frac{15,912}{10,745} - 1
\]

\[
= 1.48087 - 1
\]

\[
= 0.48087
\]

\[
\approx 8.17\%
\]

Calculation of CAGR from 2017 to 2026

\[
\text{CAGR}_{2017, 2026} = \left( \frac{\text{FCF}_{2026}}{\text{FCF}_{2017}} \right)^{\frac{1}{10}} - 1
\]

\[
= \frac{23,508}{16,545} - 1
\]

\[
= 1.42085 - 1
\]

\[
= 0.42085
\]

\[
\approx 3.57\%
\]

To see the growth rate for a company it is useful to get the compound growth rate for a period of years as the value of different years vary considerably. When value for investment changes from one year to another year then CAGR is the useful measure to determine annual growth rate. CAGR (See calculation 2) per year found for Walmart is 13.47% for 10 years and 8.17% for 5 years period in case of FCF that means over the period of last 10 years operations, Walmart’s overall growth was 13.47% where for the last 5 years it reduced to 8.17% even if we consider 8 years period from 2009 to 2016, CAGR diminishes to only 3.98% which indicates the market competition and the internal weaknesses and external threats hampered its consistent growth rate even if it expanded its markets and had been continually improving business which is according to Walmart 2014 report, total shareholder returns (CAGR) is 12% and 16% based on Walmart annual report 2015. In terms of total liabilities and equity
 investment, Walmart’s investment grew from US $138,187 million (2006) to US $203,706 million (2015) over 10 years period and its CAGR is 3.96%. It indicates the clear picture of growth on the investment overtime with a stable return throughout its operations over time even though the investment is volatile and fluctuating one year to another. And for the period of 5 years (2011-2015) with balances of US $180,663 in 2011, its return is 2.43%. The forecasted period’s (2016-2020) CAGR found 3.57%. According to Cohagen, Khalil & Zhang (2016), the growth prospects estimated are 13.76% in 2016, 19.44% in 2017, and 33.25% in 2018 where growth rates are 2.79%, 2.93%, and 2.84% respectively.

**Weighted Average Cost of Capital**

Normally, the company’s assets are financed by two terms: shareholders’ equity and total short term and long term debt. Stockholders’ equity is the market capital for the business. WACC is the average cost incurred for these equity and debt, which is weighted against every dollar the company finances. In this case to calculate WACC, we need calculating cost of equity (K_e) and cost of debt first (K_d) as there are two financing options (See figure 2).

Figure 2 Input source of cost of equity and cost of debt.

### Calculating Cost of Equity, K_e

The cost of equity (See equation 6) for a company represents the compensation that the market demands in exchange for its ownership of assets and for bearing the risk of such ownership. The higher cost of equity indicates the future nature of company as risky. Risk-free rate, market return and equity risk premium are associated with the calculation of cost of equity. Risk-free rate is the rate at which for a specific market, the investors have no risk of acquiring that interest for their investment. Market return is the rate of return the investors can expect from the specific market they invest. On the other hand, equity risk premium is the excess return over the market free rate. Beta or beta coefficient (See equation 5) is the systematic or volatility risk of a company in comparison of a market portfolio. The Walmart cost of equity calculation was US $5.14 (See calculation 3).

Equation 5 Beta Coefficient.

\[ \beta > 1, \ K_e > R_M \]
\[ \beta = 1, \ K_e = R_F + 1 (R_M - R_F) = R_M \]
\[ \beta < 1, \ R_F < K_e < R_M \]
\[ \beta = 0, \ K_e = R_F + 0 (R_M - R_F) = R_F \]

Equation 6 Cost of Equity Calculation.

\[ K_e = R_F + \beta (ERP) \]

Calculation 3 Walmart Cost of Equity Calculation.
As of data observed until 31 Jan, 2016, it is found that,

USA $R_F = 1.94$
USA ERP = 4.93
USA $R_M = 6.87$
Walmart $\beta = 0.65$

Now, $K_e = R_F + \beta \times (ERP)$
$= 1.94 + 0.65 \times 4.93$
$= 1.94 + 3.2045$
$= 5.1445$
$\approx 5.14$ ($R_F < K_e < R_M = 1.94 < 5.14 < 6.87$)

**Calculating Cost of Debt, $K_d$**

Cost of debt (See equation 7) is the percentage of cost the company pays for its loans and bonds per year. It is higher than the cost of equity in general. The financial cost is the total cost incurred for the interest and other charges paid for the borrowings. The cost of debt for Walmart found about US $4.66 (See calculation 4).

Equation 1 Cost of Debt Calculation.

$$K_d = \frac{COF}{D} \times 100$$

Calculation 1 Walmart Cost of Debt Calculation.

From the Walmart 2015 Annual Report as of 31-01-2016 it is found,

$D = $50,381 in Million
$COF = $2,348 in Million

$K_d = \frac{COF}{D} \times 100$

$= \frac{2348}{50381} \times 100$

$= 0.04660487 \times 100$

$= 4.660487$

$\approx 4.66$

**Calculating WACC**

By the term WACC, we mean the rate at which the company is expected to pay to the security holders on an average for financing in the company’s assets. It is the cost incurred on the capital invested in the firm. Effective tax rate (See equation 8 and table 7) is the rate at which the company’s net profit before tax is taxed. The WACC (See equation 9) for Walmart is calculated using two formulae is US $4.39 (See calculation 5).

Equation 8 Calculation of Effective Tax Rate.

$$ETR = \frac{\text{Income Taxes}}{\text{Earnings Before Taxes (EBT)}}$$
Table 7 Walmart Tax Rate for 5 Consecutive Years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (USD Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-01-2016</td>
<td>6.558</td>
</tr>
<tr>
<td>31-01-2015</td>
<td>7.985</td>
</tr>
<tr>
<td>31-01-2014</td>
<td>8.105</td>
</tr>
<tr>
<td>31-01-2013</td>
<td>7.958</td>
</tr>
<tr>
<td>31-01-2012</td>
<td>7.944</td>
</tr>
</tbody>
</table>

Source: Walmart annual reports, internet

Equation 9 Weighted Average Cost of Capital Calculation.
\[
WACC = K_e \times \frac{E}{D+E} + K_d \times \frac{D(1-t)}{D+E}
\]
Or,
\[
WACC = \frac{K_e}{D+E} \times E + \frac{K_d (1-t)}{D+E} \times D
\]
Calculation 5 Walmart WACC Calculation.

Given,
\[K_e = 5.14\]
\[K_d = 4.66\]
t = 0.32 (Average of 5 years' tax rate (See table 7)) “t” is called “Effective Tax Rate (See equation 8)”

Here, \(K_e\) = Cost of Equity, \(R_F\) = Risk-free Rate, \(R_M\) = Market Return / Implied Market Return (ICOC), ERP = Equity Risk Premium (\(R_M - R_F\)) / Implied Market Risk Premium (IMRP), E = Equity, D = Debt, t = Effective Tax Rate (ETR), \(\beta\) = Specific Firm Risk Factor, COF = Cost of Finance/Financial Cost

Now,
\[
WACC = 5.14 \times \frac{81,394}{50,381} + 4.66 \times \frac{50.3 \times 81,394}{50,381} \times 0.32
\]
\approx 4.39

Terminal Value

The terminal value (See equation 10) of Walmart for 10 years would be US $580 billion (See calculation 6).
Equation 10 Terminal Value Calculation.

\[ TV = \frac{FCF_{10} \times (1 + g)}{g} \times \frac{1}{(1 + WACC)^6} \]

Calculation 6 Walmart Terminal Value Calculation.
In this calculation, it is found,
FCF\textsubscript{10} = US $23,508 Million
WACC or K = 4.39% or 0.0439

\[ g = \frac{1.22\%}{0.0439} \text{ or } 0.0122 \] (Source: USA GDP Growth Rate Based on IMF data for 8 years from 2008-2015)

E.g., \( g = \frac{\text{Perpetual Annual FCF Growth}}{\text{Perpetuity Earnings Growth Rate}} \approx \text{GDP growth} \)

The condition must be fulfilled in this perspective that \( K > g \) and \( k = WACC \).

Now, Terminal Value = \( \frac{FCF_{10} \times (1 + g)}{k} \times \frac{1}{(1 + WACC)^6} \)

\[
= \frac{23,508 \times (1+0.0122)}{0.0439 \times 0.0439} \times \frac{1}{(1+0.0439)^6}
= \frac{23,795}{1.2941} \times \frac{1}{1.0439^6}
= 750,625 \times 0.7727
= 580,008 \text{ Million}
\approx 580 \text{ Billion}

Fundamental Value

In this study, for the calculation of fundamental value (See calculation 7) based on FCF in discounted method (See table 8), the hypothesis based on perpetuity growth for Walmart found about US $736 Billion.

Table 8 Walmart terminal Value Calculation.

<table>
<thead>
<tr>
<th>Year</th>
<th>Forecasted FCF</th>
<th>( \frac{FCF_i}{(1 + WACC)^i} )</th>
<th>( \sum_{i=1}^{10} \frac{FCF_i}{(1 + WACC)^i} )</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>16,545</td>
<td>15,850</td>
<td>15,850</td>
</tr>
<tr>
<td>2018</td>
<td>17,204</td>
<td>15,787</td>
<td>31,637</td>
</tr>
<tr>
<td>2019</td>
<td>17,889</td>
<td>15,725</td>
<td>47,362</td>
</tr>
<tr>
<td>2020</td>
<td>18,600</td>
<td>15,663</td>
<td>63,025</td>
</tr>
<tr>
<td>2021</td>
<td>19,341</td>
<td>15,602</td>
<td>78,627</td>
</tr>
<tr>
<td>2022</td>
<td>20,111</td>
<td>15,541</td>
<td>94,168</td>
</tr>
<tr>
<td>2023</td>
<td>20,911</td>
<td>15,480</td>
<td>109,648</td>
</tr>
<tr>
<td>2024</td>
<td>21,743</td>
<td>15,419</td>
<td>125,067</td>
</tr>
<tr>
<td>2025</td>
<td>22,609</td>
<td>15,358</td>
<td>140,425</td>
</tr>
<tr>
<td>2026</td>
<td>23,508</td>
<td>15,298</td>
<td>155,723</td>
</tr>
</tbody>
</table>

Walmart Fundamental Value for 2026,
Calculation 7 Walmart Fundamental Value Calculation.

\[ V_{2026} = \sum_{i=1}^{10} \frac{FCFi}{(1 + WACC)^i} + \left( \frac{FCF_{10} (1 + g)}{k - g} \right) \times \frac{1}{(1 + WACC)^6} \]

\[ = 155,723 + 580,008 \]

\[ = 735,731 \text{ Million} \]

\[ \approx 736 \text{ Billion} \]

**Market Value**

Market value (See calculation 8) can be assessed as the measure of market capitalization and enterprise value which calculations are not identical and interchangeable, but they offer the appropriate way to compare the similar companies.

**Market Capitalization**

Market capitalization is the measure of evaluating a company’s size, growth and risk for the expectation of a particular stock and is used to identify the competitors in the same sector. Generally, companies are categorized as large, mid or small according to the market capitalization where in general, the large companies pose far less risk than small capital stocks, but slower growth that may experience quick growth at the cost of high risk. Share price alone is not the only determinant of a company’s overall value that the higher share price of a company does not mean the more worth of that company. The market value (See equation 11) of Walmart found in our calculation is US $260.38 Billion where their prime competitors Costco possesses US $62.94 Billion.

Equation 11 Market Value Calculation.

\[ MV = (\text{Share Price}) \times (\text{Number of Shares Outstanding}) \]

Calculation 8 Market Value Calculation.

**Walmart MV Calculation:**

As of Jan 31, 2015, it is found,

Share Price = US $80.71

Number of Shares outstanding = 3,226,062,652

\[ \text{MV} = 80.71 \times 3,226,062,652 \]

\[ = 260,375,516,643 \]

\[ = 260.38 \text{ Billion} \]

**Costco MV Calculation:**

As of Jan 31, 2015

Share Price = US $142.99

Number of Shares outstanding = 440,180,000

\[ \text{MV} = 142.99 \times 440,180,000 \]

\[ = 62,941,338,200 \]

\[ = 62.94 \text{ Billion} \]
Enterprise Value

A more accurate valuation than market capitalization that omits some important factors of the company in the overall valuation is enterprise value which calculation is made taking into consideration, it’s both market capitalization and all debt obligations and then subtract cash and cash equivalents. It is used to identify undervalued and overvalued companies. A company with good earnings, dividend policy and large market capitalization may have serious debt obligations that can be found from enterprise value. In these cases, comparing with the similar companies, the company having a relatively larger enterprise value (See table 9) should be better decision for purchasing.

Table 9 Comparison of Historical Enterprise Value.

<table>
<thead>
<tr>
<th>Company</th>
<th>Financial Year</th>
<th>31-Jan-15</th>
<th>31-Jan-14</th>
<th>31-Jan-13</th>
<th>31-Jan-12</th>
<th>31-Jan-11</th>
<th>31-Jan-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>WALMART</td>
<td>Enterprise value</td>
<td>306.17</td>
<td>300.18</td>
<td>297.93</td>
<td>259.31</td>
<td>227.97</td>
<td>245.76</td>
</tr>
<tr>
<td></td>
<td>Growth Rate (%)</td>
<td>1.96</td>
<td>0.75</td>
<td>12.96</td>
<td>12.09</td>
<td>-7.8</td>
<td></td>
</tr>
<tr>
<td>COSTCO</td>
<td>Enterprise value</td>
<td>60.61</td>
<td>48.31</td>
<td>40.63</td>
<td>32.67</td>
<td>31.22</td>
<td>22.01</td>
</tr>
<tr>
<td></td>
<td>Growth Rate (%)</td>
<td>16.81</td>
<td>6.04</td>
<td>18.41</td>
<td>20.13</td>
<td>29.49</td>
<td></td>
</tr>
<tr>
<td>TARGET</td>
<td>Enterprise value</td>
<td>61.40</td>
<td>50.67</td>
<td>60.81</td>
<td>55.96</td>
<td>49.73</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Growth Rate (%)</td>
<td>17.47</td>
<td>-20.01</td>
<td>7.97</td>
<td>11.14</td>
<td></td>
<td></td>
</tr>
<tr>
<td>KROGER</td>
<td>Enterprise value</td>
<td>43.12</td>
<td>26.64</td>
<td>19.83</td>
<td>19.19</td>
<td>19.08</td>
<td>20.24</td>
</tr>
<tr>
<td></td>
<td>Growth Rate (%)</td>
<td>38.21</td>
<td>25.56</td>
<td>3.25</td>
<td>0.56</td>
<td>-6.05</td>
<td>-6.30</td>
</tr>
</tbody>
</table>

Source: Gurufocus.com (2016); Stock-analysis-on.net (2016); Ycharts.com (2016)
i.e., Amounts are in USD in Billion

Analytical Comparison

Finally, the table (See table 10) in this study makes the comparisons with significant competitors of Walmart in retailing.

Table 10 Investment decision for Walmart and its major competitors.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Walmart</th>
<th>Costco</th>
<th>Target</th>
<th>Kroger</th>
</tr>
</thead>
<tbody>
<tr>
<td>(+) Fundamental Value or Intrinsic Value (Value Drivers)</td>
<td>306</td>
<td>61</td>
<td>61</td>
<td>43</td>
</tr>
<tr>
<td>(-) Market Value</td>
<td>260</td>
<td>63</td>
<td>47</td>
<td>34</td>
</tr>
<tr>
<td>(=) Undervalued/Overvalued Firm</td>
<td>46</td>
<td>-2</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Decision for Investors (Buy/Sell)</td>
<td>Overvalued (Strong Buy)</td>
<td>Undervalued (Sell)</td>
<td>Overvalued (Buy)</td>
<td>Overvalued (Buy)</td>
</tr>
</tbody>
</table>
Here, Fundamental Value (Market Value of Assets or Enterprise Value) = Market Value of Equity + Market Value of Debt and, Market Value = Market Capitalization

RECOMMENDATION AND CONCLUSION

Fundamental Analysis and Recommendation

The success of retail business is neither straightforward nor even; it is a journey with enormous obstacles arising from a number of factors and elements (Prepletaný, 2013). Walmart operates in a highly competitive environment in all the country where they serve. Walmart is influenced by a number of factors including economic conditions, consumer disposable income, credit availability, debt levels and buying patterns, cost of goods, rate of interest and tax, customer preferences, labor costs, unemployment, inflation and deflation, fluctuations in currency exchange rate, prices of fuel and energy, climate change, pattern of weather, costs of insurance, catastrophic events, pressures from competitors and more. In these circumstances, surviving for established retailers like Walmart is somewhat difficult but not impossible. In 2020, the most successful retailers would be those that consider a number of factors shaped by the retail realities in a flexible, scalable and agile model with the superior understanding of the customer considering income, behavior, demographic fragmentation, ability to analyze shopper data to extract valuable information that manage glocally, a concept of operating globally with an attention to local needs. The successful retailers in 2020 would build a true omnichannel operation, allowing customer access on a 24/7 basis any time anywhere thus embodying all the factors retailers and suppliers could manage the complexity and diversity of retailing (PwC, 2012). The technologies can create stronger links between associates and customers that may translate into sales growth and satisfied customers saving customers’ time with easier payment options using credit cards and mobile applications which present facilities in increased profitability, competitiveness and business model innovation (Deloitte, 2014; Hagel III, Brown, Prepletaný, 2013; Samoylova, Lobaugh & Goel, 2015). Launching and defining a winning data strategy for key business areas, mapping right metrics to decision processes can assist retailers achieve product differentiation, drive conversion, personalizes customer journey, and manage business more efficiently. Gaining more accurate and comprehensive body of data may lay the groundwork for business success now and in the future (Howe, 2014). Reassessing way of creating value, adjusting their asset mix to the focus on the role they want to play can reveal from the huge competition. When the future becomes uncertain and transformation is difficult with internal resistance, uncertainty can become possibility to choose a direction and shape the opportunity. Small moves smartly made can set big things in motion (Hagel III, Brown, Samoylova, Lobaugh & Goel, 2015; United States Securities and Exchange Commission, 2013, January 31). The lacking of Walmart such as adding more current assets should be considered and inventory shortage, the poor liquidity position should be removed. Walmart management should emphasize on the long-term view and restructuring the business now. Walmart’s investments in employees, supply chain and digital capabilities have been accelerating. This will create higher demand for Walmart job which in turn save money for long-run. Along with raising wages, investing in training its employees for ensuring greater customer service is necessary. Infrastructural investment can speed up delivery to stores and reduce the expiry and perish.

An investment should be made after consulting with financial advisor and with an understanding of several issues like market risk, currency risk, political and credit risks, the risk of economic recession and the risk that issuers of securities or general stock market conditions may worsen, over time (The McGraw-Hill Companies, 2011 April 2). Walmart’s growth is 3.5, total return 3.0, Efficiency 4.5, price volatility 4.0, solvency 5.0, income 4.0 out of score 5.0 where 1 is weak and...
5 is strong and estimated EPS .88 (2016), 4.14 (2017), 4.30 (2018) (The Street Ratings, 2016, March 13). There is stable performance along dividend yield as well as low earnings volatility and growth compared to S&P 500 companies makes it the best choice for a 10-year position (Gough, 2013, April 9). Downing (2016, January 29) stated that Walmart’s current Financial Strength are A++, Stock’s Price Stability 100, Price Growth Persistence 45, Earnings Predictability 100 and made projections for 2018-2020 is towards high share price 95 and low 80 high gain +50% and low +30% annual total return high 13% and a low 9%. Walmart has been possessing an excellent financial structure. If one wants to invest in this company, it is highly recommended to invest in the company as the trends are demonstrating that Walmart will be making exceptional progress ahead (Estopinan, 2014) although currently Walmart is undervalued regarding its recent performance and future projections (Cohagen, Khalil, & Zhang, 2016). The recent declining EPS for 2 years and operating income decline of 8.8% causes cheaper share value that was because of the raising salaries to reduce employee turnover. Again, it is investing much in digital sales that are not yet profitable. Constant currency revenue grew 2.8% where comparable stores’ sale grew 1.5%. It is well known that long-term gains can lead to short-term declines that are happening right now. The declining of the stock price makes the excellent time for buying of this industry leading organization’s share.

Concluding Remarks

Wal-Mart Stores, Inc. is in a solvent position and investors can Buy the shares for getting expected payback from their investment. It can be called a safe haven for them. Based on the analysis, it is clear that Walmart is still now dominating the retail industry not only in the USA but also in the world retailing sector. Although there exist some inconsistencies and slow down the rate of the company’s growth and profitability for being considered as it is at the maturity stage, it will lead the industry in future too. Although anticipated a slower expansion rate and having some limitations in valuation which is not the only determinant for making decisions, Walmart has the attractiveness for offering a significant expected returns and exciting opportunity over the estimated periods and forth.

Wal-Mart Stores, Inc., the world’s largest retail company, has been operating its business under a critical situation by being matured for some market segments which is concentrating on the earning stagnation by changing sentiment towards stalwart in the coming days.

This study is not out of limitations. We only describe the financial market analysis of retailing and to some extent wholesale sector and do not include other sectors. Among different retail companies, we consider only Walmart in our study. Our data analysis was based only on the secondary sources and primary sources of data collection omitted in. Despite, this study makes premise for future financial analysts do further study about retailing sector as well as other phenomena covering omitted scope of this study like country specific financial analysis of Walmart and more.

REFERENCES

A.B. Martínez, R.S. Galván, & S. Alam


