Bird's Eye View of Walmart

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Dave

0:00

All right, folks, welcome to Investing for Beginners podcast; tonight is episode 235. And we are going to do something a little new. Today we're going to do a bird's eye view of a company called Walmart; you might have heard of it; it's rather large. And we thought we would just kind of talk through how we would look at a company for the first time if this was our first time looking at Walmart.

And so Andrew and I will kind of take turns just kind of walking through what we would look at and kind of how we would start, I guess, the process of starting to analyze a company, and it might be informational for you. And we thought we started with Walmart, which is a big Easy Company that most people are familiar with, I think out there. And I know that I've shopped there a time or two. And so yeah, I thought that would be kind of an easy way for us to start. So Andrew, would you like to be the first to go? Or would you like me to be the guinea pig?

Andrew

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Well, when you phrase it that way, I'd love for you to be the guinea pig.

Dave

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Okay. All right. Fair enough. All right. So I guess when you're looking at a company, I think one of the things that a lot of people are always curious about is kind of how you start. And so I think this would be a good chance for us to kind of talk about maybe how we would start. And honestly, it goes company by company for me. And sometimes, if it's a company that I've come across on a screen, or it's something that maybe I read about online, or maybe Andrew mentioned to me something that came into my universe, I want to learn more about the company if it was a company that I wasn't familiar with, or I didn't know what the business model was, or any of those kinds of things, I would immediately go to the 10k.

And for me, I would start with a business description of the business. And I would just start working through that to see if I could understand the business. And if I can understand the business, then I will proceed farther into the 10k and start learning as much about the company as I possibly can. If it was a company like Walmart or Amazon, or even Google, I would have a better basis of knowledge of what it is they do. I mean, Walmart is not super complicated. They sell stuff, either in the store or online. And it's one of the largest retailers; I think it's the largest retailer in the world if I'm not mistaken. And I'm familiar with it; I shop there, I know what they sell, I understand their business model, and my ex-wife actually used to work for the company as an HR person. So somewhat intimately understanding the business model.

So I don't need to spend a lot of time doing that. So when I would look at a company like Walmart, then I would just jump to looking at something like the metrics or looking at a brief overview of the metrics. Our friend Braden Denis has a great website that can help us a lot with that. And so that's kind of what we're, I guess I would start. So, Andrew, I guess, before we kind of dive into the company, if you are going to start with a company, how would you start?

Andrew

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For me, it would be something very similar. You got to think about it. There's what 7000 8000 stocks that you could buy on the New York Stock Exchange, or NASDAQ. So you're gonna have to figure out really quickly how to cross companies off of your list. And so the first thing I want to do, I think the business model is really important. And you want to have a basic understanding of that. For me, I first want to look to make sure the numbers are attractive enough to make me consider investing time and the company further.

So Braden, actually, when we interviewed him recently, he said this. And I think it's a really good rule of thumb to think about if you're the type of investor that has a similar approach to him or like myself, where I like to buy things and hold them for a long time if I can find the right companies. And so one of the first things you can do is look at the revenue, and that's going to be what they also call the top line. And where is that going? Is it trending up? Or is it trending down? And if it's trending down, that doesn't fit your style? What's the point in looking further? So I would look at revenue for me. Personally, I also look at the return on invested capital, ROIC. So that tells me we've had lots of conversations about ROIC; Mark Lamonica explained that well as Todd Wenning; thank you. His example was super, super good.

But yeah, basically, this company can help them grow and create profits without needing to invest a ton of cash. And so those can tend to grow better, faster, easier. So I will tend to look at those, and I like to look at longer timeframes. So for this Walmart example, I have four websites pulled up, okay? Maybe if it's your first time you got four, maybe if it's your first time you start with, like, just try to use one. And then, as you look at more and more companies, you can add more websites into the mix. So I've got stratosphere.io for the KPIs, I've got finviz. For the valuation, I got quickFS for the overall financial picture, so quick fs.net. I like them because you can just put the ticker in the search, and it gives you the ROIC. Right there. It's the first thing you see in you can see how it's grown, if it's grown, or if it's gone down, how it's moved over 20 years.

And I like that visualization a lot. And then I also like how right below that chart, there is sales, the revenue, and that top line, and I can see exactly what that growth has been from year to year, what percentage growth has that been from year to year. So that's like the tool I've been using for quite a while. I'm very comfortable using it. So that would be the first thing I would look at. And if those two things look good, then I'm like, Okay, now, the world is your oyster, you could go a million different ways and how you want to understand this company. For me,

Dave

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that's great stuff. And I think, let's talk about the revenue part of it first, for just a second. If you're looking at a company, is there a finite number that you have to like? Is there a hurdle rate that the company has to get over? Like, if you see the company growing at 2%? A year every year? Is that okay? Or are you looking for a higher number than that? Is that something that helps you screen out the companies? Or? And I guess kind of along the same lines with ROIC? Are you looking for it to expand?

Are you looking for it to kind of stay steady? Or are you looking for it to not decline? In essence? I mean, are those things that kind of help screen out whether you're going to continue looking at the company?

Andrew

6:36

Yeah, those are great questions. So for revenue growth, I definitely, I would say, two percent is pretty low. So I don't have like a cut-and-dry like this is the bottom limit to what I would want to see. But if you're new to the market, and you're kind of new to how it works, to the 3% a year that's like inflation, if a company is growing at that rate, they're not a great company, they're just kind of growing along with inflation, the economy itself grows around four, the 5% range over the last 25 years. So some of them are in that range, right?

Growing alongside the economy, I kind of liked that as a sweet spot in the sense that a lot of companies tend to grow in that range. And then obviously, if you can find it at a good price, you want higher than that 6789 10%, and then anything higher than 10, or 11, or 12, I just kind of assume that it's going to eventually return to something like 10, nine, eight, so the if the average, we know the average stock market returns around 10% a year over the entire stock market. So part of that, not all of that's just revenue growth, by the way. So to have 10% growth, what I'm trying to say is a top 10% growth is really outstanding and definitely makes you an above-average company. And that's super, super hard to maintain. And not a lot of companies can maintain it. So obviously, you don't penalize somebody for being great at growing. But you kind of temper expectations; in my mind that I'm kind of looking for as long as it's above inflation, that's probably what I'm looking at.

Dave

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It's an interesting discussion because I think, you know, for me, one of the ways that I look at the top line growth when I'm trying to assess if this is going to be something that I want to consider doing more work on is whether or not we'll kind of where the company is an in their sector, or niche or industry. And number two, how old is the company how long have they been in business? And if you're looking at, you know, we're kind of looking at Walmart here briefly, and Walmart has been in business for what 50 Some years is a long time. Whereas if you're looking at a company, like let's just pull it out of my hat CrowdStrike.

You know, they've been public for a few years. And so the expectation of revenue growth for a company like CrowdStrike, which is a much smaller, completely different industry, versus the one that that Walmart is in or is, you know, my expectation is going to be different. And so I guess, for me, that's one of the things that I kind of use as a not necessarily a hurdle rate. But something that I definitely consider is thinking about where the company is in our lifecycle. And what kind of business is it in and what kind of niche is it in, you know, what is that industry because the growth of Wells Fargo versus Microsoft, it's not apples to apples.

And so I can't expect Wells Fargo to grow as quickly as a company like Microsoft would just because it's the nature of its business. And so that's something that I always try to keep in mind when I'm looking at these numbers just in general, but that's something that kind of helps me weed out. You know, if I'm looking at a company that is in a faster-growing niche, and younger kids company and it's only growing at two or 3%. Okay, you know that for me, that might be okay, that's a pass,

Andrew

10:06

I guess how you would know? Outside of like age? How would you know if an industry is more mature? Or if it's in its high growth stage? What would it be?

Dave

10:15

I think some of it is too addictive. And some of it is variance, and then some of it also, is you won't know. And so if you don't know, then it just becomes that's a question I got to answer. And I've talked about this before in the past; it's easier to look for reasons why not to buy the company than to buy the company.

And sometimes, you're going to come across things that you just may not know the answer to right away. But that just means that, okay, I got to put that on a list of things I got to figure out. And I'm going to learn more about that. So if it's not something that comes to me intuitively, or based on my experience in past knowledge, then it's just a question I'm going to have to dig a little bit deeper on to find more about.

Andrew

10:56

So at the risk of like cutting this bird's eye view episode really short, I mean, frankly, does Walmart pass that hurdle rate for revenue growth for you?

Dave

11:08

So, if you take a look at the business and what it's done, if you look at the last ten years, the financials of the company, it really is not growing that quickly. And if you look at just the last couple of years, it's been skewed because of COVID; Walmart was definitely a beneficiary of everything that happened with a pandemic because there is one of the few places that were opened, one of the few places that sell groceries, it's, you know, I think, the largest grocer in the United States. And so you have all those perks or benefits for the company, and so they were able to capitalize on that. But I think as we've come out of the pandemic, or are coming out of the pandemic, depending on where we are in the world, then you're starting to see that revenue growth that they were experiencing over the last year and a half or so is starting to slow.

And then the other aspects of the business, if you look at the other parts of the business, like Sam's Club, for example, the Sam's Club has seen pretty stagnant revenue growth over the last ten years, it did see a little bit of a bump during COVID. But now it seems to be leveling out again. And so that doesn't, those two things don't inspire a lot of confidence in me that this is an investment, that, is it going to go bankrupt, right away? Heck, no. I mean, Walmart's not going anywhere for quite some time.

But is it the opportunity cost of putting my money in Walmart versus Company B? I think I have a better opportunity and company B than I would accompany in Walmart. And so for me, it's not something. Is that a bad investment? I wouldn't say it's a bad investment. But it's not something that I would want in my portfolio because it doesn't fit my needs. It's not is not growing, and I don't think we'll grow fast enough to get to the next level. And in large part because of the nature of what it does and how it does what it does. It's basically a low-cost provider that sells things at very thin margins.

And so the opportunity to grow margins and to continue to innovate the business, I think, is more restricted than another company. And so for me, that's, if I just look at the revenue, part of it, that would be a pass for me. So how about you?

Andrew

13:21

Yeah, I mean, actually, it's this, it's a similar story. For me, I look, again, if I look at Quick Fs, and I look at some of these revenue growth numbers from one year to the next 1.6% point, 8% 3%, like a lot of numbers below 3%, below inflation, doesn't inspire a lot of confidence for me. And so I, you know, I don't do a perfect job at it. But I do like to try to get into as many companies as I can that I know can at least keep up with the economic growth.

And so if a company is not keeping up with economic growth, that signals to me, either maybe they are losing market share, or they're just the end markets they are in are just not keeping up with economic growth because they are maturing, essentially. I mean, one way I really like to, this isn't like in a textbook or anything, so take it for what it's worth. But like, if you think about like the price trends of spices, like over the very, very long term, like they've gotten like stupid cheap now, right, it's just basically become commoditized.

And it's so cheap and easy for these spices to be delivered to the stores. To me, that's like a tough market to kind of be selling out of, just as one example. Some of the other foods can kind of sometimes turn that way too. And so, you know, one of the blessings of the economy and the way that it's really helped people is it's reduced some of our essential expenses. Innovation has saved our time. We don't have to spend time hand washing our clothes right, and we spend A lot less these days on essentials than we did back in like the 1950s, for example. So that stuff's great for the economy, but it's not great if you're a business that's getting your profits innovated away and competed away, and, and all of that.

So it's not a perfect science, but you just got to try to look for those industries that are growing and have a good growth rate. And I wonder if just their mix, like you, said, kind of just being low cost and really having a lot of everything. And just being such a big size? I mean, it's hard to grow when you're 500 billion, and like, where else can you grow to all of those things just kind of make it tough to see a turnaround in that. And so that's where the revenue growth becomes a little bit doesn't fit, what I'm looking for.

Dave

15:50

That makes a lot of sense. And I think if you look at some of the things that the company has been trying to do, and is trying to do, kind of see where they can expand. And I'm going to kind of get to my point here in just a second. But if you look at its international growth, it has not done well. And if you look at some of the investments that they've been making, they're not core competencies for the company. And a perfect example of that is they're really trying to expand the financial services that they offer for customers as well as the outside of people shopping at the store.

And that's not in there. My concern about that could be I could be completely wrong. But my concern about that is not in their core operating procedure. That's not an area that they've excelled in over the, you know, the last 50 years. And so this is something new, and you know, the investments don't rise to the same level of like metals investment in the metaverse and everything they got going on. It's not that extreme.

But if that's one of the things that they're banking on to take them to the next level, I don't know if that's really going to get them to the next level. And the other part of that, too, is, by and large, a lot of that's not hugely profitable, as far as like operating revenue and margins. By and large. Banks are not known for their, you know, generous operating margins just because of the nature of how they operate. And so those are some things that kind of look at like. And then the other thing that you mentioned is expansion. So I think the opportunity for them to open more stores, and that continues to be an opportunity for them to grow into the future, I think is far more limited than Costco.

So they're not an apples-to-apples comparison, but they kind of are a little bit. And so, if you look at Costco, Costco is still growing. And their footprint is still allowing them to continue to grow. And they've been starting to expand overseas, and the few stores that they put overseas and Canada and China that come to mind immediately have done extremely well. And so it just seems like their business model is translating better outside of the United States than Walmart is. And so that gives me more confidence that a company like Costco could do better five or ten years from now than Walmart would necessarily.

And so I think sometimes when I'm looking at a company like Walmart, I've also tried to think about competitors, too. And how will this company stack up against, you know, Costco, Kroger, and anybody else that I can think of? I don't know as much about Kroger, but you have to kind of think about those things. And I guess that's, you know, where Walmart falls short for me is that I don't think that they have the same, you know, a runway for revenue that Costco will.

Andrew

18:45

It's a great point. And I mean, even when you look, I think it's super critical to look into the industry, if you can if you spend time on a company, and the thing with Walmart is I think a lot of us can observe, they kind of compete with Costco, but they also sell a lot of things that Costco doesn't sell. And similar to they kind of compete with Target, they also sell some things that Target doesn't sell. And so the way that target and

Costco derive their profits is actually much different than the way Walmart does, even though they're, quote-unquote, in the same industry.

And so that's not something necessarily you would know, right off the bat. But that's something as you gain experience, you learn, but it doesn't, you know, one last thing about this process, and then maybe I'll shut up, but you know, as you go through these companies, and you kind of say, You know what, I really don't like this part of a company, I'm gonna pass. That doesn't mean you have to pass on the company forever. It just means, Hey, I'm gonna invest my time on something more exciting and interesting at the moment.

But let's say something changed with Walmart, and all of a sudden, the revenues look great, and it looks sustainable. Well, now you gotta take the step to compare it to target and Costco, and even Amazon. And if the revenue is kind of matured at one Walmart, but you do not see similar maturation at Target, Costco, and Amazon, you have to ask yourself why. So it's possible that maybe the industry has not matured, but Walmart has hit maturation. And that's something that considers too.

Dave

20:16

That's totally right on the mark. And I think the idea that when you're studying a company or you're looking to start analyzing a company at any level, just because you pass on a company doesn't mean that you haven't learned something valuable about that company, because you can take that information and use it for another company. Let's say you are looking at Walmart, you decided to pass, and you're trying to look at other grocers, well, any information that you've learned about Walmart, you can transfer to Kroger, and you can transfer to you know, Amazon if you want, or even, you know, target or Costco, any of those companies, you can look at any of them. And if anything, it makes you not want to buy that, for whatever reason, that knowledge compounds upon itself.

And so, you know, I've read through, I don't know, half a dozen of Costcos, 10, K's, and I've read through, you know, dozens of their earnings calls, and I've looked at their financials many times, and I've valued the company because I want to buy it, but it has been too expensive. But my point is, is that the just because and I haven't bought it because of that. But I've also learned a lot about Costco. And then when I look at Walmart, I mentally compare that and go, Okay, if I had to buy one or the two, which would I rather buy? I'd much rather buy Costco than I would Walmart.

And these are the reasons why it kind of applies to everything. If I look at Wells Fargo versus Bank of America, I'm going to use the same rationale; I'm going to look at this and look at this. And if I've read about a bunch of different companies that are in the same sector, then it just gives you information that you can use for other things. And so I think sometimes people may get a little frustrated because I'm not finding something that really fits my criteria. And part of it is a process. And the other part of it is you don't have to say yes to everything. And we don't have to swing at the first pitch.

You can find things; sometimes you get lucky, you can find something right out of the gate that's like, Oh, this is awesome, perfect. You know, oh, it's great. But you know, there are other times that this just like, you gotta shuffle through a lot of stuff to get the, you know, to get to the company. So this would be an interesting question. When you work on making your pick for the month, you may not have this number, but just guesstimate how many companies you would possibly look at over the course of a month.

Before you finally decide on the one you pick? Is it five? Is it 10? Is it 50? I mean, there's probably a lot of shuffling,

Andrew

22:44

I'm guessing. Yeah, there's, there's a ton of shuffling. And that's the thing about it is like, no matter how much of a workaholic you are, you only have 24 hours in the day and however many hours in the month, and there are so many stocks. So I'm trying to constantly; I will sort through the 1000s of stocks, and you try to find the ones that have the numbers that you want. And so that's what the screen is for; we've had previous episodes in the archives about using the stock screener. So you really narrow down the list as much as you can. And then from there, I'm like running valuations on a lot of companies too, because it's like, you don't want to go through all the work only to find out it was too expensive.

And so you just kind of wasted that time too. So I do a lot of that. And it's really hard to say it really is like reading a lot of 10 Ks, let's just say that, and the sifting through a lot of the 10 ks and trying to get brain download dumps and figure out what's the big picture of this. And the list just keeps growing. It's like this library of stock tickers is like compounding, like a snowball. And that's kind of what's worked for me, really similar to what you're saying. It's like sometimes opportunity Is there, and it's like hard to see any reason not to buy it. But that's pretty rare. Like I have to turn over a lot of rocks. And you do have to be diligent, in my opinion, that you can't let your standards down just because you're getting desperate to find something that you want to buy or you feel like I've just gone through 10 companies and none of these are attractive.

You just got to keep flipping rocks until you find something that you know because the big thing with the research, in my opinion, is like you do the research upfront. That way, when you get challenged later on, and the stock comes down, later on, you've already done the work, and you're ready, mentally prepared to hang on. If the stock goes down, I think that's really important, and it's so much easier the panic and panic sell if you haven't done the work on why you own this company.

Dave

24:45

That's a great insight. Alright, folks, well, with that, we will go ahead and wrap up our bird's eye look at Walmart and a kind of introduction to how we start to look at companies. So without any further ado, I'll go ahead and sign us off; you guys go out there and invest with a margin. Safety emphasis on safety. Have a great week; we'll talk to you all next week

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