

Walmart Inc.

Company Analysis - Investment Rating

Analysts - Norbert Schmit & Victor Rodriguez

4 March 2025

date	03/03/2025	index	S&P 500	FDA rating	13
stock price	USD 97.59	country	US	FDA valuation	+
market cap.	USD 781.7 bn	freefloat	55 %	FDA sustainability	61%

Announcement

Increase in the Rating for Sustainability to 1 point; Total FDA Rating Raised to 13 points [15 Januari 2025]

Rationale

Walmart's progress on the shift to omni-channel retailing has strengthened its competitiveness and lifted the firm's growth prospects. Under CEO Doug McMillon, who has been at the helm since 2014, the US retailer finally responded more effectively to the rise of e-commerce. The build-up of a costly technology and fulfilment infrastructure took a toll on Walmart's profitability. Yet, the smooth integration of its brick-and-mortar retail network and its online sales channels has helped Walmart to successfully narrow the gap in competitiveness with e-commerce market leader Amazon. This progress is set to continue in the years to come. Helped by the further scaling of the online business, the firm's profitability is expected to keep recovering.

Walmart's multi-year strategic realignment was backed by the founding Walton family. Descendants of the founder have retained a strong influence on the firm's strategic direction through a large equity stake and their board representation. This backing helped Walmart to overcome initial conservativeness and internal reluctance to change. Walmart's realignment coincided with measures to improve the customer experience inside the physical stores. To address deteriorated worker morale, which was said to have contributed to prior years of weak performance, Walmart has lifted wages and made other improvements to labour conditions from 2015 onwards, though this was also due to tightening labour markets.

Walmart's improving prospects reflect more positively on the firm's governance, highlighting its capacity to adapt to a changing operating environment and take a more long-term perspective. The appointment of more board members with relevant experience such as in technology has also facilitated Walmart's adaptation. However, social and environmental risks remain elevated. Walmart's low-cost business approach benefits consumers who can shop at low prices at the discount retailer, but this may come at the expense of other stakeholders.

The firm is still known for its tough labour conditions while its fierce bargaining over prices with suppliers limits their means to invest in raising standards on human rights and labour conditions. Moreover, Walmart's limited goal-setting for its supply-chain greenhouse gas emissions signals modest ambition to push its suppliers to further reduce their climate footprint. On top of that, Walmart recently communicated that it is unlikely to meet its near- and medium-term targets for reducing its own operational greenhouse gas emissions.

The upgrade for the score on the sustainability dimension raises Walmart's FDA rating by one point to 13.

FDA rating		WMT	AD	AMZN	HD	LOW
Market leadership	(0 to 2)	1	1	1	1	1
Quality of management	(0 to 3)	2	2	2	2	1
Competitive advantage	(0 to 3)	2	1	2	2	2
Market growth	(0 to 1)	0	0	1	0	0
Market cyclicality	(0 to 1)	1	1	1	0	0
Financial strength	(0 to 5)	4	3	3	3	3
Consistency of earnings	(0 to 2)	2	2	1	1	1
Sustainability	(0 to 3)	1	3	1	3	3
FDA rating	(0 to 20)	13	13	12	12	11

* Walmart (WMT), Ahold Delhaize (AD), Amazon.com (AMZN), Home Depot (HD), Lowe's (LOW)

Valuation Recommendation

For many years, Walmart's profitability has been pressured by a shrinking portion of high-margin general merchandise sales and the heavy investment required to scale its e-commerce activities. The operating margin dropped from nearly 7 per cent over a decade ago to just 4 per cent in the fiscal year 2022/23. Similarly, the return on invested capital, based on Walmart's calculations, declined from over 18 per cent to 12.7 per cent. However, in the past two years, e-commerce losses have decreased significantly, driven by the rapid scaling of operations and fast-growing revenues in high-margin areas such as data ventures, advertising, marketplace transactions, membership fees, and third-party fulfilment services. This trend is expected to continue.

In April 2022, Walmart signalled it had reached a turning point, for the first time indicating that profitability would begin recovering gradually in the coming years. It now projects medium-term underlying operating income to grow by 4-8 per cent annually, outpacing anticipated sales growth of around 4 per cent over the same time frame. Despite this optimism, the ongoing shift to e-commerce continues to weigh on profitability since e-commerce is expected to remain loss-making or marginally profitable in the coming years, only a modest improvement in profitability is modelled in the near term.

Capital expenditures will remain elevated in the coming years, mainly due to further expansion of the technology and fulfilment infrastructure. Yet, Walmart is also finding more ways to use its existing stores as pick-up points for online orders and fulfilment centres, which provides the company with important savings. With more automation deployed on fulfilment, Walmart expects to minimise its dependence on labour. Progress on building a more sophisticated technology platform provides scalability at a lower marginal cost. These efforts position Walmart to sustain growth while improving operational efficiency.

For the current fiscal year, Walmart initially guided for a relatively modest 3-4 per cent constant-currency sales growth and a moderate further rise in profitability. Its modest guidance is partly explained by elevated social tensions and political uncertainties that could undermine consumers' appetite for spending in the US market. The imposition of import tariffs may lead to higher prices. Yet, also under these circumstances the firm's sourcing strength and ability to offer convenient shopping experiences via multiple sales channels at low prices will continue to support Walmart's competitive strength.

Company ratios

USD per share	2023	2024	2025e	2026e	2027e
EPS reported	1.92	2.42	2.64	2.90	3.24
EPS restated	2.22	2.51	2.63	2.88	3.23
Gross CF	4.18	4.51	4.97	5.32	5.77
Revenues	79.93	84.27	88.61	93.43	99.76
Book value	10.41	11.36	12.18	12.99	13.83
Net dividend	0.76	0.83	0.94	1.04	1.16
P/E reported	50.81	40.37	36.97	33.68	30.10
P/E restated	44.06	38.88	37.15	33.85	30.25
P/Gross CF	23.33	21.64	19.64	18.35	16.92
P/Sales	1.22	1.16	1.10	1.04	0.98
P/Book value	9.37	8.59	8.02	7.51	7.06
Dividend yield (%)	0.78	0.85	0.96	1.07	1.19
ROE (%)	21.42	22.20	21.77	22.39	23.54
ROCE (%)	16.94	17.96	17.87	18.73	19.73

Price target

USD mln	2025	2026	2027
Revenues	708,934	740,063	781,227
Operating margin	4.4%	4.6%	4.7%
Total operating result	30,915	33,694	36,934
Operating result after tax	23,495	25,607	28,070
Change in working capital	-313	-322	-444
Correction Cashflow	19,620	19,730	19,840
Depreciation & Amortization	13,817	14,351	14,929
Capital expenditures	-22,799	-23,780	-24,702
Free cashflow	33,820	35,586	37,693
Growth rate 2028 - 2032	8.0%		
Growth rate after 2032	3.8%		

Relative performance against peers

Company	WMT	AD	AMZN	HD	LOW
Country	US	NL	US	US	US
Price	97.59	33.97	205.02	389.69	246.2
Rel perf 1 yr (%)	78.3	35.8	27.2	13.6	12.8
PE 2025	37.2	12.3	26.5	24.0	18.4
PE 2026	33.8	11.2	21.6	22.3	16.1
Rel PE '25	1.6	0.5	1.1	1.0	0.8
Rel PE '26	1.6	0.5	1.0	1.1	0.8
EV/EBITDA '25	18.3	6.2	15.2	16.3	15.9
EV/EBITDA '26	17.0	5.9	12.5	15.7	15.4
Yield '25 (%)	0.96	3.71	0.00	2.67	2.44
Yield '26 (%)	1.07	4.03	0.00	2.87	3.17

Walmart (WMT), Ahold Delhaize (AD), Amazon.com (AMZN), Home Depot (HD), Lowe's (LOW)

WACC	Equity	Debt	
Risk free	5.0%		
Equity premium	5.5%		
Beta	0.73		
Cost	9.0%	3.0%	
Weight	85.0%	15.0%	
Result	7.7%	0.5%	8.1%

Present Value of Future CFs (USD mln)	945,883
Cash (USD mln)	9,037
Debt (USD mln)	-39,067
Equity value (USD mln)	915,853
Number of shares (mln)	8,010
Price target (USD)	114.00
Price (3-3-2025, USD)	97.59
Expected price return	16.8%

Risk Assessment

Headquartered in Bentonville, Arkansas, Walmart is a US retailer with operations in nineteen different countries. Its US activities still account for over 80 per cent of the firm's revenues and operating profits, though. Walmart was started by the entrepreneur Sam Walton in 1962. It has been stock-market listed since 1970. Descendants of the founder still control almost half of the firm's share capital. Their considerable voting power at shareholder meetings, and their presence on the board of directors, allowed them to retain a strong influence on the firm's strategic direction and its corporate culture. This likely contributed to the firm's solid results. Yet, at times, the family's tight control may also have hindered Walmart to swiftly adapt to important changes in the operating environment. For example, Walmart was late to respond effectively to the rise of e-commerce in its early stages.

Walmart currently operates more than 10,000 brick-and-mortar stores worldwide. These are complemented by e-commerce activities that have become the firm's main growth engine, currently accounting for nearly a fifth of total revenues. About half of the physical stores are situated in the US. Most of them are so-called Supercenters. These are large-format stores with extended opening hours and diversified offerings including groceries and general merchandise such as clothing, electronics, and home furnishing goods. Walmart also operates smaller-format stores with a much narrower assortment. Abroad, its stores are relatively smaller than in the US, although this varies per country.

In 1983, Sam Walton also diversified Walmart into the warehouse club segment when he opened his first Sam's Club store. This became a large retail chain in itself and one of the world's leading membership-only warehouse clubs. Walmart is also a large operator of pharmacies and runs optical stores and gasoline stations. Walmart's most important non-US markets are Mexico, Canada, India, and China. In total, Walmart employs about 2.1 mln people worldwide. In the US roughly 1.6 mln people work for Walmart, which turns it into this country's largest private employer.

Background of the firm

Sam Walton acquired his first retail experience when operating multiple franchise stores. With his own Walmart discount stores, he continued focusing on general merchandise, not selling groceries. That would remain so for the next three decades. To make sure it could undercut competitors on pricing, the firm made various strategic choices that helped to keep costs low. It opted, for instance, for out-of-town locations, which helped to keep land and building costs down while minimising rivalry from established retailers dominantly present in urbanised communities. Opting for out-of-town locations also helped to bypass various regulatory restrictions, for instance on issues such as store opening hours.

Offering low wages furthermore helped keep employee costs under control. Walmart's initial focus on Southern and lower Midwestern states of the US can be explained by the relatively weak position of labour unions in those regions. Sam Walton's cost consciousness was preserved well after he retired from the firm. In addition, the more Walmart increased the scale of its operations, the more the firm's efficiency and bargaining power over suppliers increased, adding further to the firm's competitive strength. Today, Walmart's stores remain non-unionised all over the US. Rivals running unionised stores typically pay higher wages, putting them at a cost disadvantage.

Walmart's growth significantly accelerated in the 1980s and 1990s, helped by Walmart's pioneering in sourcing goods from China and other low-cost markets. By now, the firm had extended its presence across almost the entire US. Walmart had started generating higher profits than more established US rivals such as Sears and Kmart while fully displacing many independent store owners and other retail chains.

Sam Walton eventually stepped down as CEO in 1988. He was succeeded by David Glass, who led the firm's expansion into food and non-food groceries. He also successfully launched Walmart's first foreign operations, in Mexico and Canada. Along with the firm's ascent, though, public scrutiny of Walmart's labour practices increased. Walmart's reputation for pushing down wages and employee benefits in the areas where it had opened stores appeared to have no impact on store visits, though.

Decelerated growth in the 2000s and the early 2010s

In 2000, H. Lee Scott succeeded David Glass as the third CEO of Walmart. This would mark the start of a weaker performance. With its Supercenters already scattered all over the country, Walmart tried further rolling out smaller-format stores in areas not very suitable for its largest stores. These proved more difficult to make profitable, though, partly because they relied more on low-margin groceries and had limited space for selling the high-margin general merchandise. Walmart also struggled to retain its growth momentum in foreign markets. Entries in various European and Latin American countries, with operating environments highly different from the US, were no success.

Walmart's growth was also held back by its strong dependence on low-income households. Various attempts to attract more middle- and upper-income customers, mostly with upgraded assortments, were not successful. The firm's challenges further increased under CEO Mike Duke, at the helm relatively briefly, from 2009 through 2013. Under his leadership, Walmart made a huge mistake by underestimating the swift rise of e-commerce. Amazon had already turned into a formidable rival, especially in the high-margin non-food

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product categories that were so important for Walmart. After his ousting, it would still take the firm a few years more to regain a strong footing.

Competitive strength in brick-and-mortar retailing

Walmart's competitive strength is enhanced by superior economies of scale that help to keep its cost structure efficient. An estimated 90 per cent of the US population currently lives within less than 10 miles of a Walmart store. The firm's national market share in US groceries is estimated at over 25 per cent. It provides Walmart strong bargaining power over suppliers. The runner-up to Walmart is Kroger, with an estimated share well below 10 per cent. Kroger is a pure-play supermarket operator, not also offering an extended general merchandise assortment like Walmart. Other main rivals, including Ahold Delhaize and Albertson's, only have regional competitive strength, not nationwide.

Walmart strives to maintain price gaps with rivals as part of its everyday-low-prices business model. Price leadership in groceries serves as a store-traffic generator, aimed to tempt shoppers to also buy general merchandise items which carry much higher profit margins. Walmart's price leadership can help to win over customers from other traditional brick-and-mortar retail chains like Target and Kohl's, which tend to attract more higher-income shoppers. Rivals competing at a lower price point, such as the so-called dollar store chains, tend to offer less choice. Walmart also competes with retail chains specialised in certain product categories, such as Best Buy in consumer electronics or Sephora in beauty products, as well as with the stores of consumer brands with reputations strong enough to attract traffic on their own.

Walmart's pharmacies, competing with the likes of Walgreens and CVS, are also an important traffic generator. For a while, Walmart also experimented with medical practices to further extend its role in the US healthcare market. Unlike Amazon, though, which still continues to expand its healthcare offering, Walmart suspended this ambition in 2024. Declining reimbursement rates increased the challenge of running a profitable healthcare business. In the severely complex US healthcare environment, insurers and large hospital systems have grown increasingly powerful over the years. Walmart has started closing the health centres it had been opening since 2019 and shut down its virtual-care offering. Walmart is still experimenting with further extending its healthcare offering in Mexico, though.

The Sam's Club membership warehouse chain, which accounts for about 15 per cent of Walmart's revenues, has Costco and BJ's Wholesale Club as its main US peers. In recent years, Sam's Club has benefited from the increased popularity of the membership retail format. Sam's Club is also successful in Mexico and China. Warehouse chains sell their offering at lower prices but with a more limited product selection than Walmart's Supercenters. However, they charge membership fees for the privilege of lower prices. Especially Costco is a prominent rival to Walmart's Sam Club. It tends to attract wealthier shoppers than Sam's Club.

Successfully expanding omni-channel retailing

Fear that increasing online sales would cannibalise its existing more profitable sales at brick-and-mortar stores likely explains Walmart's initial reluctance to embrace e-commerce. This only started changing with the appointment of Doug McMillon as CEO in 2014. The takeover of online firm Jet.com in 2016 marked an important turning point in Walmart's e-commerce strategy. Jet.com's founder oversaw Walmart's entire US e-commerce business for a period of five years. The full backing of CEO McMillon and Walmart's board of Directors helped him overcome a culture clash and invest in Walmart's technology infrastructure and the build-up of a nationwide network of fulfilment centres, an area where Walmart still significantly lagged Amazon.

In addition to selling online for its own account, Walmart strengthened the role of its marketplace, established in 2009 to help third parties reach out to Walmart's huge customer base. In the process, Walmart effectively copied Amazon's business model. Just like Amazon, Walmart also allows third parties to use Walmart's fulfilment network and delivery services. Third-party sellers can also use Walmart's logistics network to fulfil orders on platforms not owned by Walmart. Walmart additionally copied other aspects of Amazon's business model, such as introducing a paid loyalty membership plan and selling digital advertising. Next to bringing incremental revenues, these moves enable the collection of valuable data on the firm's customers and their purchasing habits, which can support Walmart's expansion in adjacent business lines such as financial services and can enhance growth in advertising.

Walmart currently operates as a truly omni-channel retailer that is indifferent to whether customers shop online or at its stores. It tries to use the superior competitive strength in groceries derived from its store network to close in on its main e-commerce rival. Amazon still mainly relies on its 2017 acquisition of brick-and-mortar supermarket chain Whole Foods Market for its presence in groceries. While Walmart is catching up and becoming a stronger number two in e-commerce, Amazon still commands an estimated 40 per cent of the US e-commerce market. Walmart's overall market share is still below ten per cent. Still, both Amazon and Walmart can continue gaining share from smaller companies as they benefit the most from important network effects that tend to reinforce the competitive strength of the market leaders.

International success limited to a few markets

While Walmart successfully entered Mexico and Canada, markets considered as natural extensions of its US business, it struggled in markets requiring more adaptation to local market dynamics, especially where legislative and regulatory frameworks were much less Walmart-friendly as compared to the US. Walmart failed, for example, in Germany and the UK in Europe, markets from which it has withdrawn.

Like European competitors such as Tesco, Carrefour and Ahold, which also tried and largely failed to successfully globalise their business in the 1990s, Walmart's expansion efforts also failed in several emerging markets. This in spite of those markets not yet having entrenched rivals in modern retailing and the abundant financial resources and expertise in logistics and supply-chain management of Western firms. In recent years, Walmart has withdrawn from Brazil and Argentina in South America and South Korea and Japan in Asia.

Still, Walmart has retained a strong competitive position in some parts of Latin America through its controlling stake in the separately listed entity Walmart de Mexico y Centroamerica (Walmex). Walmart also still competes in South Africa and neighbouring countries. Yet, China and India offer the most significant growth opportunities, despite the complex regulatory environment in these markets.

Growth opportunities in China and India

Walmart opened its first Chinese store in 1996. Fast-growing Chinese consumer spending and the modernity offered by Walmart's stores delivered good results from the start. In contrast with other markets, Walmart also benefited from the absence of restrictions to operate Chinese versions of its large-store Supercenter and Sam's Club store formats.

In China, Walmart overcame a growth blip in the 2010s, when some local brick-and-mortar rivals started successfully copying Western business models while they could benefit from their home advantage in understanding local shopping behaviour and establishing relationships with key stakeholders, including suppliers. Walmart also successfully adapted to the rise of e-commerce in China, after some initial struggles. Online revenues currently account for about half of its Chinese revenues, in line with the broader market in China's highly advanced e-commerce segment.

Walmart entered India in 2007, establishing a joint venture with Bharti Enterprises to run wholesale stores. This was seen as a first step to prepare for the start of retailing activities, with the expectation that restrictions on multi-brand retail for foreign owners would soon be lifted. The Indian retail market is underdeveloped and highly fragmented, offering attractive growth potential for foreign investors with

experience in modern retailing. Yet, restrictions have remained for foreign investors seeking to operate in India's retail market. Walmart took full control of the joint venture with Bharti in 2013 but currently still runs less than 30 wholesale stores.

Walmart's fortunes in India changed, though, when it acquired a controlling stake in India's leading online marketplace platform Flipkart, in 2018. This segment of the retail market is accessible for foreign investors, as long as they do not sell from owned inventory. Amazon had entered this segment in India before Walmart. The marketplaces earn income as facilitators providing technology and fulfilment services to third-party sellers. Through Flipkart, Walmart also acquired a controlling stake in India's leading digital payments app PhonePe and online fashion marketplace Myntra. Like elsewhere, e-commerce is booming in India. Abundant cheap labour helps to keep a lid on fulfilment and delivery costs in the country.

Foreign companies operating in India still have to reckon with regulatory interventions that tend to favour local merchants and distributors. This includes small mom-and-pop retailers, which constitute a formidable voter base for India's politicians. Larger domestic rivals, such as the retailers and e-commerce firms owned by Reliance Industries and Tata Group, tend to exploit their huge lobbying strength, too. Despite all this, Flipkart's growth has been sustained. Still, Walmart regularly states its intention to transition Flipkart into a publicly listed majority-owned subsidiary in the future. PhonePe is currently preparing for an IPO.

Financial strength

Walmart's strong financial position and scale benefits versus rivals allow for investments in technology much above what the rivals can afford. This reinforces the firm's competitive strength. Profit margins are notoriously thin in grocery retailing but high inventory turnover and the still relatively limited capital intensity of the business model help Walmart to generate robust free cash flows and high returns on invested capital. Economic cycles tend to have a limited impact on demand, albeit more so in groceries than in general merchandise.

During downturns, Walmart's discount business model attracts more shoppers, offering compensation for lower per-customer spending and steadying the operating cash flow trend. Walmart's ongoing shift to an omni-channel business model leads to temporarily elevated capital expenditures. Yet, this is expected to plateau in forthcoming years. The firm's approach to financial leverage is conservative. Walmart's net debt amounts to less than one time its annual operating cash flows. This leaves ample room for further raising dividend payments and share buybacks without imperilling required investments in the business.

FDA Research Methodology is based on a peer group analysis and uses the lowest risk alternative (the high quality government) as a reference point. In order to assess the risk, each company is evaluated on a number of criteria and a rating on a 20 points scale is assigned. The valuation recommendation is based upon the expected return on a twelve-month basis that is calculated using discounted cash flow or sum of the parts models.

Corporate Sustainability Assessment

Governance

The Walton family continues to have a strong influence on Walmart’s strategic direction and corporate culture. Descendants of the founder control almost half of the firm’s outstanding shares. This provides them substantial voting power at shareholder meetings and makes it virtually impossible to pass shareholder proposals they collectively disapprove of. They have also retained their representation on the board of directors, currently with two board members, of which one is Walmart’s chairperson. As a counterweight, though, the rest of the board is sufficiently independent with individual members contributing relevant experience in various industries.

The founding family’s influence has likely helped Walmart to take a long-term perspective in decision-making. Yet, its relative insulation from outside stakeholder pressure has likely also at times contributed to the late sensing and responding to important changes in the operating environment. For instance, the retailer failed to adequately respond to the rise of e-commerce in its early stages. This allowed e-commerce giant Amazon.com to become a significant competitor, particularly in the high-margin general merchandise segment, for long a crucial pillar of Walmart’s profitability.

While struggling to develop its own e-commerce strategy in the 2010s, Walmart’s brick-and-mortar stores were losing market share structurally, partly because of demoralised workers and high employee turnover rates that had started to undermine the shopping experience at Walmart. The firm also struggled to retain its growth momentum outside of the US while a 2012 scandal over alleged bribes at overseas subsidiaries signalled shortcomings in internal controls and risk management.

Yet, the founding family’s backing also likely helped Walmart to establish a remarkably strong turnaround in more recent years. The family’s support for significant investments in technology and fulfilment infrastructure to establish Walmart’s online proposition, and their tolerance for years of weakening profitability, helped to overcome conservatism and resistance to change inside the firm. From 2015 onwards, Walmart started improving wages and labour conditions to enhance worker morale as part of a broader strategic shift to enhance the firm’s poor reputation. These efforts coincided with a tightening in labour markets.

Social

Walmart’s low-cost philosophy still elevates risks. Despite making improvements to the labour conditions of its employees, Walmart’s stores are still known to offer a demanding work environment. Walmart pays relatively low salaries compared to rivals and offers only basic health care coverage. For many hourly employees with limited work schedules, as well as independent contract workers in delivery, salaries may not match living expenses. Since its founding, Walmart’s US stores and distribution centres have remained non-unionised, helped by Walmart’s countering of union efforts. This increases its susceptibility to potential regulatory changes aimed to better protect vulnerable workers in an environment characterised by mounting inequality concerns.

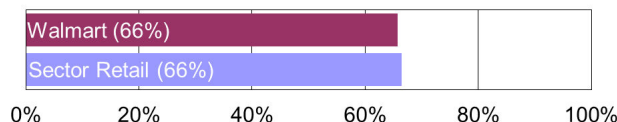
Risks extend into Walmart’s supply-chain operations. Despite the retailer’s demands on its suppliers to adhere to its principles and standards on human rights and labour conditions, it is also known for strict bargaining over prices with suppliers, which limits their means to invest in raising standards and exerts downward pressure on wages and working conditions across entire value chains. It is unclear to what extent Walmart also tries to remediate shortcomings potentially discovered in supplier audits.

Supplier risks are elevated, particularly, in supply chains highly dependent on low-cost production countries with known vulnerabilities in protecting human rights and labour conditions. In the segment of general merchandise, most notably the sourcing of apparel from Asia, Walmart is not considered an industry leader in stakeholder alliances aiming to lift standards in the most sensitive markets. Walmart’s sourcing approach may work against the firm when governments start to impose stricter due diligence requirements on retailers. Walmart’s expansion of its online marketplace business further complicates supply-chain oversight, as it may be held accountable for practices linked to goods sold by third parties.

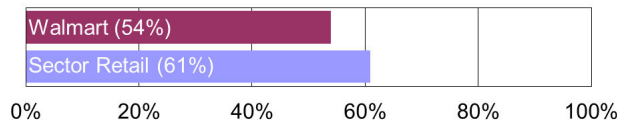
Walmart’s dominant market positions in retailing increase the risk of competition law violations, especially amidst increasing calls for reforms in the enforcement of antitrust laws, particularly in the US. Tighter enforcement may restrict the firm from using its significant scale and sheer market power to impose strict terms on suppliers and limit room for acquisitions in adjacent areas. Outside of the US, the firm is currently subject to investigations into potential violation of antitrust rules in India and appealing fines for the alleged violation of competition laws in Mexico.

Walmart’s operations in China, India, Mexico and other Latin American countries, jointly accounting for about 15% of its revenues, are vulnerable to elevated regulatory risks in the less predictable legal systems of these countries and the potential fallout of increasing geopolitical tensions. In India, Walmart’s Flipkart e-commerce business and the PhonePe digital payments and financial services app are subject to various investigations and legal challenges amidst a growing focus on the increasingly dominant market positions of large technology companies.

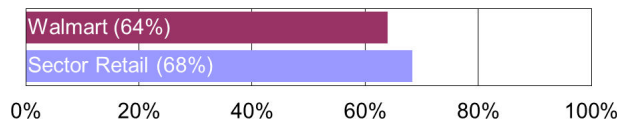
Governance dimension



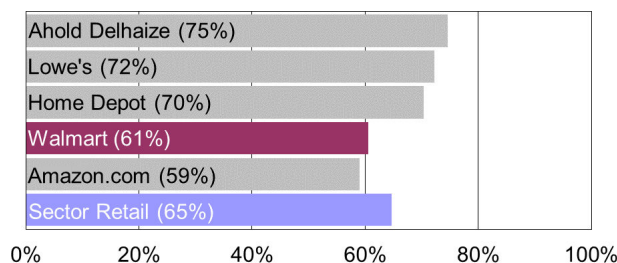
Social dimension



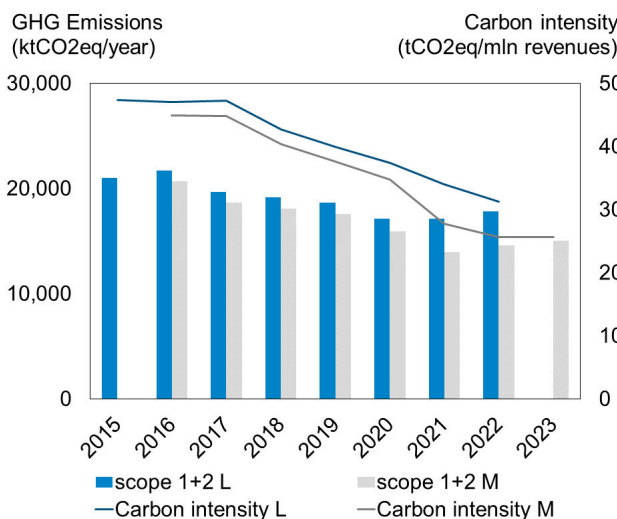
Environmental dimension



Total score - peer comparison



Carbon footprint



The firm is believed to source about two-thirds of its inventory from the US. Particularly in general merchandise, however, it relies on sourcing from key supplier countries such as Mexico and China. Disruptions to trade flows or the imposition of import tariffs could raise the firm's sourcing costs. Yet, in case such issues occur it would affect Walmart's rivals in a similar way.

Environmental

Thanks to the nature of its business, Walmart's immediate environmental impacts are relatively limited. As a retailer, it mainly sells goods made by third parties. With no direct control over the production processes of its suppliers, it can only indirectly try to contain their environmental impact.

The greenhouse gas emissions from Walmart's own operations mainly stem from the use of fuels, refrigeration, and the sourcing of electricity. Plans to reduce its operational emissions intensity include the sourcing of more renewable energy and raising investments to improve the efficiency of its transportation and refrigeration. Yet, despite Walmart's aspiration to achieve zero emissions across its global operations by 2040, its operational emissions have risen in the last two years. Walmart has indicated that it is unlikely to meet the near- and medium-term absolute emissions reduction targets it set for 2025 and 2030. This is mostly due to ongoing business expansion, the partial re-insourcing of transportation from third parties, and higher pollution from refrigerants because of leaks from Walmart's ageing equipment.

To reduce its so-called scope 3 climate footprint, which mainly involves the emissions stemming from its global supply chain, Walmart mainly relies on engaging its suppliers. To what extent its approach is proactive, how much investment is involved, and in what other ways the firm adapts its business approach to reduce such emissions is unclear. This in spite of the emissions upstream and downstream of Walmart's direct operations by far exceeding the greenhouse gas released from the retailer's own operations.

Walmart's support for projects initiated by its suppliers since 2016 is said to have contributed to the achievement of its 2030 goal to reduce, avoid or sequester one billion metric tons of greenhouse gases from its supply chain. Still, despite having reached its goal six years early, Walmart refrains from setting new scope 3 emission reduction goals, referring to the lingering complexity of lowering and measuring emissions beyond its direct control. This signals limited ambition to push suppliers and other stakeholders to further reduce their emissions.

Corporate sustainability is essential to investment decisions, as shareholder value can only endure if companies have sufficient attention for the interests of various stakeholders. FDA's Corporate Sustainability Assessment is an in-depth review of how companies handle this responsibility. FDA reviews a company's performance by assigning points on 20 different sustainability aspects. The approach results in detailed, regularly updated, sustainability reports. A higher sustainability score reflects a stronger performance and a perceived lower level of investment risk.

Three sub-scores reflect a firm's performance in the governance, social and environmental dimension. Governance-related issues determine 35% of the aggregated score, social issues 40% and environmental aspects 25%. The graph shows a comparison with peers and the performance of the broader sector.

FDA uses an investment rating system, with the perceived level of risk reflected in a score that weighs important aspects, including quality of management, competitive advantage and financial position. The in-depth sustainability analyses are an integral part of the overall assessment with the sustainability rating contributing to the total investment rating. The maximum FDA investment rating for a company is 20 points, with a higher score reflecting lower investment risks.

For more information about sustainability and full access to FDA's corporate sustainability reviews, please contact us.

Financiële Diensten Amsterdam

Financiële Diensten Amsterdam (FDA) provides investment advice based on a combination of independent equity research and macroeconomic analysis. FDA was founded in 1986 and currently has a staff of about 20 full-time analysts, with vastly different backgrounds, working together in an interdisciplinary fashion to translate the interaction between the real, financial, and monetary spheres into risk/return opportunities for various investment management styles. Our main customers are institutional investors, banks and asset management firms.

As we do not have a brokerage arm or derive any revenue from the transactions of our clients, our advice is not influenced by trade-related pressure. Moreover, our policy prohibits staff members from holding a personal equity portfolio, creating a research environment that is free of potential conflict of interest.

FDA Consultancy

The online subscription-based service 'FDA Consultancy' provides direct access to the daily research output of an independent research team that is working for a company with a track record of more than 30 years in product development, investment research, portfolio advice and consultancy.

FDA Consultancy covers investment research on around 150 companies and over 30 countries. The company research universe is focused on international blue chip companies. In addition, macroeconomic developments that matter to world financial markets are explained. FDA Consultancy includes full access to several model portfolios. This completely integrated decision support system is only available through www.fdaconsultancy.nl while components are distributed through selected third parties.

FDA Blue Chips Equity Portfolio

The added value of FDA research is best reflected in a disciplined investment process and consistent outperformance, as reflected in the FDA Blue Chips Equity model portfolio. The portfolio is a selection of international blue chips from the FDA Research Universe. Only companies that meet minimum sustainability criteria, based on FDA's proprietary corporate sustainability framework, can be included in the portfolio. Consisting of around 65 individual stocks, the portfolio serves as a model for a relatively concentrated institutional investor equity portfolio up to EUR 1 bn in size.

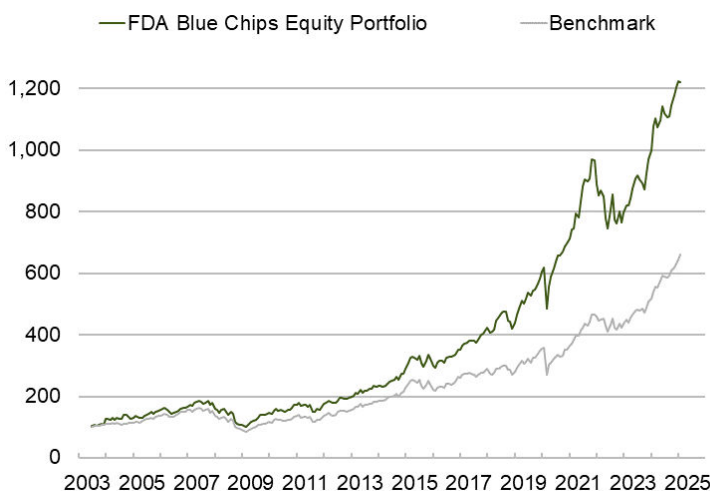
No restrictions are applied to the portfolio, as far as its time horizon or allocation of stocks between various sectors. The goal of the portfolio is to translate the daily output of 20 analysts into a combination of a positive total return and superior performance vs. the relevant benchmark*.

return % 3-3-2025	ytd	12mth	inc.**	inc.***
portfolio	-1.2	6.8	1075.6	12.0
benchmark*	4.5	19.2	554.2	9.1
outperformance	-5.6	-12.3	521.4	3.0
turnover %	ytd	12mth	inc.***	
turnover	1.4	8.7	8.7	
months outperformance	12mth		inc.***	
outperformance / total	3 / 12		155 / 260	

* The composite benchmark consists of 50% 'MSCI Pan-Euro Net Total Return Index' and 50% 'Standard & Poor's 100 Net Total Return Index' (converted to Euro), which is rebalanced monthly.

** Portfolio inception date 30-6-2003

*** Annualised



For a one-week free trial on FDA Consultancy, including access to all FDA research and model portfolios, please contact us at informatie@fda.nl.

Appendix - FDA Research Universe - Company and FDA Rating

Accenture plc	13	FedEx	11	PepsiCo Inc	15
Adobe Systems Inc	15	FMC Corp	10	Pernod Ricard	13
Adyen NV	10	Geberit	12	Procter & Gamble	15
Ahold Delhaize	13	Gilead	10	RELX plc	14
Air Liquide	14	Givaudan	12	Richemont	12
Alibaba Group	9	Hermès International SCA	13	Roche	12
Alphabet	13	Home Depot	12	S&P Global	13
Amazon.com	12	Illumina	10	Salesforce.com	13
Apple	13	Intel Corporation	13	SAP SE	13
Applied Materials Inc	13	Intuitive Surgical Inc	14	Schindler Holding	12
Ashtead Group plc	12	JPMorgan Chase & Co	10	ServiceNow Inc	12
ASM International NV	11	Kering	12	Shell plc (Dutch listing)	8
ASML Holding NV	15	KLA Corp	13	Sherwin-Williams	13
Assa Abloy B	13	Kone Corp	13	Shopify Inc	9
Atlas Copco A	13	Linde	13	Sika AG	11
Biogen	11	London Stock Exchange Group	11	Sonova Holding AG	13
Booking Holdings	11	Lowe's	11	Straumann Holding AG	13
Cadence	13	LVMH	13	Stryker	13
Cisco Systems Inc	15	Marsh McLennan	10	Synopsys Inc	13
CME Group	10	Mastercard	14	Tesla Inc	8
Coca-Cola Company	12	McDonald's Corp.	12	Thermo Fisher Scientific Inc	12
Coloplast	12	Merck & Co Inc	11	TotalEnergies	8
Crown Holdings	11	Meta	10	Umicore Group	10
Danaher Corp	12	Microsoft Corporation	14	Unilever (Dutch listing)	13
DexCom Inc	11	MSCI Inc	13	Union Pacific Corp	14
Diageo	14	Nestlé	16	United Rentals Inc	10
DSM-Firmenich AG	13	Netflix Inc	12	UPS (United Parcel Service)	12
Edwards Lifesciences Corp	14	Nike	12	VAT Group AG	12
Electronic Arts	10	Novartis	10	Visa	14
Eli Lilly and Company	11	Novo Nordisk	11	Walmart	13
Equinix Inc	13	Novonesis	14	Walt Disney	13
EssilorLuxottica	14	NVIDIA Corp	13	Wolters Kluwer NV	13
Estée Lauder	15	Oréal L'	17	Yum! Brands Inc	9
Fastenal	11	PayPal Holdings Inc	12	Zalando	9

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