Walmart Inc WMT (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
83.06 USD	91.00 USD	Low	Wide	Stable	Standard	Retail - Defensive

Walmart Ramps Up Its E-commerce Reach With Majority Stake in Flipkart; Shares a Touch Undervalued

John Brick, CFA
Equity Analyst
john.brick@morningstar.com
+1 312 244 7490

Important Disclosure

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The primary analyst covering this company does not own its stock.

Research as of 09 May 2018
Estimates as of 05 Apr 2018
Pricing data through 09 May 2018 00:00
Rating updated as of 09 May 2018 00:00

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 09 May 2018

We believe Walmart's $16 billion purchase of a 77% stake in Flipkart (a leading Indian e-commerce player selling electronics, appliances, fashion, and apparel items) showcases its desire to expand its e-commerce presence around the world.

The strategic rationale of the deal (slated to close by the end of this calendar year) has not been lost on us, given Flipkart generates $4.6 billion in sales ($7.5 billion gross merchandise volumes) and boasts impressive growth prospects (with GMV up more than 50% a year). Further, we surmise that this addition should enable Walmart to level the playing field with one of its biggest foes, Amazon, in an attractive geographic region with a rising middle class of consumers. From our vantage point, partnering up with Flipkart also affords Walmart better insights into the preferences of local market consumers, which should aid traffic and transactions. But beyond building out its presence in India, we believe Walmart should be able to leverage Flipkart's talent and technology to aid in the development of its Jet.com platform. And for Flipkart, we think Walmart's scale, supply-chain knowledge, and retail expertise should enhance its logistics and overall network.

Management anticipates this tie up will constrain earnings to the tune of 5%-11% over the next two years (as Flipkart has failed to turn a profit); however, given the growth potential (we think the addition of Flipkart will enable Walmart to tap another 1.3 billion customers in an attractive market that presently represents less than 1% of sales for Walmart today but can become 10% of sales by fiscal 2026), we don't intend to materially alter our $91 fair value estimate. Further, we think the low-single-digit percentage decline in shares is making this name a bit more attractive, trading at nearly a 10% discount to our valuation. As such, we'd suggest investors keep an eye on this wide-moat

Vital Statistics

Market Cap (USD Mil)	245,233
52-Week High (USD)	109.98
52-Week Low (USD)	73.13
52-Week Total Return %	10.9
YTD Total Return %	-15.4
Last Fiscal Year End	31 Jan 2018
5-Yr Forward Revenue CAGR %	2.5
5-Yr Forward EPS CAGR %	8.8
Price/Fair Value	0.91

Valuation Summary and Forecasts

Fiscal Year:	2017	2018	*2019(E)*	*2020(E)*
Price/Earnings	15.4	24.1	*17.3*	*15.8*
EV/EBITDA	7.5	11.5	*8.8*	*8.4*
EV/EBIT	10.9	17.5	*13.0*	*12.2*
Free Cash Flow Yield %	10.4	5.8	*5.8*	*6.7*
Dividend Yield %	3.0	1.9	*2.5*	*2.6*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2017	2018	*2019(E)*	*2020(E)*
Revenue	485,873	500,343	*509,981*	*524,365*
Revenue YoY %	0.8	3.0	*1.9*	*2.8*
EBIT	22,764	20,437	*21,929*	*23,334*
EBIT YoY %	-5.6	-10.2	*7.3*	*6.4*
Net Income, Adjusted	13,456	13,304	*14,023*	*14,934*
Net Income YoY %	-8.8	-1.1	*5.4*	*6.5*
Diluted EPS	4.32	4.42	*4.80*	*5.27*
Diluted EPS YoY %	-5.8	2.2	*8.7*	*9.8*
Free Cash Flow	18,617	22,314	*14,700*	*17,029*
Free Cash Flow YoY %	3.2	19.9	*-34.1*	*15.8*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

Walmart is the largest retailer in the world with around $500 billion in annual revenue and about 11,700 stores (including supercenters, wholesale warehouse clubs, and small-format stores). The firm is also expanding into the e-commerce realm (as evidenced by its recent acquisition of Jet.com), but sales through this channel represent about 5% of its total. Groceries and consumables account for roughly half of sales, with the remainder from general merchandise, including fuel, hardlines, apparel, entertainment, and home goods.

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defensive retailer.

From a capital allocation perspective, we expect Walmart will fund the purchase by using a combination of cash on hand and newly issued debt. As we previously suggested, we think the sale of its majority stake in U.K. grocer Asda (for around $4 billion announced last month) should further aid in the funding this tie up. With total debt/EBITDAR of just around 2 times at the end of fiscal 2017, we don't believe the deal suggests financial or liquidity risk is on the horizon for Walmart. Beyond pursuing select deals, we still surmise that Walmart will pay out around 40% of earnings to shareholders in the form of dividends, raising this payment at a mid-single-digit clip each year over our 10-year explicit forecast. As such, we aren't wavering on our Standard stewardship rating.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in January

Growth (% YoY)	3-Year Hist. CAGR	2016	2017	2018	*2019* (Forecast)	*2020* (Forecast)	*5-Year Proj. CAGR*
Revenue	*1.0*	-0.7	0.8	3.0	*1.9*	*2.8*	*2.5*
EBIT	*-9.0*	-11.2	-5.6	-10.2	*7.3*	*6.4*	*5.9*
EBITDA	*-5.2*	-7.6	-2.1	-5.7	*4.8*	*4.9*	*4.6*
Net Income	*-6.8*	-10.2	-8.8	-1.1	*5.4*	*6.5*	*5.5*
Diluted EPS	*-4.5*	-9.5	-5.8	2.2	*8.7*	*9.8*	*8.8*
Earnings Before Interest, after Tax	*-1.2*	-6.0	-5.6	8.7	*-11.9*	*6.4*	*1.8*
Free Cash Flow	*6.3*	-2.9	3.2	19.9	*-34.1*	*15.8*	*-3.9*

Profitability	3-Year Hist. Avg	2016	2017	2018	*2019*	*2020*	*5-Year Proj. Avg*
Operating Margin %	*4.6*	5.0	4.7	4.1	*4.3*	*4.5*	*4.6*
EBITDA Margin %	*6.6*	7.0	6.8	6.2	*6.4*	*6.5*	*6.6*
Net Margin %	*2.8*	3.1	2.8	2.7	*2.8*	*2.9*	*2.9*
Free Cash Flow Margin %	*4.0*	3.7	3.8	4.5	*2.9*	*3.3*	*3.2*
ROIC %	*10.9*	11.1	11.6	10.0	*10.8*	*11.4*	*12.0*
Adjusted ROIC %	*12.2*	12.4	13.0	11.2	*12.2*	*12.9*	*13.6*
Return on Assets %	*6.3*	7.3	6.9	4.9	*6.8*	*7.0*	*7.2*
Return on Equity %	*16.0*	18.2	17.2	12.7	*18.1*	*19.3*	*20.2*

Leverage	3-Year Hist. Avg	2016	2017	2018	*2019*	*2020*	*5-Year Proj. Avg*
Debt/Capital	*0.38*	0.38	0.37	0.37	*0.42*	*0.42*	*0.43*
Total Debt/EBITDA	*1.46*	1.49	1.40	1.50	*1.69*	*1.67*	*1.65*
EBITDA/Interest Expense	*10.90*	13.17	13.88	5.67	*15.22*	*15.18*	*15.18*

Valuation Summary and Forecasts

	2017	2018	*2019(E)*	*2020(E)*
Price/Fair Value	0.88	1.21	—	—
Price/Earnings	15.4	24.1	*17.3*	*15.8*
EV/EBITDA	7.5	11.5	*8.8*	*8.4*
EV/EBIT	10.9	17.5	*13.0*	*12.2*
Free Cash Flow Yield %	10.4	5.8	*5.8*	*6.7*
Dividend Yield %	3.0	1.9	*2.5*	*2.6*

Key Valuation Drivers

Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.8
Weighted Average Cost of Capital %	7.1
Long-Run Tax Rate %	25.0
Stage II EBI Growth Rate %	2.6
Stage II Investment Rate %	5.8
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	128,390	41.1	43.97
Present Value Stage II	81,860	26.2	28.04
Present Value Stage III	102,292	32.7	35.04
Total Firm Value	**312,542**	**100.0**	**107.05**
Cash and Equivalents	6,756	—	2.31
Debt	-46,487	—	-15.92
Preferred Stock	—	—	—
Other Adjustments	-8,579	—	-2.94
Equity Value	**264,233**	**—**	**90.50**
Projected Diluted Shares	2,920		
Fair Value per Share (USD)	**91.00**		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mil)
Fiscal Year Ends in January

	2016	2017	2018	*Forecast 2019*	*Forecast 2020*
Revenue	**482,130**	**485,873**	**500,343**	***509,981***	***524,365***
Cost of Goods Sold	360,984	361,256	373,396	*380,956*	*392,225*
Gross Profit	**121,146**	**124,617**	**126,947**	***129,025***	***132,140***
Selling, General & Administrative Expenses	97,041	101,853	106,510	*107,096*	*108,806*
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	—	—	—	—	—
Operating Income (ex charges)	**24,105**	**22,764**	**20,437**	***21,929***	***23,334***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**24,105**	**22,764**	**20,437**	***21,929***	***23,334***
Interest Expense	2,548	2,367	5,466	*2,132*	*2,243*
Interest Income	81	100	152	*154*	*155*
Pre-Tax Income	**21,638**	**20,497**	**15,123**	***19,951***	***21,247***
Income Tax Expense	6,558	6,204	4,600	*4,988*	*5,312*
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	—	—	—	—	—
(Minority Interest)	-386	-650	-661	*-940*	*-1,001*
(Preferred Dividends)	—	—	—	—	—
Net Income	**14,694**	**13,643**	**9,862**	***14,023***	***14,934***
Weighted Average Diluted Shares Outstanding	3,217	3,112	3,010	*2,920*	*2,832*
Diluted Earnings Per Share	**4.57**	**4.38**	**3.28**	***4.80***	***5.27***
Adjusted Net Income	14,758	13,456	13,304	*14,023*	*14,934*
Diluted Earnings Per Share (Adjusted)	**4.59**	**4.32**	**4.42**	***4.80***	***5.27***
Dividends Per Common Share	1.96	2.00	2.04	*2.08*	*2.18*
EBITDA	**33,559**	**32,844**	**30,966**	***32,458***	***34,044***
Adjusted EBITDA	**33,559**	**32,844**	**30,966**	***32,458***	***34,044***

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in January

				Forecast	
	2016	2017	2018	*2019*	*2020*
Cash and Equivalents	8,705	6,867	6,756	*13,359*	*15,706*
Investments	—	—	—	—	—
Accounts Receivable	5,624	5,835	5,614	*5,729*	*6,034*
Inventory	44,469	43,046	43,783	*42,792*	*44,058*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	1,441	1,941	3,511	*3,511*	*3,511*
Current Assets	**60,239**	**57,689**	**59,664**	***65,391***	***69,309***
Net Property Plant, and Equipment	116,516	114,178	114,818	*115,289*	*115,591*
Goodwill	16,695	17,037	18,242	*18,242*	*18,242*
Other Intangibles	—	—	—	—	—
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	6,131	9,921	11,798	*11,798*	*11,798*
Long-Term Non-Operating Assets	—	—	—	—	—
Total Assets	**199,581**	**198,825**	**204,522**	***210,720***	***214,940***
Accounts Payable	38,487	41,433	46,092	*44,880*	*47,282*
Short-Term Debt	6,004	3,920	9,662	*9,662*	*9,662*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	20,128	21,575	22,767	*22,767*	*22,767*
Current Liabilities	**64,619**	**66,928**	**78,521**	***77,309***	***79,711***
Long-Term Debt	44,030	42,018	36,825	*45,159*	*47,267*
Deferred Tax Liabilities (Long-Term)	7,321	9,344	8,354	*8,354*	*8,354*
Other Long-Term Operating Liabilities	—	—	—	—	—
Long-Term Non-Operating Liabilities	—	—	—	—	—
Total Liabilities	**115,970**	**118,290**	**123,700**	***130,821***	***135,332***
Preferred Stock	—	—	—	—	—
Common Stock	317	305	295	*295*	*295*
Additional Paid-in Capital	1,805	2,371	2,648	*2,648*	*2,648*
Retained Earnings (Deficit)	90,021	89,354	85,107	*93,057*	*101,806*
(Treasury Stock)	—	—	—	*-8,579*	*-17,352*
Other Equity	-11,597	-14,232	-10,181	*-10,181*	*-10,181*
Shareholder's Equity	**80,546**	**77,798**	**77,869**	***77,241***	***77,216***
Minority Interest	3,065	2,737	2,953	*2,658*	*2,392*
Total Equity	**83,611**	**80,535**	**80,822**	***79,898***	***79,608***

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Morningstar Analyst Forecasts

Cash Flow (USD Mil)
Fiscal Year Ends in January

				Forecast	
	2016	2017	2018	*2019*	*2020*
Net Income	15,080	14,293	10,523	*14,963*	*15,935*
Depreciation	9,454	10,080	10,529	*10,529*	*10,710*
Amortization	—	—	—	—	—
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	-672	761	-304	—	—
Other Non-Cash Adjustments	1,410	206	4,346	—	—
(Increase) Decrease in Accounts Receivable	-19	-402	-1,074	*-115*	*-305*
(Increase) Decrease in Inventory	-703	1,021	-140	*991*	*-1,266*
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	2,008	3,942	4,086	*-1,212*	*2,402*
Change in Other Short-Term Liabilities	831	1,772	371	—	—
Cash From Operations	**27,389**	**31,673**	**28,337**	***25,156***	***27,476***
(Capital Expenditures)	-11,477	-10,619	-10,051	*-11,000*	*-11,012*
Net (Acquisitions), Asset Sales, and Disposals	635	-3,908	3	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	167	540	988	—	—
Cash From Investing	**-10,675**	**-13,987**	**-9,060**	***-11,000***	***-11,012***
Common Stock Issuance (or Repurchase)	-4,112	-8,298	-8,296	*-8,579*	*-8,773*
Common Stock (Dividends)	-6,294	-6,216	-6,124	*-6,073*	*-6,185*
Short-Term Debt Issuance (or Retirement)	1,235	-1,673	4,148	—	—
Long-Term Debt Issuance (or Retirement)	-4,393	-1,918	-5,585	*8,334*	*2,109*
Other Financing Cash Flows	-2,558	-967	-4,018	*-1,235*	*-1,267*
Cash From Financing	**-16,122**	**-19,072**	**-19,875**	***-7,553***	***-14,117***
Exchange Rates, Discontinued Ops, etc. (net)	-1,022	-452	487	—	—
Net Change in Cash	**-430**	**-1,838**	**-111**	***6,603***	***2,347***

Research Methodology for Valuing Companies

Overview

At the heart of our valuation system is a detailed projection of a company's future cash flows, resulting from our analysts' research. Analysts create custom industry and company assumptions to feed income statement, balance sheet, and capital investment assumptions into our globally standardized, proprietary discounted cash flow, or DCF, modeling templates. We use scenario analysis, in-depth competitive advantage analysis, and a variety of other analytical tools to augment this process. Moreover, we think analyzing valuation through discounted cash flows presents a better lens for viewing cyclical companies, high-growth firms, businesses with finite lives (e.g., mines), or companies expected to generate negative earnings over the next few years. That said, we don't dismiss multiples altogether but rather use them as supporting cross-checks for our DCF-based fair value estimates. We also acknowledge that DCF models offer their own challenges (including a potential proliferation of estimated inputs and the possibility that the method may miss short-term market-price movements), but we believe these negatives are mitigated by deep analysis and our long-term approach.

Morningstar's equity research group ("we", "our") believes that a company's intrinsic worth results from the future cash flows it can generate. The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic worth—or fair value estimate, in Morningstar terminology. Five-star stocks sell for the biggest risk-adjusted discount to their fair values, whereas 1-star stocks trade at premiums to their intrinsic worth.

Four key components drive the Morningstar rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's fair value, (3) our uncertainty around that fair value estimate and (4) the current market price. This process ultimately culminates in our single-point star rating.

1. Economic Moat

The concept of an economic moat plays a vital role not only in our qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of our fair value estimates. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a narrow moat are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. Wide-moat companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, no-moat companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

To assess the sustainability of excess profits, analysts perform ongoing assessments of the moat trend. A firm's moat trend is positive in cases where we think its sources of competitive advantage are growing stronger; stable where we don't anticipate changes to competitive advantages over the next several years; or negative when we see signs of deterioration.

2. Estimated Fair Value

Combining our analysts' financial forecasts with the firm's economic moat helps us assess how long returns on invested capital are likely to exceed the firm's cost of capital. Returns of firms with a wide economic moat rating are assumed to fade to the perpetuity period over a longer period of time than the returns of narrow-moat firms, and both will fade slower than no-moat firms, increasing our estimate of their intrinsic value.

Our model is divided into three distinct stages:

Stage I: Explicit Forecast

In this stage, which can last five to 10 years, analysts make full financial statement forecasts, including items such as revenue, profit margins, tax rates, changes in working-capital accounts, and capital spending. Based on these projections, we calculate earnings before interest, after taxes (EBI) and the net new investment (NNI) to derive our annual free cash flow forecast.

Stage II: Fade

The second stage of our model is the period it will take the company's return on new invested capital—the return on capital of the next dollar invested ("RONIC")—to decline (or rise) to its cost of capital. During the Stage II period, we use a formula to approximate cash flows in lieu of explicitly modeling the income statement, balance sheet, and cash flow statement as we do in Stage I. The length of the second stage depends on the strength of the company's economic moat. We forecast this period to last anywhere from one year (for companies with no economic moat) to 10–15 years or more (for wide-moat companies). During this period, cash flows are forecast using four assumptions: an average growth rate for EBI over the period, a normalized investment rate, average return on new invested capital (RONIC), and the number of years until perpetuity, when excess returns cease. The investment rate and return on new invested capital decline until a perpetuity value is calculated. In the case of firms that do not earn their cost of capital, we assume marginal ROICs rise to the firm's cost of capital (usually attributable to less reinvestment), and we may truncate the second stage.

Stage III: Perpetuity

Once a company's marginal ROIC hits its cost of capital, we calculate a continuing value, using a standard perpetuity formula. At perpetuity, we assume that any growth or decline or investment in the business neither creates nor destroys value and that any new investment provides a return in line with estimated WACC.

Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total pres-

Morningstar Research Methodology for Valuing Companies

ent value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return to all capital providers—we discount future cash flows using the WACC, which is a weighted average of the costs of equity, debt, and preferred stock (and any other funding sources), using expected future proportionate long-term, market-value weights.

3. Uncertainty around that fair value estimate

Morningstar's Uncertainty Rating captures a range of likely potential intrinsic values for a company and uses it to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating represents the analysts' ability to bound the estimated value of the shares in a company around the Fair Value Estimate, based on the characteristics of the business underlying the stock, including operating and financial leverage, sales sensitivity to the overall economy, product concentration, pricing power, and other company-specific factors.

Analysts consider at least two scenarios in addition to their base case: a bull case and a bear case. Assumptions are chosen such that the analyst believes there is a 25% probability that the company will perform better than the bull case, and a 25% probability that the company will perform worse than the bear case. The distance between the bull and bear cases is an important indicator of the uncertainty underlying the fair value estimate.

Our recommended margin of safety widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the estimated value of the equity, the greater the discount we require relative to our estimate of the value of the firm before we would recommend the purchase of the shares. In addition, the uncertainty rating provides guidance in portfolio construction based on risk tolerance.

Our uncertainty ratings for our qualitative analysis are low, medium, high, very high, and extreme.

- ►**Low:** margin of safety for 5-star rating is a 20% discount and for 1-star rating is 25% premium.
- ►**Medium:** margin of safety for 5-star rating is a 30% discount and for 1-star rating is 35% premium.
- ►**High:** margin of safety for 5-star rating is a 40% discount and for 1-star rating is 55% premium.
- ►**Very High:** margin of safety for 5-star rating is a 50% discount and for 1-star rating is 75% premium.
- ►**Extreme:** Stock's uncertainty exceeds the parameters we have set for assigning the appropriate margin of safety.

4. Market Price

The market prices used in this analysis and noted in the report come from exchange on which the stock is listed which we believe is a reliable source.

For more detail information about our methodology, please go to http://global.morningstar.com/equitydisclosures

Morningstar Star Rating for Stocks

Once we determine the fair value estimate of a stock, we compare it with the stock's current market price on a daily basis, and the star rating is automatically re-calculated at the market close on every day the market on which the stock is listed is open. Our analysts keep close tabs on the companies they follow, and, based on thorough and ongoing analysis, raise or lower their fair value estimates as warranted.

Please note, there is no predefined distribution of stars. That is, the percentage of stocks that earn 5 stars can fluctuate daily, so the star ratings, in the aggregate, can serve as a gauge of the broader market's valuation. When there are many 5-star stocks, the stock market as a whole is more undervalued, in our opinion, than when very few companies garner our highest rating.

We expect that if our base-case assumptions are true the market price will converge on our fair value estimate over time, generally within three years (although it is impossible to predict the exact time frame in which market prices may adjust).

Our star ratings are guideposts to a broad audience and individuals must consider their own specific investment goals, risk tolerance, tax situation, time horizon, income needs, and complete investment portfolio, among other factors.

The Morningstar Star Ratings for stocks are defined below:

Five Stars ★★★★★

We believe appreciation beyond a fair risk-adjusted return is highly likely over a multiyear time frame. Scenario analysis developed by our analysts indicates that the current market price represents an excessively pessimistic outlook, limiting downside risk and maximizing upside potential.

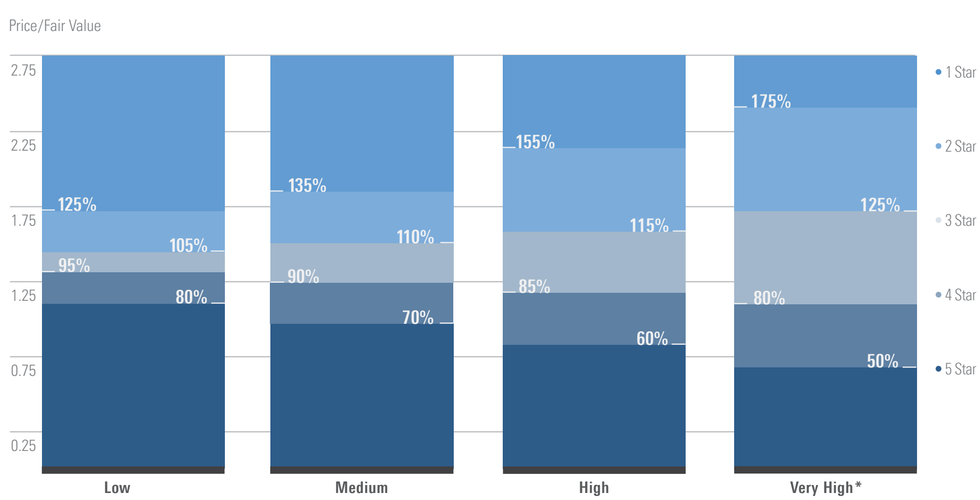
Four Stars ★★★★

We believe appreciation beyond a fair risk-adjusted return is likely.

Three Stars ★★★

Indicates our belief that investors are likely to receive a fair risk-adjusted return (approximately cost of equity).

Morningstar Research Methodology for Valuing Companies



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Two Stars ★★
We believe investors are likely to receive a less than fair risk-adjusted return.

One Star ★
Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multiyear time frame, based on our analysis. Scenario analysis by our analysts indicates that the market is pricing in an excessively optimistic outlook, limiting upside potential and leaving the investor exposed to Capital loss.

Other Definitions:

Last Price: Price of the stock as of the close of the market of the last trading day before date of the report.

Stewardship Rating: Represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Quantitative Valuation: Using the below terms, intended to denote the relationship between the security's Last Price and Morningstar's quantitative fair value estimate for that security.

- ►**Undervalued:** Last Price is below Morningstar's quantitative fair value estimate.
- ►**Farily Valued:** Last Price is in line with Morningstar's quantitative fair value estimate.
- ►**Overvalued:** Last Price is above Morningstar's quantitative fair value estimate.

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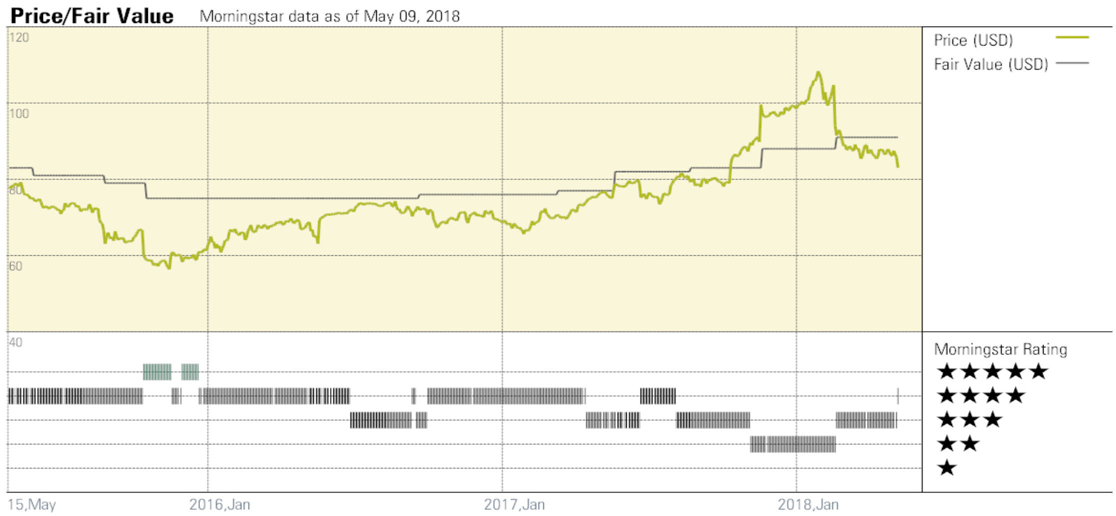
Walmart Inc WMT (NYSE) | ★★★★

Last Price	Fair Value	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
83.06 USD	91.00 USD	Low	Wide	Stable	Standard	Retail - Defensive



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