

A Fundamental Analysis and Valuation on Walmart

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Abstract. This paper analyzes Walmart's resilience and adaptability in a challenging economic landscape marked by inflation, geopolitical tensions, supply chain disruptions, and shifting consumer behaviors. As the world's largest retailer, Walmart has maintained a strong market position by leveraging its scale, cost-containment strategies, and digital transformation investments. Financially, Walmart demonstrates a balanced approach in liquidity, solvency, and profitability. Its efficiency-oriented working capital management and conservative debt structure offer flexibility in uncertain times. While profitability is strong, there is room for improvement in net profit margins. Strategic initiatives such as the adoption of artificial intelligence, e-commerce expansion through Walmart+, and sustainability practices position the company for future growth. International expansion into markets like Asia and Latin America further diversifies growth opportunities. Looking ahead, Walmart's focus on digital innovation, particularly the use of AI, IoT, and blockchain, will improve supply chain efficiencies and customer personalization. Additionally, its commitment to sustainability will bolster its competitive advantage, ensuring long-term growth and cementing its status as a retail industry leader.

Keywords: Fundamental Analysis, Valuation Analysis, Walmart, Forecast.

1. Introduction

Walmart, as the largest retailer in the world by market capitalization, holds a pivotal position in the global economy. Its expansive operations, encompassing traditional brick-and-mortar stores and a rapidly growing e-commerce platform, have established it as a leader in the retail industry. In today's volatile economic environment, Walmart's significance becomes even more evident as investors increasingly prioritize relatively stable sectors for portfolio diversification. Retail, driven by consistent demand for essential goods, has emerged as a favored choice, offering a measure of security amidst economic uncertainty. Currently, the global economy faces multifaceted challenges, including inflationary pressures, geopolitical tensions, supply chain disruptions, and evolving consumer behaviors shaped by post-pandemic realities. These factors profoundly affect retailing giants like Walmart, which operates across diverse markets and economic conditions. Analyzing Walmart's performance and strategic responses in such a climate provides valuable insights into how retail companies navigate these challenges while sustaining growth. From an investment perspective, Walmart represents a compelling case study. Historically, the company has been viewed as a stable stock, capable of weathering market turbulence. Its ability to generate steady revenue streams through the sale of essential consumer goods underpins its resilience [1]. Moreover, Walmart's strategic initiatives in digital transformation and supply chain management further enhance its competitive edge [2]. For instance, the company's subscription-based Walmart+ service, launched to rival Amazon Prime, demonstrates its commitment to adapting to the digital retail landscape. Walmart has also made substantial investments in sustainability and supply chain resilience. These efforts address critical concerns, such as minimizing operational disruptions and aligning with growing environmental, social, and governance priorities among investors. By enhancing operational efficiency and demonstrating a commitment to sustainability, Walmart strengthens its position in an increasingly conscientious market environment. This research delves into Walmart's role and performance within the broader retail industry, focusing on its response to macroeconomic factors and evolving consumer demands. Key areas of analysis include how the company sustains its competitive edge amidst rising costs, supply chain challenges, and inflationary pressures. Additionally, the study examines the effects of external shocks, such as geopolitical risks and

changing consumer spending patterns, on Walmart's operations. Understanding Walmart's strategies provides critical insights into the resilience of the retail sector during economic volatility. By examining the company's financial performance, digital transformation efforts, and sustainability initiatives, this research offers a nuanced perspective on the broader trends shaping the retail industry. As retail continues to play a central role in the global economy, Walmart serves as a benchmark for evaluating the sector's risks and opportunities, as well as its potential for stability and growth.

2. Financial Performance

Walmart, as the world's largest retailer, maintains a strong market position driven by its effective cost control, scale of operations, and diverse product mix [3]. The financial performance of Walmart is analyzed here, comparing it with major competitors, including Target and Dollar Tree, using liquidity, solvency, and profitability ratios to assess the company's financial health as of January 31, 2024.

Liquidity ratios provide an overview of a company's ability to meet short-term obligations using its current assets. The three primary liquidity ratios considered are the current ratio, quick ratio, and cash ratio, which are presented in Table 1 for Walmart, Target, and Dollar Tree.

Table 1. Liquidity ratios of Walmart and its competitors

	Walmart	Target	Dollar Tree
Current ratio	0.8	0.9	1.01
Quick ratio	0.22	0.27	0.17
Cash ratio	0.14	0.18	0.05

Walmart's current ratio of 0.8 indicates that its current assets are not sufficient to cover its current liabilities, which is lower compared to Target (0.9) and Dollar Tree (1.01). This suggests Walmart's liquidity position might be weaker relative to its competitors. The quick ratio for Walmart is also lower at 0.22 compared to Target's 0.27, showing that Walmart relies heavily on its inventory to cover short-term obligations. Finally, the cash ratio of 0.14, compared to Target's 0.18 and Dollar Tree's 0.05, reflects a lower cash reserve position, though still higher than Dollar Tree, indicating Walmart has limited immediate cash on hand for covering liabilities. The lower liquidity ratios of Walmart highlight its approach to working capital management, where it might keep lower levels of current assets relative to its liabilities to optimize cash flow efficiency. The efficiency-driven approach aligns with its lean operating model, but it also means Walmart may be less prepared for sudden cash needs compared to competitors like Target.

Solvency ratios provide insights into a company's long-term sustainability by assessing its use of debt to finance its operations. Table 2 presents key solvency ratios for Walmart, Target, and Dollar Tree, including the debt-to-equity ratio, leverage ratio, and long-term debt ratio.

Table 2. Solvency Ratios of Walmart and its competitors

	Walmart	Target	Dollar Tree
Debt-to-equity ratio	69.57%	132.80%	146.32%
leverage ratio	25.02%	34.61%	49.04%
long-term debt ratio	14.32%	26.96%	15.56%

The debt-to-equity ratio for Walmart is 69.57%, significantly lower than both Target (132.80%) and Dollar Tree (146.32%), indicating Walmart has a more conservative approach to financing through debt relative to its competitors. This suggests Walmart has lower financial risk, providing it with greater flexibility in managing interest payments and reducing susceptibility to economic downturns. The leverage ratio of Walmart, at 25.02%, is also lower than Target (34.61%) and Dollar Tree (49.04%), reflecting a lower level of total liabilities in comparison to its equity base. This highlights Walmart's cautious capital structure management strategy aimed at limiting excessive debt

accumulation and ensuring long-term financial stability [4]. Walmart's long-term debt ratio is 14.32%, which is significantly lower than Target's 26.96% and slightly below Dollar Tree's 15.56%. This indicates that Walmart has a lower proportion of its total assets financed by long-term debt compared to Target, aligning with a risk-averse debt management approach that aims to maintain low interest expenses over time. Walmart's long-term debt consists primarily of bonds issued, bank loans, and other forms of long-term borrowing, reflecting a balanced mix of borrowing instruments that provide financial flexibility.

Profitability ratios demonstrate a company's ability to generate profits and returns for shareholders. Table 3 presents Walmart's, Target's, and Dollar Tree's gross profit margin, net profit margin, return on assets (ROA), and return on equity (ROE).

Table 3. Profitability Ratios of Walmart and its competitors

	Walmart	Target	Dollar Tree
Gross profit margin	24.4%	24.4%	29.4%
net profit margin	2.3%	3.1%	5.1%
ROA	6.95%	7.23%	4.57%
ROE	18.53%	33.97%	-12.98%

Walmart and Target have an identical gross profit margin of 24.4%, which is lower than Dollar Tree's 29.4%. The similarity in gross profit margins between Walmart and Target reflects comparable pricing strategies and product cost structures, highlighting their efforts in cost management. However, the net profit margin differs significantly, with Walmart at 2.3%, Target at 3.1%, and Dollar Tree at 5.1%. This disparity suggests that Walmart has higher operating expenses or other costs not reflected in the gross profit calculation. These could include administrative costs, interest expenses, and tax obligations, which reduce net profitability. Dollar Tree's higher net profit margin is likely attributed to its niche market strategy, targeting value-conscious customers and maintaining lower operational costs. The return on assets (ROA), which measures how effectively a company uses its assets to generate profit, is 6.95% for Walmart, slightly below Target's 7.23% but higher than Dollar Tree's 4.57%. Walmart's ROA indicates efficient use of its asset base to generate returns, although Target appears to have a marginally better performance in this respect. The higher ROA for Target may result from its more targeted inventory management and store optimization efforts, which lead to greater asset efficiency. Walmart's return on equity (ROE) stands at 18.53%, significantly lower than Target's 33.97% but far superior to Dollar Tree's negative -12.98%. Target's high ROE suggests that it effectively uses equity to generate profit, likely resulting from its aggressive use of financial leverage, as reflected by its higher debt-to-equity ratio. Dollar Tree's negative ROE reflects underperformance, likely driven by inefficiencies or challenges in integrating recent acquisitions. Walmart's more moderate ROE indicates a balanced approach to leveraging equity and a stable return to shareholders without taking on excessive risk.

In terms of liquidity, Walmart shows a conservative approach, maintaining sufficient current assets while optimizing cash flow to minimize unused liquidity [5]. Compared to its peers, Target and Dollar Tree, Walmart's liquidity ratios are slightly weaker, which might indicate an aggressive inventory management strategy aimed at minimizing excess inventory and ensuring efficient operations. Regarding solvency, Walmart demonstrates financial prudence through lower debt levels compared to its competitors. The relatively low debt-to-equity and leverage ratios signify Walmart's effective management of its financial obligations, allowing it to reduce exposure to potential interest rate increases and economic downturns. The company's focus on limiting long-term debt provides it with financial flexibility and reduces vulnerability to fluctuating market conditions [6]. In terms of profitability, Walmart has strong operational performance, with gross profit margins comparable to Target but facing challenges in controlling additional expenses that reduce net profitability. The company's focus on operational efficiency is evident through its return on assets, which is high compared to Dollar Tree. However, Walmart's return on equity, while solid, trails behind Target, which is likely a result of Walmart's conservative use of debt compared to Target's more aggressive

leveraging strategy. Overall, Walmart's financial performance highlights a well-balanced approach to liquidity, solvency, and profitability, maintaining resilience amidst competitive pressures and economic uncertainty. The company's focus on cost control, digital transformation, and efficient use of resources positions it well for sustained growth.

3. Risk Assessment & Forecast

Walmart, as the world's largest retailer, faces a range of industry and business risks, including supply chain volatility, market competition, challenges in technology adoption, and changes in consumer behavior. Supply chain stability is critical for Walmart, and any disruptions can have significant consequences for the company. Adjustments in government policies, such as renegotiating trade agreements leading to tariff fluctuations, could directly impact supply chain costs. For example, higher tariffs on imports from China could increase product costs and pressure Walmart's profit margins [7]. Additionally, issues such as port congestion, global semiconductor shortages, and rising logistics costs further complicate supply chain management. Port congestion in major transit hubs can cause delays in product availability, and semiconductor shortages impact consumer electronics and logistics systems. Rising transportation costs, influenced by fuel price volatility and logistics labor shortages, add even more pressure. In response, Walmart has been investing significantly in supply chain resilience and digital transformation. Leveraging artificial intelligence and Internet of Things technologies, Walmart aims to optimize inventory management and logistics efficiency. IoT sensors allow real-time tracking of shipments, while AI-powered demand forecasting helps Walmart plan inventory more accurately. However, the full deployment of these technologies requires substantial time and investment, making it difficult to completely resolve supply chain risks in the short term [8]. Walmart also faces intense competition from traditional retailers like Target and Costco, which have cultivated strong brand loyalty by enhancing customer experiences and product quality. On the digital front, Amazon remains a formidable competitor with its well-established e-commerce infrastructure and Amazon Prime subscription model. Smaller e-commerce platforms are also gaining traction by offering personalized products and services, which forces Walmart to continuously adapt its product offerings, enhance its services, and strengthen digital capabilities. Walmart must also enhance its omnichannel capabilities to deliver a seamless shopping experience and remain competitive in the fast-evolving retail landscape. Changes in consumer behavior pose another important industry risk for Walmart. Inflationary pressures and economic uncertainty could lead to reduced spending on non-essential items, impacting Walmart's sales in discretionary categories. At the same time, growing consumer interest in sustainability and ESG practices drives Walmart to adjust its supply chain and product offerings. By introducing more sustainable products and partnering with local suppliers, Walmart is working to meet consumer expectations for environmental responsibility. From a business risk perspective, Walmart's extensive use of AI presents both opportunities and challenges [9]. AI is applied across various areas, including inventory management, demand forecasting, personalized recommendations, and logistics optimization. However, AI comes with risks such as data biases, inaccuracies, and privacy concerns. Algorithms trained on biased data may lead to errors in planning or personalization, potentially damaging customer relationships. Additionally, Walmart must ensure that the use of consumer data complies with privacy regulations, as failure to do so could result in reputational harm. Labor issues also pose challenges for Walmart. Rising minimum wages and labor shortages are pushing the company to improve employee compensation, increasing labor costs. Walmart has enhanced employee benefits to reduce turnover, but balancing these costs with maintaining competitive pricing is a challenge [10]. A motivated workforce is essential for smooth operations, and high turnover can negatively impact customer service quality and efficiency. Walmart's acquisition of Vizio was aimed at expanding into the smart home and consumer electronics market. However, this sector is highly competitive, with dominant players such as Amazon's Alexa and Google's Nest products leading the market. Walmart faces challenges in integrating Vizio's technology into its existing retail ecosystem and delivering

value in a saturated market. Ensuring the success of this acquisition requires alignment with customer needs and a clear differentiation of Walmart's smart home offerings. International expansion remains an essential component of Walmart's growth strategy, particularly in Asia and Latin America. However, expanding into these regions comes with complexities such as cultural differences, regulatory restrictions, and strong local competition. In India, strict retail regulations force Walmart to adopt alternative business models, such as its investment in Flipkart. In China, Walmart must contend with local giants like Alibaba and JD.com, which hold significant advantages in e-commerce and logistics. To adapt to evolving consumer demands, Walmart has introduced services such as Walmart+ and Walmart Health. Walmart+ aims to compete with Amazon Prime by offering benefits like fast delivery and fuel discounts. Its success depends on Walmart's ability to differentiate from competitors and attract members. Walmart Health is part of the company's diversification efforts, but entering healthcare involves challenges like regulatory compliance and building consumer trust. In the coming 1-2 years, Walmart plans to focus on several key initiatives to strengthen its market position. Walmart will continue to drive digital transformation across its supply chain, leveraging AI and blockchain to enhance logistics and reduce reliance on international suppliers. Walmart is expected to increase investment in Walmart+ to attract more subscribers and integrate Vizio's technology to launch competitive smart home products. In international markets, Walmart will likely increase its investments in India and Latin America, collaborate with local partners to overcome regulatory hurdles, and optimize its strategy in China to compete with domestic leaders. To meet growing demands for sustainability, Walmart is likely to expand eco-friendly product lines and enhance supply chain sustainability. Personalizing the shopping experience through AI-driven insights will also be a priority to boost consumer satisfaction and loyalty. Despite multiple challenges—such as supply chain issues, market competition, labor challenges, and technology adoption risks—Walmart's strategy of technological innovation, international expansion, and service diversification positions the company for continued growth over the next 1-2 years. Walmart's resilience and adaptability, combined with ongoing investments in digital and operational efficiency, provide it with the tools to navigate an uncertain global environment while maintaining its competitive edge. Through these initiatives, Walmart aims to strengthen its offerings and sustain growth despite the challenges posed by the evolving retail landscape.

4. Conclusion

As the world's largest retailer, Walmart has demonstrated resilience and adaptability in a challenging economic environment characterized by inflationary pressures, geopolitical tensions, supply chain disruptions, and changing consumer behavior. Walmart has maintained a strong market position by leveraging its scale, cost-containment strategies, and investments in digital transformation through its broad range of operations and diverse product offerings. Key financial metrics show that Walmart is balanced in terms of liquidity, solvency and profitability. Liquidity ratios indicate that Walmart has adopted an efficiency-oriented working capital management strategy, while a conservative debt structure highlights its financial prudence and provides flexibility against economic uncertainty. Profitability analysis shows that Wal-Mart's operating performance is solid, although net profit margins could be improved. Walmart's strategic initiatives, including investments in artificial intelligence, digital transformation, and sustainability, position it well for future challenges. Walmart+ and its enhanced e-commerce capabilities are designed to take market share from competitors such as Amazon, while international expansion into Asia and Latin America diversifies growth opportunities. The company's focus on environmental, social and corporate governance practices aligns with growing consumer demand for sustainable products and operations, further enhancing the company's competitive advantage. For Walmart in the next 3-5 years, I believe that digital innovation needs to evolve and that Walmart will likely expand its use of artificial intelligence, the Internet of Things, and blockchain to improve supply chain efficiencies, reduce costs, and enhance the customer experience through personalization. For global markets, strategic investments in

emerging markets such as India and Latin America will boost long-term revenue growth despite regulatory challenges. Secondly, for sustainability Walmart will continue to prioritize eco-friendly initiatives and enhance its reputation as a leader in sustainable retail practices. By implementing these strategies, Wal-Mart will strengthen its market position, achieve sustainable growth, and continue to be the retail industry's benchmark for resilience in the face of global economic uncertainty.

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