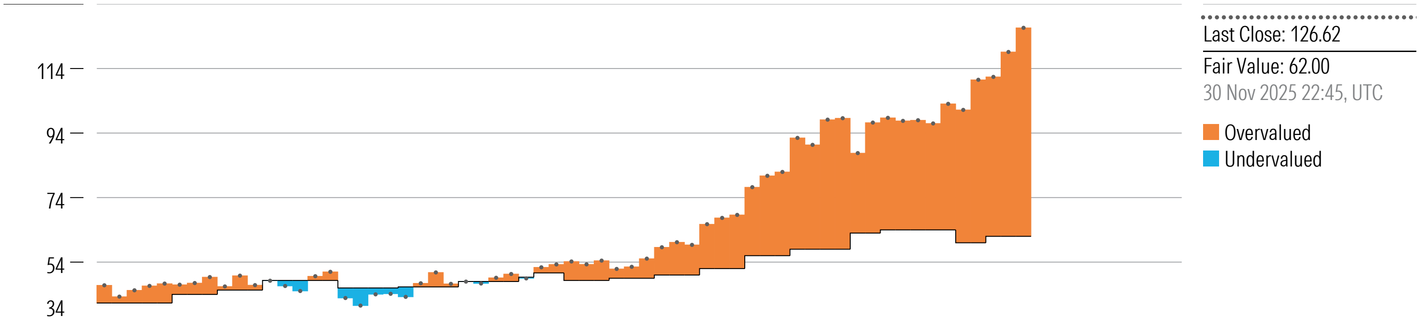
Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

Walmart Inc WMT ★ 18 Feb 2026 22:31, UTC

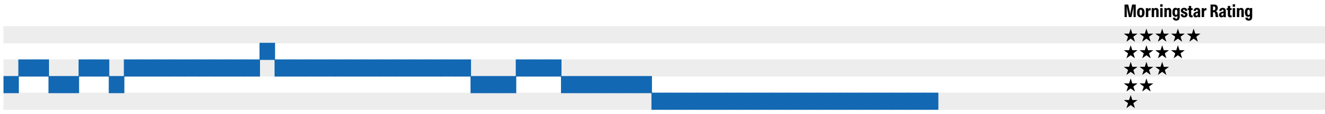
Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
126.62 USD 18 Feb 2026	62.00 USD 1 Dec 2025 04:45, UTC	2.04	1.01 USD Tril 19 Feb 2026	Wide	Large Blend	Medium	Standard	7 Jan 2026 06:00, UTC

Price vs. Fair Value



	2021	2022	2023	2024	2025	YTD	
	1.00	1.02	1.07	1.56	1.80	2.04	Price/Fair Value
	1.90	-0.46	12.79	73.51	24.35	13.65	Total Return %

Morningstar Rating



Total Return % as of 18 Feb 2026. Last Close as of 18 Feb 2026. Fair Value as of 30 Nov 2025 22:45, UTC.

Contents

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

[1]The ESG Risk Rating Assessment is a representation of Sustainalytics' ESG Risk Rating.

Walmart Earnings: Growth In Digital Buoys Margin Amid Consumer Trade-Down; Shares Expensive

Analyst Note Brett Husslein, Analyst, 19 Feb 2026

Walmart's fourth-quarter results included 5.6% net sales growth and adjusted EPS of $0.74. The firm continues to benefit from widespread demand across income cohorts, while strength in digital and memberships helped lift gross margin by 10 basis points to 24.7%.

Why it matters: Even with consumers' wallets stretched, Walmart continues to attract shoppers by emphasizing convenience as much as price. This is evident in its digital offerings, as e-commerce revenue grew 24% globally, driven by omnichannel pickup and delivery.

- Walmart US posted 4.6% comparable sales growth supported by price-led traffic, resilient grocery demand, and greater use of pickup and delivery. We think its store-fulfilled omnichannel model is widening engagement and value perception, particularly among higher-income households.

The bottom line: We plan to lift our $62 fair value estimate by a high-single-digit percentage, reflecting the time value of money and a modestly stronger medium-term profit outlook. This stems from faster scaling in retail media, which we see as improving wide-moat Walmart's earnings mix and stability.

- Despite the improved outlook, we view shares as overvalued, with the current price implying operating margins above prior peaks of 6%, which we see as unlikely amid intense competition. We think the market is pricing in outsize gains from discretionary mix and automation initiatives.
- The firm's high-margin digital revenue streams are rapidly altering the profit algorithm. Global

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Sector	Industry
Consumer Defensive	Discount Stores

Business Description

Since its founding in 1962, Walmart has become the world's largest retailer, operating over 10,700 stores globally (including 4,600 namesake locations on its home turf and another 600 Sam's Club outlets) and growing its e-commerce presence, attracting 270 million customers weekly. In aggregate, the firm posted more than $680 billion in fiscal 2025 sales. Its core operations span three reporting segments: Walmart US (68% of fiscal 2025 sales), Walmart International (18%), and Sam's Club (14%). Within the US, nearly 60% of its $465 billion in fiscal 2025 revenue came from its grocery offerings, with another quarter from general merchandise. Internationally, Walmart's operations are concentrated in Mexico, though it also has budding exposure to India.

advertising (up 37%) and membership fees now account for over a quarter of EBIT, which we see as enabling greater flexibility to capitalize on Walmart's e-commerce operations and reinvest in prices.

Coming up: Management struck a conservative tone for the upcoming fiscal year, while guiding to a slower first-quarter profit cadence due to timing of expenses and tariff impacts. Despite this, we think digital investments and price leadership should continue to win value-conscious shoppers.

Business Strategy & Outlook Brett Husslein, Analyst, 30 Nov 2025

Walmart is the largest retailer in the world, a byproduct of its standing as the low-price leader, generating more than $680 billion in annual sales. The firm doesn't just have a physical store network but also a digitally enabled ecosystem centered on grocery, fulfillment, advertising, and membership. While its 67% share of the superstore and warehouse club market reflects a dominant position that should hold, we posit Walmart's leading 32% online grocery share and 18% digital penetration underscore the effective conversion of its store scale into digital traction.

The foundation of Walmart's model is grocery (60% of US sales). This category drives frequent visits and supplier leverage, creating a traffic engine monetized through higher-margin categories like general merchandise, health, and private label. Own brands, over one-fifth of sales, such as Great Value deliver 25%-30% higher gross margins and reinforce profitability despite everyday low pricing. We believe this one-stop shop role encourages shoppers to consolidate trips to Walmart, boosting wallet share across demographics and preserving its cost edge.

We see the second layer of Walmart's strategy as digital enablement. Its third-party marketplace spans over 420 million stock-keeping units, while Walmart+ membership, estimated at 32 million, deepens loyalty and purchase frequency. Walmart Connect monetizes first-party shopper data through high-margin advertising. Together, Walmart+ and Walmart Connect generate over $5.4 billion in revenue at 70%-80% operating margins; we believe these areas will represent a growing share of profit, compounding at high-single-digit rates.

Despite competition from Amazon, Shein, and Temu, we think Walmart's scale, data, and supply chain investments offer structural advantages that should support long-term relevance and margin durability. With 4,600 US stores located within 10 miles of 90% of Americans, Walmart's stores double as a logistics network, reinforcing its omnichannel cost edge. Further, network investments are nearly twice prior levels, but we think the payoff will be seen in faster fulfillment, productivity gains, and incremental share capture.

Bulls Say Brett Husslein, Analyst, 30 Nov 2025

- Walmart Connect is profitably compounding sales at a high-double-digit rate, with 70% operating margins, creating a durable profit stream as it captures retail media advertising spending using real-

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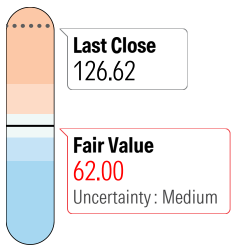
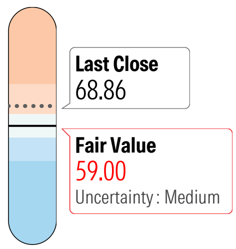
Competitors

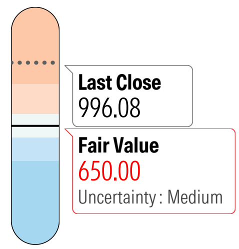
Walmart Inc WMT



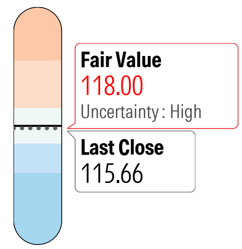
The Kroger Co KR



Costco Wholesale Corp COST



Target Corp TGT



	Walmart Inc WMT	The Kroger Co KR	Costco Wholesale Corp COST	Target Corp TGT
Economic Moat	Wide	None	Wide	None
Currency	USD	USD	USD	USD
Fair Value	62.00 30 Nov 2025 22:45, UTC	59.00 17 Feb 2026 16:25, UTC	650.00 22 Dec 2025 22:28, UTC	118.00 23 Oct 2025 22:26, UTC
1-Star Price	83.70	79.65	877.50	182.90
5-Star Price	43.40	41.30	455.00	70.80
Assessment	Overvalued 18 Feb 2026	Overvalued 18 Feb 2026	Overvalued 18 Feb 2026	Fairly Valued 18 Feb 2026
Morningstar Rating	★18 Feb 2026 22:31, UTC	★★18 Feb 2026 22:28, UTC	★18 Feb 2026 22:28, UTC	★★★18 Feb 2026 22:32, UTC
Analyst	Brett Husslein, Analyst	Brett Husslein, Analyst	Brett Husslein, Analyst	Brett Husslein, Analyst
Capital Allocation	Standard	Standard	Exemplary	Standard
Price/Fair Value	2.04	1.17	1.53	0.98
Price/Sales	1.45	0.31	1.58	0.50
Price/Book	10.50	6.48	14.59	3.39
Price/Earning	44.27	14.62	53.67	14.02
Dividend Yield	0.74%	1.99%	0.52%	3.93%
Market Cap	1,009.18 Bil	43.58 Bil	442.13 Bil	52.37 Bil
52-Week Range	79.81—134.69	58.60—74.90	844.06—1,071.00	83.44—131.70
Investment Style	Large Blend	Mid Value	Large Blend	Mid Value

time data from 255 million weekly shoppers.

- Expansion of private-label penetration boosts margins while reinforcing Walmart's value message and defending its share.
- Walmart+ adoption drives nearly twice as much shopping frequency per member, reinforcing share gains with fuel, delivery, and media perks appealing to higher-income households.

Bears Say Brett Husslein, Analyst, 30 Nov 2025

- Digitally native rivals like Amazon, Shein, and Temu could erode wallet share in discretionary categories, which make up 25% of Walmart's sales and carry higher margins than grocery.
- Rising employee wages (up 30% in five years) and raw material inflation could outpace productivity gains, constraining margin improvement.
- International operations may fail to scale and realize the same level of brand resonance in the US, with past failures in the UK, Germany, and Argentina, which would depress returns on invested capital.

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Economic Moat Brett Husslein, Analyst, 23 Oct 2025

We assign Walmart a wide moat grounded in its industry-leading cost structure and stout brand intangible assets. We surmise that these competitive advantages will remain durable due to Walmart's unmatched scale, operational discipline, and continuous reinvestment in technology and infrastructure. These advantages are most evident in the company's US operations, while Sam's Club demonstrates more modest but defensible strengths. In contrast, Walmart's international arm lacks sufficient scale and differentiation in most markets to earn an economic moat, in our view. Quantitatively, Walmart's consolidated return on invested capital has consistently exceeded our estimate of its weighted average cost of capital (7.3%) with a five-year average return of 12.7%. We believe that as Walmart continues to invest in strengthening its competitive position, its ROIC will remain above its WACC for at least the next two decades.

The cornerstone of Walmart's wide moat is its cost advantage. At over $680 billion in annual revenue, Walmart is the largest retailer in the world. Its scale enables meaningful purchasing leverage with suppliers, allowing the company to negotiate favorable terms that competitors, especially regional grocers or general merchandise retailers, cannot match. Walmart's massive sales volume also allows fixed costs such as supply chain logistics, IT infrastructure, and corporate overhead to be spread across a vast revenue base. For example, its investments in automated distribution centers and last-mile fulfillment capabilities become more economically efficient at Walmart's scale than for smaller competitors. According to Walmart US CEO John Furner, the company cut unit costs by 20% year over year as of April 2025, using its next-generation automated distribution centers compared with its manual fulfillment centers. He went on to say that by the end of calendar year 2025, Walmart expects to drive an over 30% improvement in costs across its network. Given the structural characteristics of mass-market retail (thin margins, perishable inventory, and high fixed costs), scale becomes critical to profitability. Walmart's ability to operate efficiently in this environment while maintaining pricing leadership gives it a structural cost advantage that its peers cannot replicate.

Walmart has long been recognized for its logistics expertise, with its supply chain often regarded as a model of operational excellence. Initiatives such as vendor-managed inventory, centralized purchasing, and cross-docking at distribution centers reduce inventory carrying costs and stockouts. Walmart US also continues to invest heavily in automation through initiatives such as retrofitting all 42 of its US regional distribution centers with automation technology, implementing AI-driven replenishment task-management tools, and building next-generation fulfillment centers using robotics. These investments, while capital-intensive, aim to cut labor costs and improve inventory throughput over time, initiatives that are largely out of reach for smaller, niche retailers. In June 2024, Walmart CFO John Rainey conveyed, "When we automate one of these DCs, we see roughly twice the throughput with half the headcount. And so the math on this is very, very compelling." While utilizing this technology does not give Walmart an edge by itself, since other retailers can invest similarly, achieving this at such a large scale puts the firm on the cutting-edge of supply chain efficiency, reinforcing its competitive position.

Walmart's long-standing everyday low price, or EDLP, strategy plays a dual role: it communicates price leadership to the consumer and simplifies operations by reducing promotional complexity. Walmart's pricing strategy is a key factor in its 14% share of US grocery spending (including e-commerce grocery). EDLP encourages customer loyalty through offering a vast assortment of around 140,000 stock-keeping units, ranging from leading name brands to Walmart's private-label offerings, that many competitors cannot match in terms of pricing or brand assortment; Target houses around 80,000 SKUs and Dollar General around 10,000. Importantly, because of its perceived price leadership, Walmart doesn't need to undercut on every item. Walmart's sales per square foot in the US ($665 in fiscal 2025) have consistently outpaced Target's ($431) for the last two decades, while its operating profit per square foot also trumps peers at $26 on average over the past decade; Target ($22) and Kroger ($18) pale in comparison.

The supplemental factor supporting Walmart's wide moat is the intangible assets it holds, which aid in generating new revenue streams. We think Walmart benefits from a highly trusted consumer-facing brand that stands for value, reliability, and convenience. The Walmart name is synonymous with low prices and wide selection, which serves as the backbone of the value proposition the company offers. The company's private-label penetration (representing about 30% of sales, through brands like Great Value and Equate) contribute to this and allow for higher margins despite lower prices relative to branded fare, while also unlocking more first-party data and analytics. Beyond brand trust, Walmart's digital ecosystem, which is built around Walmart+, its mobile app, and proprietary shopper data, have created intangible assets in the form of behavioral data, shopping patterns, and geographic analytics. This is increasingly valuable in the context of its advertising platform. The company's brand equity and consumer trust serve as a subtle but meaningful barrier to entry.

Walmart's scale, customer data, and closed-loop measurement capabilities enable it to offer targeted digital advertising with clear attribution, which is particularly attractive to consumer product manufacturers and direct-to-consumer brands to help track the return on ad spending. Ryan Mayward, senior vice president at Walmart Connect, noted that with the repetition of a brand's ads in both targeted search and display channels, consumers are much more likely to buy the brand's products and tend to spend 40% more on those items. The more advertisers participate, the more refined the targeting becomes, thus increasing returns for advertisers and drawing in a greater share of retail media ad spending. Walmart Connect provides advanced closed-loop tracking that only a few retailers outside of Amazon (which serves as the gold standard for ad revenue, at $56 billion in 2024) can match. Walmart's ability to monetize proprietary data and physical/digital shelf space through advertising is a clear example of a moat-enhancing intangible asset derived from Walmart's scale, foot traffic, and digital integration.

Walmart+ has carved out a meaningful niche, supporting its brand and further accentuating the company's moat, with an estimated 32 million-plus paid members, according to eMarketer (boasting a five-year CAGR of 18.7%), contributing around $1.5 billion in revenue in membership fees as of fiscal 2025. Walmart's CFO, John Rainey, said that Walmart+ members (who spend twice as much as traditional Walmart customers) are starting to behave more like Amazon shoppers, with more frequent purchases and smaller basket sizes. We posit Walmart+ supports the broader ecosystem by incentivizing higher spending and deeper engagement with the Walmart platform, boosting stickiness, and creating long-term customer value.

Sam's Club possesses elements of a cost advantage while also contributing to Walmart's overall intangible asset strength. Its membership model provides recurring, high-margin revenue (80%-90% of which flows to its bottom line), while scan-and-go, self-checkout, and digital enhancements improve the customer experience. However, unlike Costco, it lacks the same brand loyalty and global scale, reflected in its lagging market share of the US warehouse club industry at just 32% share against Costco's 60%.

In contrast to its dominant standing on its home turf, we surmise Walmart international lacks moat-worthy characteristics in most of its markets. Fragmented retail environments, supply chain challenges, and inconsistent regulatory regimes require a diverse set of expertise, which challenges its ability to maintain long-term pricing power. While markets like Mexico (Walmex) and India (Flipkart) hold strategic value, these markets aren't significant on a consolidated basis. Previous exits from the UK, Argentina, and Brazil illustrate that management is focused on only maintaining operations where it can achieve scale.

When taken together, we posit that Walmart's unrivaled cost advantage and reinforcing intangible assets, both carefully cultivated over decades of strategic investment, operational discipline, and relentless focus on customer value, warrant a wide economic moat rating. Its ROICs consistently exceed our estimate of its weighted-average cost of capital, and we have conviction that these returns will persist for at least the next 20 years, a hallmark of a wide-moat business. Its ability to profitably offer low prices at scale, while boasting a sophisticated supply chain, robust private-label offering, and trusted brand, places it in a rare class of retailers with durable competitive advantages. While the broader retail landscape is rife with disruption and margin pressure, we believe Walmart's structural efficiencies, digital transformation, and disciplined capital allocation position it to defend its edge over time.

Fair Value and Profit Drivers Brett Husslein, Analyst, 30 Nov 2025

We raised our fair value estimate for Walmart to $62 from $60 per share. The increase reflects an improved sales outlook following updated company guidance. This is 60 basis points above our prior forecast, partly offset by a 20-basis-point reduction in Walmart US EBIT margin. Recent results were strong, with net sales up 5.8% and Walmart US gross margin expanding 19 basis points to nearly 28%. We view Walmart's continued traffic gains, even amid strained consumer spending, as evidence of its durable value proposition.

Amid inflation and retail trade-down, its domestic operations remain the core driver of Walmart's financial prospects, accounting for nearly 70% of revenue and operating income. We forecast US revenue to grow at a 3.7% CAGR supported by modest ticket gains and resilient traffic trends. Growth is underpinned by Walmart's dominant 32% share of online grocery and expanding 18% digital sales mix, which continue to capture convenience-driven demand as e-commerce drives smaller, more frequent baskets akin to Amazon. Grocery, which accounts for about 60% of US sales, anchors recurring visits and supplier leverage while monetizing higher-margin categories like general merchandise, health, and private label.

Membership and advertising form the second value driver, reshaping Walmart's earnings mix. We forecast membership income to grow at 7.7% annually, driven by 4% Sam's Club member growth, a 10% midcycle price hike, and Walmart+ adoption across higher-income households. We project Walmart Connect to grow 10.7% annually, retaining over 6% share of retail media advertising spending via real-time shopper data from 255 million weekly visits. At 70%-80% operating margins, these segments could account for 27% of operating profit by the end of our 10-year explicit forecast. This should buoy its consolidated operating margin and reduce its reliance on merchandise sales. However, it will not fully offset the decline in higher-margin discretionary items in the sales mix.

On a consolidated basis, we forecast 4.1% consolidated revenue growth and an operating margin rising from 4.3% in fiscal 2025 to 5.4% by fiscal 2035, driven by automation efficiencies and scaling high-margin revenue. We expect COGS as a share of revenue to decline 30 basis points as procurement and supply chain improvements take hold while SG&A falls 60 basis points through fixed-cost leverage and productivity gains, reflecting genuine efficiency improvements rather than structural cost cuts.

Risk and Uncertainty Brett Husslein, Analyst, 23 Oct 2025

We assign Walmart a Medium Uncertainty Rating, reflecting the stability of its grocery-led business but acknowledging structural risks that could reduce cash flow growth.

The most significant risk to the business stems from competition in general merchandise, where Amazon, Shein, Temu, and other digitally native retailers have been eroding Walmart's US market share (10.6% compared with 13.6% five years prior). While grocery provides defensive stability (given the consistent purchasing frequency), an increasing reliance on low-margin food sales could weigh on profitability if discretionary categories underperform (with general merchandise sales falling almost 10% since fiscal 2022). Our forecast assumes Walmart defends its low double-digit share in general merchandise and holds its online grocery leadership through further online marketplace penetration; deviation from this path could pressure both revenue growth and margins.

E-commerce adoption is a double-edged sword. Walmart's investments in fulfillment centers, automation, and third-party marketplace capabilities require scale to cover elevated fixed costs. Should consumer adoption plateau, the company could be left with underutilized infrastructure, which would dilute profitability.

Regulatory and legal risks also persist. Tariffs on imported goods, particularly apparel and electronics, could dampen discretionary demand if higher prices are passed on to the consumer. Antitrust scrutiny around Walmart's use of shopper data or ad placement within its retail media platform could lead to regulatory action, reducing Walmart Connect's monetization potential. On the environmental, social, and governance front, Walmart's vast supply chain, where 90% of its emissions are tied to supplier logistics and production outside of its direct control, leaves it exposed to labor practices, deforestation, and emissions disclosure risk, all of which carry reputational and/or financial consequences if mishandled.

Capital Allocation Brett Husslein, Analyst, 30 Nov 2025

We assign Walmart a Standard Capital Allocation Rating, reflecting a balance sheet we view as sound, investment priorities that are broadly value-accretive, and shareholder distributions that are consistent but not without opportunity cost.

Walmart maintains one of the strongest balance sheets in retail, supported by recurring cash flows and a conservative use of debt. The company's debt/EBITDA ratio of 1.4 in fiscal 2025 remains modest compared with peers (industry average of 2.0), while a 10-year average interest coverage ratio of 16 times demonstrates ample capacity to manage obligations even during periods of margin stress. The majority of its $46 billion debt balance is long-dated, limiting refinancing risk. Over the next three years, we expect debt/EBITDA to range from 1.2 to 1.3 times, leaving room for continued investment without impairing financial flexibility.

The most significant shift in capital allocation over the past decade has been Walmart's pivot from physical store growth to digital enablement and supply chain modernization. We view this transition as strategically sound and value-accretive, positioning Walmart to better defend itself in an increasingly omnichannel retail environment. Annual capital expenditures of 3.3% of revenue on average over the past two years (above the 2.1% expended over the prior five years) reflect heavy outlays in fulfillment automation, technology, and store remodels, with management targeting more than half of fulfillment volume to flow through automated facilities by the end of fiscal year 2026. We view these investments as essential to defending Walmart's cost advantage and reinforcing its price leadership in the face of intense competition from Amazon and other digitally native competitors. Subsequently, we believe these projects will yield meaningful efficiency gains, particularly in inventory management and

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logistics.

Walmart's M&A track record shows a mix of strategic bets with varying returns. Its $3.3 billion acquisition of Jet.com in 2016 yielded limited direct financial returns and was ultimately shut down, though the transaction likely accelerated its e-commerce strategy. In the advertising space, Walmart has made more targeted value-accretive acquisitions; in 2019, it acquired Polymorph Labs' ad-tech assets to enhance its advertising platform, and in 2021, it purchased the technology behind Thunder (for creative automation) to power the self-serve capabilities of Walmart Connect. More recently, Walmart acquired Vizio for $2.3 billion to integrate connected-TV ad inventory and deepen its media reach. These transactions suggest Walmart is refining its M&A discipline, moving from broad-scale plays to more integrated, margin-enhancing deals in ad tech and media.

Walmart has also been deliberate in repositioning its international portfolio, divesting underperforming assets while doubling down in Mexico and India. We view this as a prudent reallocation of capital toward markets where Walmart holds clear structural advantages--scale in Mexico and early-mover e-commerce positioning in India. Since 2018, Walmart has exited the UK, Argentina, and Japan, shedding operations that either lacked scale, profitability, or strategic alignment. In Mexico, Walmart has announced plans to invest $6 billion over the next five years to add 1,500 new stores and enhance its supply chain and e-commerce capabilities. The Flipkart stake (84% ownership), valued at over $30 billion following a 2024 investment round, provides long-term upside in one of the world's fastest-growing e-commerce markets. While e-commerce penetration in India is just 30.3% (15% below the Asia-Pacific average), Flipkart offers Walmart a compelling long-term opportunity in scaled retail. Together, these moves show it's keen to abandon prior international missteps and redeploy capital to established, higher-growth regions.

Walmart has long been known for its shareholder distributions, as evidenced by its annual dividend increases over the past five decades. We expect the dividend payout ratio to remain in the 30%-40% range, which we view as manageable given free cash flow coverage. Share repurchases are likely to remain a secondary tool for returning capital to shareholders, with management opportunistically retiring stock after funding capital expenditures and dividends. While buybacks can add value when executed below intrinsic value, at a premium to our fair value estimate, purchases are less compelling relative to reinvestment. Nonetheless, management has historically been disciplined in calibrating repurchase activity to balance sheet conditions and market valuation.

Analyst Notes Archive

Walmart Earnings: Digital Momentum Buoys Margin as Consumers Seek Value; Shares Expensive

Brett Husslein,Analyst,21 Nov 2025

Walmart's third-quarter results included 5.8% net sales growth and adjusted earnings per share of

$0.62. The firm continues to benefit from broad-based demand across income cohorts, while strength in digital and memberships helped lift gross margins up 19 basis points to almost 28% for Walmart US. Why it matters: Despite strained consumer spending, Walmart bucks the trend as shoppers flock to the store due to its value proposition—convenience at a low price. This is evident in its digital offerings, as e-commerce revenue grew 27% globally, led by omnichannel pickup and delivery. Value-led traffic growth, resilient grocery demand, and strong digital engagement (online marketplace sales up 17%) helped Walmart US post 4.5% comp sales growth, despite mix headwinds. We believe these drivers underscore the format's appeal across income levels. The bottom line: We expect to lift our $60 fair value estimate by a low-single-digit percentage on a higher full-year sales outlook (4.8% versus 4.2%), stemming from a 50-basis-point comp sales hike, partly offset by a 20-basis-point reduction in operating margin for Walmart US. We view Walmart's shares as more than 70% overvalued, with the current price implying operating margins hold above prior peaks of 6%, a level we see as unrealistic given intense competition. We model 4.1% annual revenue growth and nearly a 100-basis-point fiscal 2035. While we see shares as overvalued, Walmart remains well-positioned to benefit from the shift to e-commerce. Its scale and expanding digital offerings support price investments, and we expect these profit streams to exceed 25% of operating income over our forecast horizon. Coming up: Management struck an optimistic tone on the holiday season, which historically drives 25%-30% of Walmart's annual sales. We think its investments in merchandising and the omnichannel experience should continue to win with value-conscious consumers during this critical period.

Walmart: CEO Transition Should Keep Strategy on Track; Shares Overvalued Brett Husslein,Analyst,14 Nov 2025

Walmart announced that CEO Doug McMillon will pass the torch to current Walmart US CEO John Furner on Feb. 1, 2026. McMillon will stay on the board until June 2026 and remain as advisor to Furner through January 2027.Why it matters: We view this as an orderly, internally driven succession that maintains strategic continuity rather than signaling a shift in direction. McMillon departs after a period of strong growth. We expect Walmart to continue prioritizing its digital and artificial intelligence-led efforts under Furner. We believe Furner's three-decade-long tenure (he started as an hourly associate, led Sam's Club, and has been running Walmart US since 2019) has put him at the center of the company's omnichannel and digital investments and given him a deep understanding of the business. We also think he has been instrumental in shaping Walmart's current playbook, reinforcing price leadership while scaling its high-margin profit pools like advertising, marketplace services, and membership. We don't anticipate a meaningful shift in direction once he takes the helm.The bottom line: We maintain our $60 fair value estimate and Standard Capital Allocation Rating for wide-moat Walmart. The CEO change does not alter our belief that intense competition will constrain operating margin expansion. Trading at a 70% premium to our intrinsic valuation, the shares are far from a bargain. Current levels imply outsize margin improvement, particularly in discretionary categories, efficiencies, and ancillary higher-margin income streams. We are set to hold intact our forecast for 4% annual sales growth and operating margins rising toward the mid-5% range by fiscal 2035. However, we will watch for any strategy shifts under Furner, as we expect more details to emerge in the coming months.

Walmart: Despite Realizing Accelerating Growth in High-Margin Enclaves, Valuation Is Heady Brett Husslein,Analyst,23 Oct 2025

Competition abounds, but Walmart's position as the world's largest retailer is unwavering. The firm boasts a vast store network, which it has complemented in recent years by investing in a digitally-enabled ecosystem that now accounts for 18% of sales compared with just 5% in fiscal 2019.The bottom line: We've cut our fair value estimate for Walmart to $60 per share from $64 due to our belief that the intense competitive landscape will constrain gross margins—now 40 basis points below our prior outlook. We reaffirm our wide moat rating, anchored by a cost edge and intangible assets.   We view shares as overvalued, as the market seems to expect outsize margin gains from growth in discretionary categories, efficiencies, and high-margin alternative income streams that appear lofty to us. We doubt such efforts will offer much upside as peers pursue similar initiatives. While we forecast 4% annual sales growth and around a 100-basis-point increase in operating margin to 5.4% by fiscal 2035, the market price appears to imply margins top prior peak levels of more than 6%, which we view as unlikely, as it contends with competition. Long view: The secular shift to e-commerce has pressured traditional retailers, and our forecast assumes average capital spending at 2.4% of sales. We think this will be directed toward enhancing its e-commerce platform and technological capabilities, as it works to defend its competitive edge. However, we posit that these investments are a requisite to remain competitive in retail. As such, we expect Walmart to defend its 10.6% share position in the domestic general merchandise aisle (25% of US sales) rather than expand upon its dominant standing. We see opportunities to expand its reach in the US grocery landscape, with our forecast suggesting its share grows to more than 15% over the next 10 years from just 14% in fiscal 2025, which should buoy traffic into stores and its website, given the faster-turning nature of the products.

Walmart Earnings: Sales Soar While Profits Sputter; Shares Far From a Bargain Erin Lash, CFA,Sector Director,21 Aug 2025

Walmart's fiscal 2026 second-quarter sales were up 4.6% in its US stores on a comparable basis, reflecting a 1.5% benefit from transactions and a 3.1% increase in average ticket. Gross margin expanded just 4 basis points to 24.5%.Why it matters: Despite consumers' financial constraints, Walmart posted solid top-line marks, illustrating the benefits of its scale, attractive price positions, and convenient digital shopping options, which stand to yield further market share gains. Even as tariffs add to costs in some aisles, the firm noted strength in discretionary categories such as apparel, media, gaming, and automotive, with general merchandise up low single digits. Management raised its fiscal

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 12 of 25

Walmart Inc WMT ★ 18 Feb 2026 22:31, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
126.62 USD 18 Feb 2026	62.00 USD 1 Dec 2025 04:45, UTC	2.04	1.01 USD Tril 19 Feb 2026	Wide	Large Blend	Medium	Standard	7 Jan 2026 06:00, UTC

2026 outlook to 3.75%-4.75% (from 3%-4%) for sales growth and $2.52-$2.62 (from $2.50-$2.60) for adjusted earnings per share, generally squaring with our forecast.The bottom line: We don't foresee a change to our $64 fair value estimate for wide-moat Walmart. Although the shares fell by midsingle digits in Aug. 21 trading, we view them as pricey, trading more than 50% above our valuation. We attribute the market's displeasure to Walmart's lack of cost leverage on its recent sales gains. But we see this as an anomaly, pressured by costs around injury claims, and expect investments in supply chain automation to bolster its cost edge over time. Longer term, we believe the market is far too zealous as it pertains to Walmart's ability to maintain outsize sales growth amid intense competition.Between the lines: Investments to enhance the omnichannel offering are bearing fruit, with e-commerce sales up 25% in the quarter, an acceleration from the low 20s that had historically characterized the business. Engaging customers digitally while keeping compelling pricing gaps should bode well for long-term customer retention. We think these efforts have been a driving force for recent market share wins with higher-income households.

Walmart Earnings: Attractive Prices and Digital Offerings Drive Continued Share Gains; Shares Pricey Noah Rohr,Equity Analyst,15 May 2025

Walmart's top line increased by 2.5% in the first quarter (4% in constant currency), led by comparable sales growth of 4.5% at its domestic stores and 6.7% at Sam's Club. Adjusted EPS of $0.61 improved $0.01 from last year. Why it matters: Walmart delivered strong top-line growth despite grappling with an uncertain economic backdrop. We expect the retailer's scale and attractive pricing position to resonate with cautious consumers and yield continued market share gains in coming quarters. Walmart's namesake stores delivered mid-single-digit growth in grocery sales, outpacing the 2% average annual growth in food at home inflation from February-April 2025. Market share gains in high-frequency categories should bode well for customer retention longer term. Management noted that tariffs will result in higher prices for select product categories. Higher prices and weak consumer sentiment will likely weigh on near-term demand, but we think Walmart's scale and attractive price points should allow it to outperform smaller peers. The bottom line: We plan to raise our $63 fair value estimate on wide-moat Walmart by a low-single-digit percentage due to the time value of money. Still, shares look overvalued, in our view, trading at 35 times our forecast for fiscal 2026 EPS. Results closely aligned with our forecast, and we don't plan to materially alter our fiscal 2026 estimates for 4% sales growth and $2.68 in adjusted EPS. We also expect to maintain our 10-year explicit forecast, which calls for average growth in sales and EBIT of 3.5% and 6.5%, respectively. We are optimistic that Walmart can take market share during tumultuous economic times and enjoy margin expansion as lucrative revenue streams, such as advertising, scale. Still, given its size, we struggle to see how the firm can grow faster than a mid-single-digit pace in the long run.

Walmart Earnings: Strong Year Capped Off by Continued Market Share Gains, but Shares Look

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 13 of 25

Walmart Inc WMT ★ 18 Feb 2026 22:31, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
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Pricey Noah Rohr,Equity Analyst,20 Feb 2025

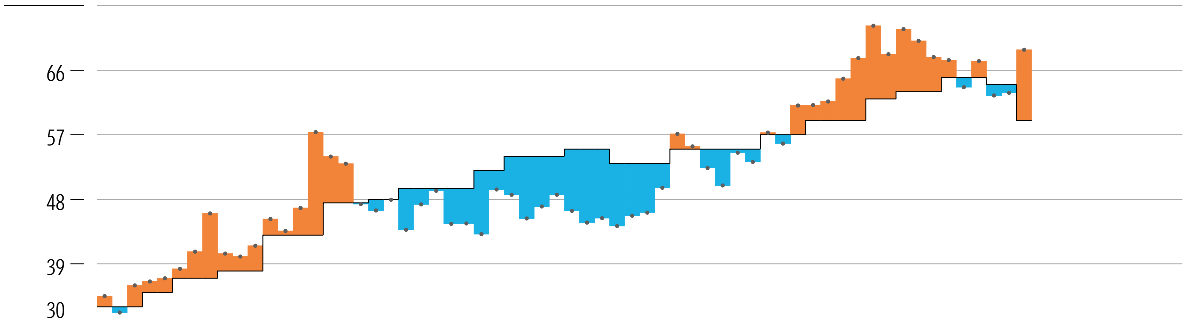
We plan to modestly raise our $58 per share fair value estimate on wide-moat Walmart following its strong fiscal 2025 fourth-quarter earnings, as we expect the firm to increase profits faster than sales for the foreseeable future. Results closely aligned with our forecast, as the retailer's low prices and convenient omnichannel offerings translated into continued share gains in its domestic market. Double-digit growth in high-margin profit streams such as advertising and membership income helped drive a robust 10% increase in adjusted earnings per share to $0.66 (slightly below our $0.68 estimate). Despite Walmart's continued outperformance relative to the retail industry, investors pushed shares down about 6% during intraday trading on Feb. 20. We surmise that underwhelming guidance for fiscal 2026 was the primary culprit for the selloff, as management expects EPS to land in a range of $2.50-$2.60 next year, landing below our $2.76 estimate. We remain optimistic about Walmart's ability to increase market share and expand margins longer term (we forecast a midcycle operating margin of about 5.5%, up from 4.4% in fiscal 2025) but continue to view shares, trading around 38 times next year's expected earnings, as overvalued.Comparable sales at Walmart US expanded 4.6% (in line with our forecast), from growth in transaction count and average ticket. Consistent with previous quarters, the grocery, health, and wellness categories drove the bulk of the gains. We were also pleased to see modest growth in general merchandise sales despite management citing price deflation across the category.Results at Sam's Club remained enviable as comparable-sales growth of 6.8% mainly stemmed from an increase in transactions. Membership income grew 13% due to new-member growth and higher premium-tier penetration. We expect the warehouse club channel to outperform the broader retail industry and forecast 4%-5% comparable sales growth at Sam's Club over the next couple of years.

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

Walmart Inc WMT ★ 18 Feb 2026 22:31, UTC

Competitors Price vs. Fair Value

The Kroger Co KR

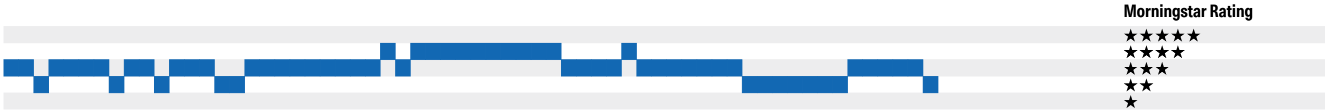


Last Close: 68.86
Fair Value: 59.00
17 Feb 2026 16:25, UTC

Overvalued
Undervalued

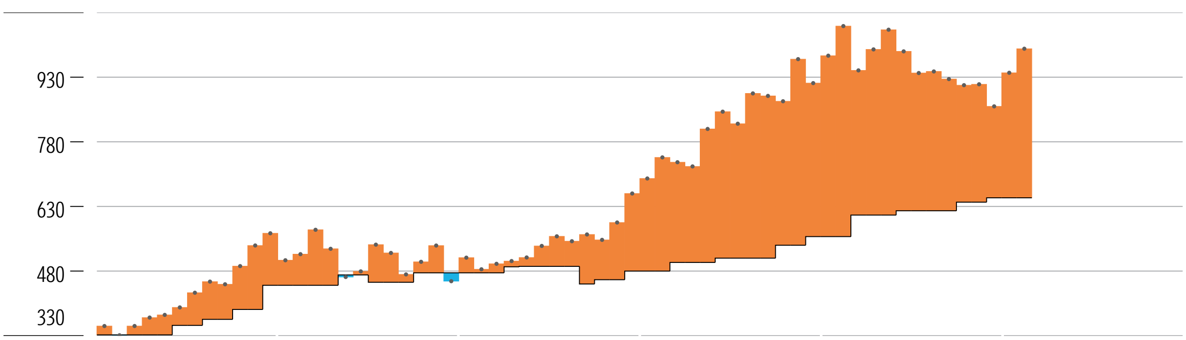
2021	2022	2023	2024	2025	YTD	
1.05	0.90	0.86	1.04	0.98	1.17	Price/Fair Value
44.96	0.57	5.00	36.45	4.37	10.77	Total Return %

Morningstar Rating



Total Return % as of 18 Feb 2026. Last Close as of 18 Feb 2026. Fair Value as of 17 Feb 2026 16:25, UTC.

Costco Wholesale Corp COST

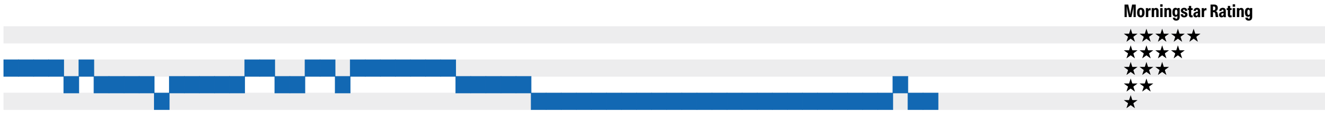


Last Close: 996.08
Fair Value: 650.00
22 Dec 2025 22:28, UTC

Overvalued
Undervalued

2021	2022	2023	2024	2025	YTD	
1.27	0.96	1.38	1.64	1.33	1.53	Price/Fair Value
51.49	-18.97	48.75	39.49	-5.33	15.66	Total Return %

Morningstar Rating



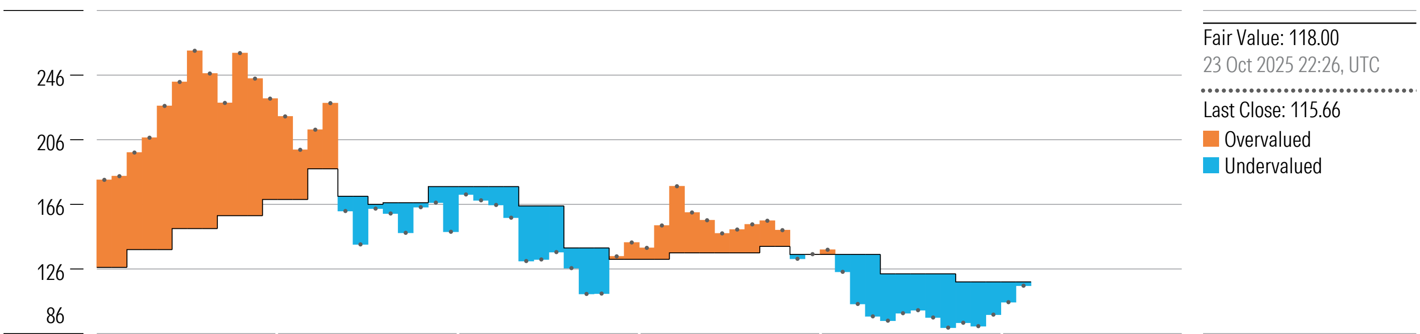
Total Return % as of 18 Feb 2026. Last Close as of 18 Feb 2026. Fair Value as of 22 Dec 2025 22:28, UTC.

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 15 of 25

Walmart Inc WMT ★ 18 Feb 2026 22:31, UTC

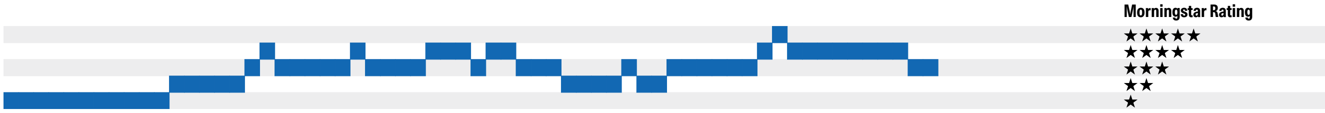
Competitors Price vs. Fair Value

Target Corp TGT



	2021	2022	2023	2024	2025	YTD	
	1.37	0.84	1.08	1.00	0.83	0.98	Price/Fair Value
	32.90	-33.89	-1.52	-1.97	-24.35	19.49	Total Return %

Morningstar Rating



Total Return % as of 18 Feb 2026. Last Close as of 18 Feb 2026. Fair Value as of 23 Oct 2025 22:26, UTC.

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 16 of 25

Walmart Inc WMT ★ 18 Feb 2026 22:31, UTC

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Morningstar Valuation Model Summary

Financials as of 21 Nov 2025	Actual			Forecast				
Fiscal Year, ends 31 Jan	2023	2024	2025	2026	2027	2028	2029	2030
Revenue (USD Mil)	611,289	648,125	680,985	713,620	747,029	779,629	813,603	849,189
Operating Income (USD Mil)	24,602	27,105	29,504	31,053	33,452	35,939	38,240	41,022
EBITDA (USD Mil)	31,373	38,865	42,321	44,168	48,392	50,752	53,698	57,157
Adjusted EBITDA (USD Mil)	35,547	38,958	42,477	45,325	48,392	50,752	53,698	57,157
Net Income (USD Mil)	11,680	15,511	19,436	23,399	23,653	25,685	27,536	29,865
Adjusted Net Income (USD Mil)	17,203	17,971	20,244	23,399	23,653	25,685	27,536	29,865
Free Cash Flow To The Firm (USD Mil)	9,321	9,515	12,006	15,513	19,939	21,342	27,040	31,745
Weighted Average Diluted Shares Outstanding (Mil)	8,202	8,109	8,081	8,013	7,945	7,884	7,806	7,682
Earnings Per Share (Diluted) (USD)	1.42	1.91	2.41	2.92	2.98	3.26	3.53	3.89
Adjusted Earnings Per Share (Diluted) (USD)	2.10	2.22	2.51	2.92	2.98	3.26	3.53	3.89
Dividends Per Share (USD)	0.75	0.76	0.83	0.94	0.97	1.00	1.03	1.13

Margins & Returns as of 21 Nov 2025		Actual			Forecast					
	3 Year Avg	2023	2024	2025	2026	2027	2028	2029	2030	5 Year Avg
Operating Margin %	3.9	4.0	4.2	4.3	4.4	4.5	4.6	4.7	4.8	4.6
EBITDA Margin %	—	5.1	6.0	6.2	6.2	6.5	6.5	6.6	6.7	—
Adjusted EBITDA Margin %	—	5.8	6.0	6.2	6.4	6.5	6.5	6.6	6.7	6.5
Net Margin %	2.4	1.9	2.4	2.9	3.3	3.2	3.3	3.4	3.5	3.3
Adjusted Net Margin %	2.9	2.8	2.8	3.0	3.3	3.2	3.3	3.4	3.5	3.3
Free Cash Flow To The Firm Margin %	1.6	1.5	1.5	1.8	2.2	2.7	2.7	3.3	3.7	2.9

Growth & Ratios as of 21 Nov 2025		Actual			Forecast					
	3 Year CAGR	2023	2024	2025	2026	2027	2028	2029	2030	5 Year CAGR
Revenue Growth %	5.9	6.7	6.0	5.1	4.8	4.7	4.4	4.4	4.4	4.5
Operating Income Growth %	4.2	-5.6	10.2	8.9	5.3	7.7	7.4	6.4	7.3	6.8
EBITDA Growth %	6.2	-14.3	23.9	8.9	4.4	9.6	4.9	5.8	6.4	6.2
Adjusted EBITDA Growth %	5.0	-3.2	9.6	9.0	6.7	6.8	4.9	5.8	6.4	6.1
Earnings Per Share Growth %	14.0	-12.4	34.3	25.7	21.4	2.0	9.4	8.3	10.2	10.1
Adjusted Earnings Per Share Growth %	14.0	-2.7	5.7	13.0	16.6	2.0	9.4	8.3	10.2	10.1

Valuation as of 21 Nov 2025	Actual			Forecast				
	2023	2024	2025	2026	2027	2028	2029	2030
Price/Earning	22.8	24.8	39.1	43.4	42.5	38.8	35.9	32.6
Price/Sales	0.6	0.7	1.2	1.4	1.4	1.3	1.2	1.2
Price/Book	5.1	5.3	8.7	10.3	9.2	8.3	7.7	7.5
Price/Cash Flow	—	—	—	—	—	—	—	—
EV/EBITDA	12.4	12.9	19.8	23.5	22.0	21.0	19.9	18.7
EV/EBIT	18.0	18.5	28.4	34.4	31.9	29.7	27.9	26.0
Dividend Yield %	1.6	1.4	0.9	0.7	0.8	0.8	0.8	0.9
Dividend Payout %	35.6	34.3	33.1	32.3	32.6	30.7	29.2	29.2
Free Cash Flow Yield %	—	—	—	—	—	—	—	—

Operating Performance / Profitability as of 21 Nov 2025	Actual			Forecast				
Fiscal Year, ends 31 Jan	2023	2024	2025	2026	2027	2028	2029	2030
ROA %	4.8	6.2	7.4	8.6	8.2	8.5	8.7	9.3
ROE %	14.0	17.2	20.0	22.3	20.4	20.3	20.2	21.7
ROIC %	12.5	13.1	13.5	13.2	13.4	13.7	14.1	14.8

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 17 of 25

Walmart Inc WMT ★ 18 Feb 2026 22:31, UTC

Last Price	Fair Value Estimate	Price/FVE	Market Cap	Economic Moat™	Equity Style Box	Uncertainty	Capital Allocation	ESG Risk Rating Assessment[1]
126.62 USD 18 Feb 2026	62.00 USD 1 Dec 2025 04:45, UTC	2.04	1.01 USD Tril 19 Feb 2026	Wide	Large Blend	Medium	Standard	7 Jan 2026 06:00, UTC

Financial Leverage (Reporting Currency)	Actual			Forecast				
Fiscal Year, ends 31 Jan	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**
Debt/Capital %	13.2	12.1	7.1	10.7	10.2	9.7	9.3	8.9
Assets/Equity	2.9	2.8	2.7	2.6	2.5	2.4	2.3	2.3
Net Debt/EBITDA	1.6	1.3	1.2	1.2	1.0	0.9	0.8	0.7
Total Debt/EBITDA	1.7	1.6	1.4	1.3	1.2	1.2	1.1	1.0
EBITDA/ Net Interest Expense	19.0	18.2	18.9	21.0	22.8	26.3	30.1	38.3

Forecast Revisions as of 30 Nov 2025	2026		2027		2028	
Prior data as of 23 Oct 2025	**Current**	**Prior**	**Current**	**Prior**	**Current**	**Prior**
Fair Value Estimate Change (Trading Currency)	62.00	59.94	—	—	—	—
Revenue (USD Mil)	713,620	709,722	747,029	742,978	779,629	775,400
Operating Income (USD Mil)	31,053	31,049	33,452	33,406	35,939	35,815
EBITDA (USD Mil)	45,325	45,244	48,392	48,266	50,752	50,547
Net Income (USD Mil)	23,399	21,030	23,653	22,941	25,685	24,814
Earnings Per Share (Diluted) (USD)	2.92	2.62	2.98	2.88	3.26	3.13
Adjusted Earnings Per Share (Diluted) (USD)	2.92	2.62	2.98	2.88	3.26	3.13
Dividends Per Share (USD)	0.94	0.94	0.97	0.97	1.00	1.00

Key Valuation Drivers as of 21 Nov 2025	
Cost of Equity %	7.5
Pre-Tax Cost of Debt %	5.3
Weighted Average Cost of Capital %	7.3
Long-Run Tax Rate %	24.0
Stage II EBI Growth Rate %	4.3
Stage II Investment Rate %	34.0
Perpetuity Year	20

Additional estimates and scenarios available for download at https://pitchbook.com/.

Discounted Cash Flow Valuation as of 21 Nov 2025	**USD Mil**
Present Value Stage I	185,088
Present Value Stage II	115,738
Present Value Stage III	221,149
Total Firm Value	**521,975**
Cash and Equivalents	9,037
Debt	60,114
Other Adjustments	0
Equity Value	**470,898**
Projected Diluted Shares	7,970
Fair Value per Share (USD)	**62.00**

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS

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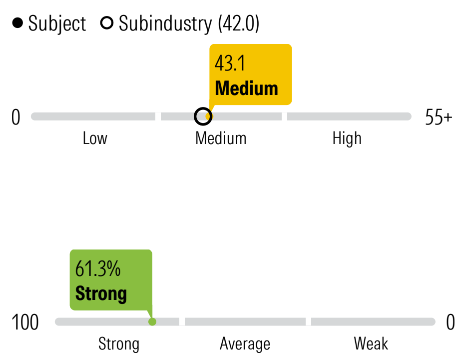
ESG Risk Rating Breakdown

Exposure	
Company Exposure[1]	43.1
– Manageable Risk	39.9
Unmanageable Risk[2]	**3.2**

Management	
Manageable Risk	39.9
– Managed Risk[3]	24.4
Management Gap[4]	**15.4**
Overall Unmanaged Risk	**18.6**



- Exposure represents a company's vulnerability to ESG risks driven by their business model
- Exposure is assessed at the Subindustry level and then specified at the company level
- Scoring ranges from 0-55+ with categories of low, medium, and high-risk exposure

- Management measures a company's ability to manage ESG risks through its commitments and actions
- Management assesses a company's efficiency on ESG programs, practices, and policies
- Management score ranges from 0-100% showing how much manageable risk a company is managing

ESG Risk Rating

ESG Risk Ratings measure the degree to which a company's value is impacted by environmental, social, and governance risks, by evaluating the company's ability to manage the ESG risks it faces.

1. A company's Exposure to material ESG issues 2. Unmanageable Risk refers to risks that are inherent to a particular business model that cannot be managed by programs or initiatives 3. Managed Risk = Manageable Risk multiplied by a Management score of 61.3% 4. Management Gap assesses risks that are not managed, but are considered manageable 5. ESG Risk Rating Assessment = Overall Unmanaged Risk = Management Gap plus Unmanageable Risk

ESG Risk Rating Assessment[5]

ESG Risk Rating is of Jan 07, 2026. Highest Controversy Level is as of Feb 08, 2026. Sustainalytics Subindustry: Food Retail. Sustainalytics provides Morningstar with company ESG ratings and metrics on a monthly basis and as such, the ratings in Morningstar may not necessarily reflect current Sustainalytics' scores for the company. For the most up to date rating and more information, please visit: sustainalytics.com/esg-ratings/.

Peer Analysis 07 Jan 2026

Peers are selected from the company's Sustainalytics-defined Subindustry and are displayed based on the closest market cap values

Company Name	Exposure		Management		ESG Risk Rating	
Walmart Inc	43.1 | Medium	0 – 55+	61.3 | Strong	100 – 0	18.6 | Low	0 – 40+
The Kroger Co	47.3 | Medium	0 – 55+	55.3 | Strong	100 – 0	23.1 | Medium	0 – 40+
Amazon.com Inc	34.7 | Low	0 – 55+	56.3 | Strong	100 – 0	16.6 | Low	0 – 40+
Costco Wholesale Corp	41.4 | Medium	0 – 55+	43.8 | Average	100 – 0	24.6 | Medium	0 – 40+
Target Corp	33.2 | Low	0 – 55+	61.9 | Strong	100 – 0	14.3 | Low	0 – 40+

Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 19 of 25

Appendix
Historical Morningstar Rating

Walmart Inc WMT 18 Feb 2026 22:31, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
—	—	—	—	—	—	—	—	—	—	★	★
Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
★	★	★	★	★	★	★	★	★	★	★	★
Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
★	★	★	★	★	★★	★★	★★	★★	★★	★★	★★★
Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
★★★	★★★	★★	★★	★★	★★★	★★★	★★★	★★★	★★★	★★★	★★★
Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
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Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
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Costco Wholesale Corp COST 18 Feb 2026 22:28, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
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Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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Morningstar Equity Analyst Report | Report as of 19 Feb 2026 19:08, UTC | Reporting Currency: USD | Trading Currency: USD | Exchange: NASDAQ - ALL MARKETS Page 20 of 25

Target Corp TGT 18 Feb 2026 22:32, UTC

Dec 2026	Nov 2026	Oct 2026	Sep 2026	Aug 2026	Jul 2026	Jun 2026	May 2026	Apr 2026	Mar 2026	Feb 2026	Jan 2026
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Dec 2025	Nov 2025	Oct 2025	Sep 2025	Aug 2025	Jul 2025	Jun 2025	May 2025	Apr 2025	Mar 2025	Feb 2025	Jan 2025
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Dec 2024	Nov 2024	Oct 2024	Sep 2024	Aug 2024	Jul 2024	Jun 2024	May 2024	Apr 2024	Mar 2024	Feb 2024	Jan 2024
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Dec 2023	Nov 2023	Oct 2023	Sep 2023	Aug 2023	Jul 2023	Jun 2023	May 2023	Apr 2023	Mar 2023	Feb 2023	Jan 2023
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Dec 2022	Nov 2022	Oct 2022	Sep 2022	Aug 2022	Jul 2022	Jun 2022	May 2022	Apr 2022	Mar 2022	Feb 2022	Jan 2022
★★★★	★★★	★★★	★★★	★★★	★★★	★★★★	★★★	★★	★★	★★	★★
Dec 2021	Nov 2021	Oct 2021	Sep 2021	Aug 2021	Jul 2021	Jun 2021	May 2021	Apr 2021	Mar 2021	Feb 2021	Jan 2021
★★	★	★	★	★	★	★	★	★	★	★	★

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, indepth 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 shortterm market-price movements), but we believe these negatives are mitigated by deep analysis and our longterm 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 singlepoint 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.

When considering a company's moat, we also assess whether there is a substantial threat of value destruction, stemming from risks related to ESG, industry disruption, financial health, or other idiosyncratic issues. In this context, a risk is considered potentially value destructive if its occurrence would eliminate a firm's economic profit on a cumulative or midcycle basis. If we deem the probability of occurrence sufficiently high, we would not characterize the company as possessing an economic moat.

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 workingcapital 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.

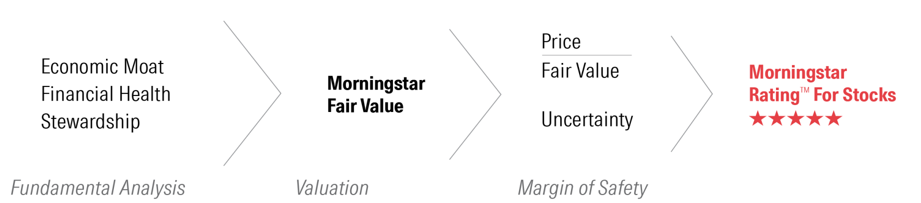
Because a dollar earned today is worth more than a dollar earned tomorrow, we discount our projections of cash flows in stages I, II, and III to arrive at a total present value of expected future cash flows. Because we are modeling free cash flow to the firm—representing cash available to provide a return 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 is designed to capture the range of potential outcomes for a company's intrinsic value. This rating is used to assign the margin of safety required before investing, which in turn explicitly drives our stock star rating system. The Uncertainty Rating is aimed at identifying the confidence we should have in assigning a fair value estimate for a given stock.

Our Uncertainty Rating is meant to take into account anything that can increase the potential dispersion of future

Morningstar Equity Research Star Rating Methodology



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Research Methodology for Valuing Companies

outcomes for the intrinsic value of a company, and anything that can affect our ability to accurately predict these outcomes. The rating begins with a suggested rating produced by a quantitative process based on the trailing 12-month standard deviation of daily stock returns. An analyst overlay is then applied, with analysts using the suggested rating, historical rating data, and their own knowledge of the company to inform them as they make the final Uncertainty Rating decision. Ultimately, the rating decision rests with the analyst. Analysts take into account many characteristics when making their final decision, including cyclical factors, operational and financial factors such as leverage, company-specific events, ESG risks, and anything else that might increase the potential dispersion of future outcomes and our ability to estimate those outcomes.

Our recommended margin of safety—the discount to fair value demanded before we'd recommend buying or selling the stock—widens as our uncertainty of the estimated value of the equity increases. The more uncertain we are about the potential dispersion of outcomes, 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 are: Low, Medium, High, Very High, and Extreme.

	Margin of Safety	
Qualitative Analysis Uncertainty Ratings	★★★★★Rating	★Rating
Low	20% Discount	25% Premium
Medium	30% Discount	35% Premium
High	40% Discount	55% Premium
Very High	50% Discount	75% Premium
Extreme	75% Discount	300% Premium

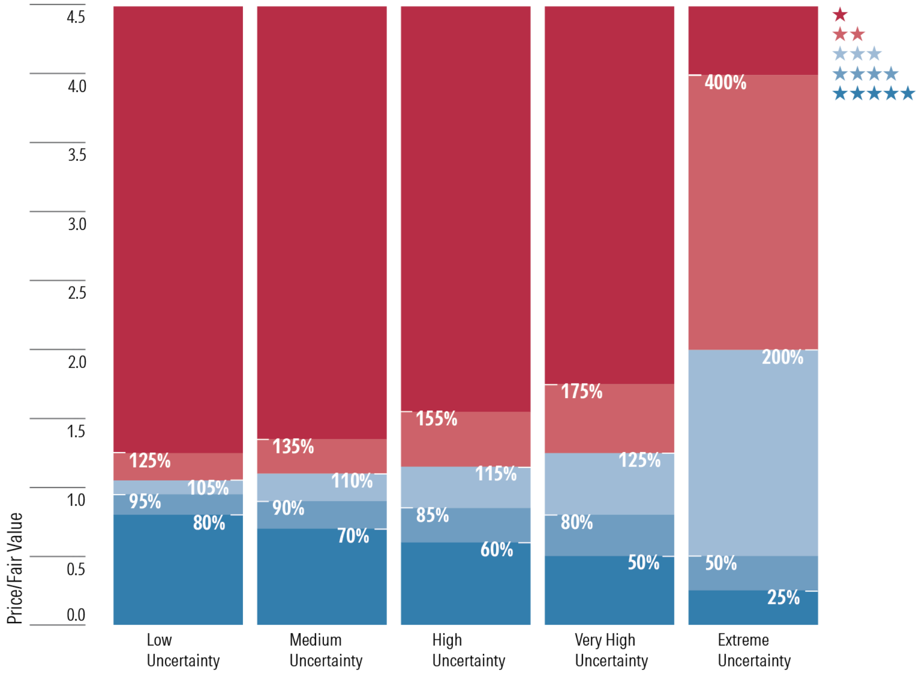
Our uncertainty rating is based on the interquartile range, or the middle 50% of potential outcomes, covering the 25th percentile–75th percentile. This means that when a stock hits 5 stars, we expect there is a 75% chance that the intrinsic value of that stock lies above the current market price. Similarly, when a stock hits 1 star, we expect there is a 75% chance that the intrinsic value of that stock lies below the current market price.

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 details about our methodology, please go to https://shareholders.morningstar.com

Morningstar Equity Research Star Rating Methodology



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:

★★★★★ 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.

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

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

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

★ Indicates a high probability of undesirable risk-adjusted returns from the current market price over a multi-year 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.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments,

Research Methodology for Valuing Companies

and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

Capital Allocation (or Stewardship) analysis published prior to Dec. 9, 2020, was determined using a different process. Beyond investment strategy, financial leverage, and dividend and share buyback policies, analysts also considered execution, compensation, related party transactions, and accounting practices in the rating.

Capital Allocation Rating: Our Capital Allocation (or Stewardship) Rating represents our assessment of the quality of management's capital allocation, with particular emphasis on the firm's balance sheet, investments, and shareholder distributions. Analysts consider companies' investment strategy and valuation, balance sheet management, and dividend and share buyback policies. Corporate governance factors are only considered if they are likely to materially impact shareholder value, though either the balance sheet, investment, or shareholder distributions. Analysts assign one of three ratings: "Exemplary", "Standard", or "Poor". Analysts judge Capital Allocation from an equity holder's perspective. Ratings are determined on a forward looking and absolute basis. The Standard rating is most common as most managers will exhibit neither exceptionally strong nor poor capital allocation.

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Sustainalytics ESG Risk Rating Assessment: The ESG Risk Rating Assessment is provided by Sustainalytics; a Morningstar company.

Sustainalytics' ESG Risk Ratings measure the degree to which company's economic value at risk is driven by environment, social and governance (ESG) factors.

Sustainalytics analyzes over 1,300 data points to assess a company's exposure to and management of ESG risks. In other words, ESG Risk Ratings measures a company's unmanaged ESG Risks represented as a quantitative score. Unmanaged Risk is measured on an open-ended scale starting at zero (no risk) with lower scores representing less unmanaged risk and, for 95% of cases, the unmanaged ESG Risk score is below 50.

Based on their quantitative scores, companies are grouped into one of five Risk Categories (negligible, low, medium, high, severe). These risk categories are absolute, meaning that a 'high risk' assessment reflects a comparable degree of unmanaged ESG risk across all subindustries covered.

The ESG Risk Rating Assessment is a visual representation of Sustainalytics ESG Risk Categories on a 1 to 5 scale. Companies with Negligible Risk = 5 Globes, Low Risk = 4, Medium Risk = 3 Globes, High Risk = 2 Globes, Severe Risk = 1 Globe. For more information, please visit sustainalytics.com/esg-ratings/

Ratings should not be used as the sole basis in evaluating a company or security. Ratings involve unknown risks and uncertainties which may cause our expectations not to occur or to differ significantly from what was expected and should not be considered an offer or solicitation to buy or sell a security.

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