

Debt and shareholders funds



The minus numbers reveals that Wal-Mart has a capital deficiency. This means that the company has no resources to redesign and improve the settings of its operations for several of the following years. The table also reveals that the company has actually grown weaker in its capacity to improve its business. In theory, this is not an optimized way to manage a company's working capital. Having a working capital deficit would mean that the company has no resources left to ensure the survival of the business and to satisfy maturing debts.

Understanding the debt agreement between a company and its debtors is important to evaluate whether the company is sufficiently solvent or not.

According to the 200 notes of consolidated financial statements, Wal-Mart has the following long-term debt: Other source of Wal-Mart's funding is shareholders fund. Wal-Mart has the following list of stock value in its 2008 balance sheet statement: 1 WACC A Weighted Average Cost of Capital (WACC) is cost of capital in which each category is proportionately weighed.

In the calculation of WACC, all capital sources are included, like common stock, preferred stock, bonds and other debts. In Wal-Mart, the WACC is as follows: The WACC indicated that the company suffered considerably increased costs to finance its business. This might be due to aggressive financing efforts for further investments in new locations (Modigliani, 1958) 2

Conclusions and Recommendations The data that we have gathered revealed that although being the best in its industry, Wal-Mart has a very challenging capital structure and liquidity positions.

The company also has a problem managing its working capital which makes it look more like the company is not solvent or operationally profitable.

Nevertheless, the company maintains a healthy reward program for its investors, which is a plus for investing activities. Overall however, we would still advise investors against investing in the company because of its various reasons, including small profit margin, weak coverage ratios, etc.

Bibliography

Annual Report 2008 - Wal-Mart'. 2009. Wal-Mart.