

Fundamental Analysis

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Ute Capital

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Proposed Decision

Company Name:	Walmart	Company Ticker:	WMT
Sector:	Consumer Staples	Industry:	Supercenters
Price, Valuation Date:	\$101.84	Target Price:	\$141.37
WACC Sensitivity Range	6.66-11.18%	Perpetuity Growth Range	1.8-3.5%
Action:	Buy	Number of Shares	100
Cost:	\$10,184.00	What to Sell:	SPY

Investment Thesis

Why to Buy: Walmart's grocery-led traffic and omnichannel options keep customer visits resilient, and their high margin flywheels are compounding and allow profits to grow faster than sales.

Base DCF

EBITDA Multiple Method - Base	
Terminal EBITDA at Year 5	130,547
Weighted Average Cost of Capital	8.3%
Exit EV / EBITDA Multiple	12.1x
Value at Year 5 ~ Terminal Value	1,582,503
Discounted Terminal Value	1,059,808
Present Value of Free Cash Flows	218,011
Enterprise Value	1,277,819
Cash, Cash Equivalents & STI	9,037
ST Debt	7,965
LT Debt	52,149
Net Debt	51,077
Minority/Non Controlling Interest	6,679
Equity Value	1,220,063
Shares Outstanding	8,024
Value Per Share	\$ 152.05
Current Price	101.84
Estimated Upside	49%

Free Cash Flow - Perpetuity Growth Method - Base	
Free Cash Flow at Year 5	81,582
Weighted Average Cost of Capital	8.3%
Perpetuity Growth Rate	2.5%
Perpetuity Value at Year 5 ~ Terminal Value	1,429,763
Discounted Terminal Value	957,518
Present Value of Free Cash Flows	217,860
Enterprise Value	1,175,378
Cash, Cash Equivalents & STI	9,037
ST Debt	7,965
LT Debt	52,149
Net Debt	51,077
Minority/Non Controlling Interest	6,679
Equity Value	1,117,622
Shares Outstanding	8,024
Value Per Share	\$ 139.28
Current Price	101.84
Estimated Upside	37%

Bull DCF

EBITDA Multiple Method - Bull

Terminal EBITDA at Year 5	170,060
Weighted Average Cost of Capital	6.7%
Exit EV / EBITDA Multiple	25.0x
Value at Year 5 ~ Terminal Value	4,251,507
Discounted Terminal Value	3,079,889
Present Value of Free Cash Flows	304,270
Enterprise Value	3,384,159
Cash, Cash Equivalents & STI	9,037
ST Debt	7,965
LT Debt	52,149
Net Debt	51,077
Minority/Non Controlling Interest	6,679
Equity Value	3,326,403
Shares Outstanding	8,024
Value Per Share	\$ 414.56
Current Price	101.84
Estimated Upside	307%

Free Cash Flow - Perpetuity Growth Method - Bull

Free Cash Flow at Year 5	108,488
Weighted Average Cost of Capital	6.7%
Perpetuity Growth Rate	3.5%
Perpetuity Value at Year 5 ~ Terminal Value	3,553,319
Discounted Terminal Value	2,574,105
Present Value of Free Cash Flows	304,270
Enterprise Value	2,878,375
Cash, Cash Equivalents & STI	9,037
ST Debt	7,965
LT Debt	52,149
Net Debt	51,077
Minority/Non Controlling Interest	6,679
Equity Value	2,820,619
Shares Outstanding	8,024
Value Per Share	\$ 351.52
Current Price	101.84
Estimated Upside	245%

Bear DCF

EBITDA Multiple Method - Bear	
Terminal EBITDA at Year 5	90,192
Weighted Average Cost of Capital	11.2%
Exit EV / EBITDA Multiple	6.0x
Value at Year 5 ~ Terminal Value	541,152
Discounted Terminal Value	318,556
Present Value of Free Cash Flows	176,689
Enterprise Value	495,246
Cash, Cash Equivalents & STI	9,037
ST Debt	7,965
LT Debt	52,149
Net Debt	51,077
Minority/Non Controlling Interest	6,679
Equity Value	437,490
Shares Outstanding	8,024
Value Per Share	\$ 54.52
Current Price	101.84
Estimated Upside	-46%

Free Cash Flow - Perpetuity Growth Method - Bear	
Free Cash Flow at Year 5	57,452
Weighted Average Cost of Capital	11.2%
Perpetuity Growth Rate	1.8%
Perpetuity Value at Year 5 ~ Terminal Value	623,519
Discounted Terminal Value	367,043
Present Value of Free Cash Flows	176,607
Enterprise Value	543,650
Cash, Cash Equivalents & STI	9,037
ST Debt	7,965
LT Debt	52,149
Net Debt	51,077
Minority/Non Controlling Interest	6,679
Equity Value	485,894
Shares Outstanding	8,024
Value Per Share	\$ 60.56
Current Price	101.84
Estimated Upside	-41%

WACC & Comparable Company Analysis

Weighted Average Cost of Capital Calculation			
Source: Bloomberg >>> WACC			
		Weighted Average Cost of Capital	8.35%
Equity		+ Debt	
Cost of Equity		Cost of Debt	
Risk Free Rate	4.16%	1 - Effective Tax Rate	76.62%
+ Equity Risk Premium	4.57%	Effective Tax Rate	23.38%
Beta	0.78	x Total Pre-Tax Cost of Debt	4.12%
x Country / Region Premium	5.89%	Note Rate x ST Debt as % of Total Debt	0.51%
Expected Market Return	10.05%	Short Term Debt as % of Total Debt	13.25%
- Risk Free Rate	4.16%	x Note Rate	3.85%
		+ Bond Rate x LT Debt as % of Total Debt	3.61%
		Long Term Debt as % of Total Debt	86.75%
		Bond Rate	4.16%
Total Cost of Common Equity	8.73%	Total Cost of Debt	3.16%
Market Cap	817,164	Total Debt	60,114.00
% of Total Capital	93.1%	% of Total Capital	6.9%
Share Price	101.84	ST Debt	7,965.00
Shares Outstanding	8,024.00	LT Debt	52,149.00
		Total Preferred Equity	0.0%
		Total Preferred Equity	-
		% of Total Capital	0.0%
		Preferred Equity and Hybrid Capital	-
		Total Capital	877,278

Exit EV / EBITDA Multiple Calculation	
Exit EV / EBITDA Multiple	12.1x
Ticker	EV/EBITDA
WALMART INC	20.57x
TARGET CORP	6.62x
COSTCO WHOLESALE CORP	31.49x
BJ'S WHOLESALE CLUB HOLDINGS	13.29x
OLLIE'S BARGAIN OUTLET HOLDI	18.29x
FIVE BELOW	11.08x
BEST BUY CO INC	7.19x
KROGER CO	8.18x
ALBERTSONS COS INC - CLASS A	6.40x
CVS HEALTH CORP	10.09x
AMAZON.COM INC	16.26x
Median	10.59x
IQR	8.08x
Up Limit	12.12x

Assumptions & Sensitivity

Comparable Metrics	EV/EBITDA, P/E	N Forecasted Years:	5
Revenue Growth Method:	5 Year CAGR - Inflation + Adjust	Base Rev. Growth Rate:	2.5%
Beta	0.5-1.1	Base WACC: Base Cost of Equity:	8.35% 8.73%
DCF Methods:	Perpetual Growth, EBITDA Multiple	Perpetuity Growth Rate: Exit EV / EBITDA Multiple:	1.8-3.5% 6.0x-25.0x

		Beta								
	8.35%	0.5	0.6	0.7	0.78	0.8	0.9	1	1.1	
Base WACC	3.50%	6.66%	6.99%	7.31%	7.57%	7.64%	7.96%	8.29%	8.62%	
	4.00%	6.89%	7.27%	7.64%	7.94%	8.01%	8.38%	8.76%	9.13%	
	4.50%	7.13%	7.54%	7.96%	8.30%	8.38%	8.80%	9.22%	9.64%	
Equity Risk Premium	4.57%	7.16%	7.58%	8.01%	8.35%	8.43%	8.86%	9.29%	9.71%	
	4.75%	7.24%	7.68%	8.13%	8.48%	8.57%	9.01%	9.45%	9.90%	
	5.00%	7.36%	7.82%	8.29%	8.66%	8.76%	9.22%	9.69%	10.15%	
	5.50%	7.59%	8.10%	8.62%	9.03%	9.13%	9.64%	10.15%	10.66%	
	6.00%	7.82%	8.38%	8.94%	9.39%	9.50%	10.06%	10.62%	11.18%	

E-commerce & Omnichannel capabilities (Growth Driver #1)

What are the Walmart E-commerce and Omnichannel Capabilities:

- Focused on building digital channels so customers can shop any way they want: delivery, pickup, ship-to-home, or in-store pickup
- Using over 4k stores as fulfillment hubs to make orders fast and cheap
- Walmart Marketplace allows third-party sellers to sell products on Walmart.com, Walmart takes small fee
- 90% of US population lives within 10 miles of a Walmart, and same day delivery reaches 93% of US population

Drives Growth through:

- Increasing traffic: Speed + convenience raise conversion, trip frequency, and basket size; store-fulfilled last mile cuts delivery distance/cost.
- Marketplace adds more selection without having to hold increased inventory

Impact

- Online sales > \$100B in 2024 (18% of total sales; up from ~11% five years ago). U.S. e-com ≈ 17% of Walmart U.S. sales. Q2 FY25 e-com +~26% YoY. Same-day delivery now reaches ~93% of U.S. households.
- Marketplace sales up 32% in 2024 with 150k sellers
- US e-commerce is #1 contributor to YoY operating-income improvement

DCF Considerations

- Increases Bull growth assumptions by 25 bps to revenue CAGR vs Base DCF
- Operating Margin Expands (gross margin up, SG&A % down)

Walmart Connect – high margin Ads (Growth Driver #2)

What is the strategy?

- Build a closed-loop ad platform (search/display/in-store/offsite) on top of Walmart's 1P purchase data.
- Attach ads to Marketplace traffic, using stores + app to capture signals end-to-end.
- Currently integrating and onboarding VIZIO; plan to sell combined retail media offering in 2026

Drives Growth Through

- Capital-light, high-margin dollars: retail media & seller fees have incremental margins ($\approx 70-80\%$) → EBIT grows faster than sales.

Impact

- Ads rev has increased by 26% YoY (+30% in the US), over half of income growth last quarter

DCF Considerations

- Lifts CAGR by 15 bps in Bull vs Base.
- High-margin retail media lifts operating margin and FCF conversion faster than sales growth.

Walmart Connect

Membership economics are compounding loyalty (Growth Driver #3)

What is the strategy?

- Build membership base (Walmart+ & Sam's Club) to keep shoppers in the ecosystem; layered perks like free shipping & pickup, cheaper fuel...
- Let grocery anchor weekly traffic; rebuild general merchandise margins as deflation normalizes.

Drives Growth through:

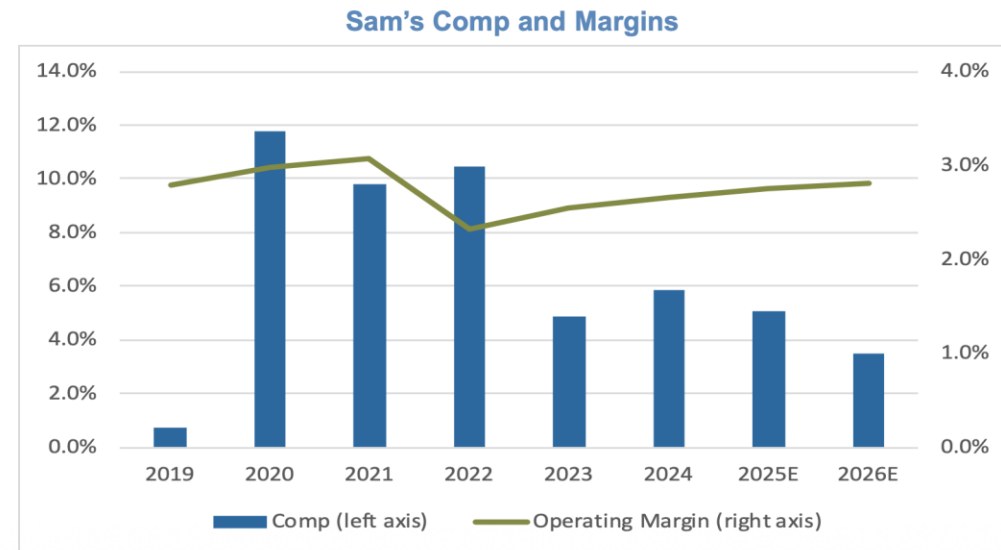
- Members shop more often and with bigger baskets; perks create lock-in and reduce churn.
- Membership → richer first-party data → better targeting → higher attach to Marketplace and Retail Media (high-margin).
- Grocery protects traffic in soft macros (downside buffer); as supply/promo normalize, GM margin recovers (upside lever).

Impact

- Walmart+ ~30M members (members spend ~2x online)
- Sam's Club renewal rate is >80%, membership income +12.5% (Q4 FY25)
- ½ of new members are Millennials and Gen Z
- Creates fee income floor

DCF Considerations

- Increases Bull growth assumptions by 10 bps to revenue CAGR vs Base DCF
- Memberships add recurring fees and lift spend per member - higher operating margin and steadier free cash flow.



Source J.P. Morgan

Food Deflation & Discretionary Sluggishness - Risk #1

What are the risks?

- Prices for core grocery/food categories decline , while sales volume and revenue growth for higher-margin, discretionary general merchandise (e.g., apparel, electronics) slow down significantly.

Impact?

- This results in a double-hit to the income statement: the total revenue number shrinks, and the margin mix is unfavorable.

Connection to DCF?

- This risk is quantified by the suppressed Revenue trajectory.
- Revenue (\$B) - \$680,985 in FY 2025 and dipping to \$602,428 in FY 2029 and declining thereafter.
- Lower gross margins

Competitive Intensity - Risk #2

What are the risks?

- Walmart faces an evolving threat from all competitors, including Amazon's expanding omnichannel logistics, Costco's superior membership model, and Target's curated brand selection.

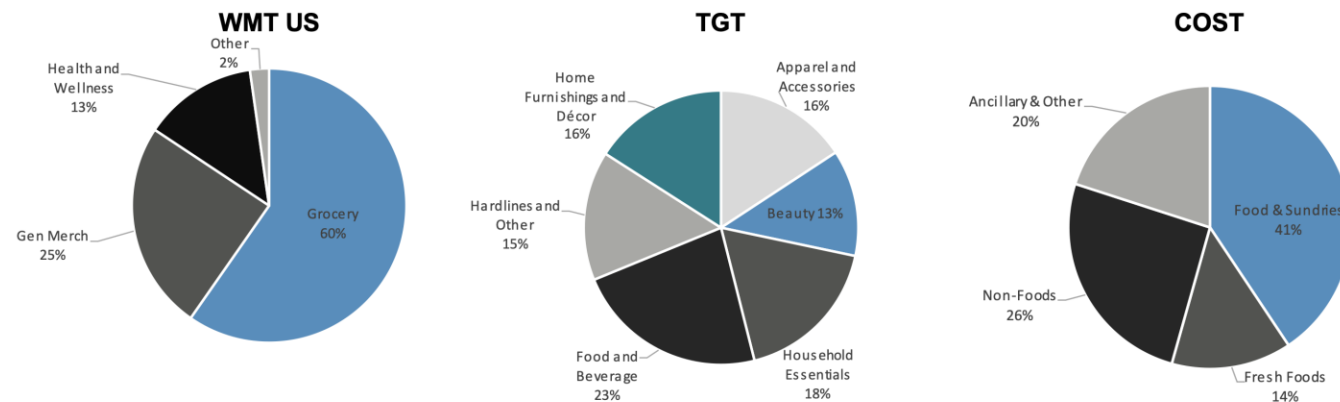
Impact?

- This competitive intensity limits Walmart's ability to raise prices and restricts the long-term success of its high-margin ventures like the third-party marketplace and Walmart Connect.

Connection to DCF?

- This competitive risk is quantified in the valuation model by assuming a lower permanent value for the company. We express this in the Terminal Value calculation by applying a bearish, lower Exit EV/EBITDA Multiple of 6.0x, reflecting a view that the company remains a low-growth retail stock.

Consumables Dominate WMT US and COST; TGT is More Discretionary / "A Merchant"



Source J.P. Morgan

Shrink & Loss Prevention - Risk #3

What are the risks?

- Persistent high levels of shrink (inventory loss due to theft, damage, or administrative error) are an unrecoverable cost that directly impacts the bottom line.
- Failure to invest effectively in loss prevention technology or difficulty in passing these costs on to customers means shrink, coupled with rising labor costs, becomes a structural burden that prevents Walmart from achieving operating efficiency.

Impact?

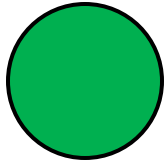
- SG&A expenses include many fixed or semi-fixed costs (like labor and security/loss prevention infrastructure) that fail to scale relative to sales.
- Uncontrolled shrink means the company's massive scale does not translate into profitability gains and results in no operating leverage.

Connection to DCF?

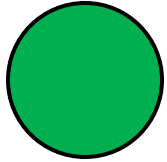
- This risk is quantified in the model through suppressed margins, specifically by linking high fixed costs to revenue. We assume that in the Bear Case, the SG&A expenses remain permanently elevated at 20.54% of revenue for all forecast years.

Conclusion

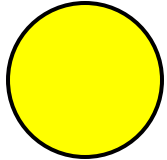
Recommendation: Buy



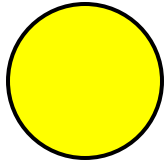
Large geographic exposure



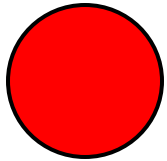
Cheap & Convenient



Groceries concentration – 60% of sales



Revenue concentration – 70% from US stores



Customers are “trading down” or not purchasing discretionary items

Thank You!

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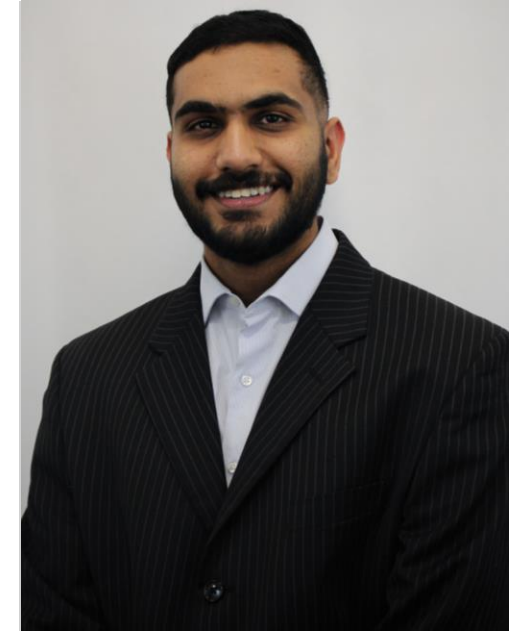
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