Walmart
Q2 FY '26 Buyside Investor Call
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Presenters
Steph Wissink - SVP Investor Relations
John David Rainey - EVP, CFO

Q&A Participants
Brad Thomas - KeyBanc Capital Markets

Operator
Greetings. Welcome to the Walmart Second Quarter Fiscal Year '26 Buyside Investor Call. At this time, all participants are in listen only mode. Please note, this conference is being recorded.

At this time, I'll hand the conference over to Steph Wissink, Senior Vice President, Investor Relations. Steph, you may begin.

Steph Wissink
Thank you, Rob. Good morning, everyone. Today's call is being recorded, and management may make forward-looking statements. These statements are subject to risks and uncertainties that could cause actual results to differ materially from these statements. These risks and uncertainties include but are not limited to the factors identified in our filings with the SEC. Please review our press release and accompanying slide presentation for a cautionary statement regarding forward-looking statements as well as our entire Safe Harbor and non-GAAP reconciliations on our website at stock.walmart.com.

Brad, I'll turn it over to you.

Brad Thomas
Thank you, Steph, and thank you, John David, Steph, Kary, and the rest of the Walmart IR team for the opportunity to host today's call.

I'm Brad Thomas, the Broadlines Hardlines analyst with KeyBanc Capital Markets. Today, we have 45 minutes in a fireside chat format with John David Rainey, EVP and CFO, and Steph Wissink, SVP of Investor Relations.

From our perspective, the key metrics from Walmart's 2Q were all very encouraging, all pointing to initiatives working and Walmart taking significant market share. I want to dig into that, but first, I was hoping to touch on two more transitory topics that were coming up yesterday in our calls with investors.

The first question is about the general liability claims. John David, can you help us understand what's driving them, your degree of confidence in modeling it going forward and how to think about these costs in the second half of the year?

John David Rainey
Happy to do so, Brad. And first, let me say thank you for hosting this call, and thanks for everyone that's attending. We look forward to these each quarter for opportunities to elaborate on certain points and clarify certain items, and I think that's probably pretty important this quarter is there's some nuance to this earnings release, so happy to jump in on this first one, general liability claims.

Let me first explain what this is and then get to the heart of your question. But operating a club and store environment, we have, like every company, on the job injuries from associates. There will be times when customers may have a trip and fall or something like that. And for each of those incidents, we have -- we self-insure. And so we accrue a certain amount that is our expectation on what it will cost to settle those liabilities in the future.

A lot of those are settled -- in fact, the vast majority are settled just by us handling that with our customers. Sometimes, they go to torte, and that often results in them becoming more expensive. It's a smaller percentage of them overall, but also a more expensive bucket there.

We have seen for -- if you go back two decades, the annual cost increase of what it costs to settle these claims has been very constant, and think of this in terms of like roughly 1% per year. Post-COVID, for a number of reasons, we began to see the cost increase, and we've also increased our accrual since that period of time. But in more recent quarters here, we've seen a step up here. And so when we look at the cost to settle these claims, and some of these claims can be outstanding for a number of years, our expectation is that they will be more expensive into the future. And think of this as it's an actuarial estimate with a liability that for us spans about $1 billion from the low end to the top end.

And based upon our expectation right now, we like where the accrual is at roughly the midpoint of that overall liability. I want to be really clear on one point, though. This is not a case of us having more incidents. The actual number of incidents, we feel really good about the decline there year over year as we continue to emphasize safety and other measures in our stores to try to bring down those number of incidents. But the costs have gone up.

We alluded to this in the first quarter, and we made some changes to that actuarial estimate at that point in time. We did again in this most recent quarter. Our expectation going forward is that costs will be higher than what they have been in this prior period going back two decades. But that's built into our guidance. And nothing about this higher cost makes us think differently about the financial trajectory that we've outlined already. It's disappointing that this is a larger amount and surprising to all those on the call. But the practical reality of this is -- the surprises that happen sometimes when you run a business of our size and complexity.

And I think of this very much like the increase in shrink that we had two years ago. We had to weather through that and navigate that, and we're doing the same thing now. And so we feel good about where the estimate is for that liability at this point in time. And as I said, I do think we're going to experience higher costs into the future, but we don't expect it to be a surprise like it was this quarter, or said differently, more of a catch up in this period.

So, I feel the fact that we've kept our operating income guidance unchanged for the year in the face of, between the first and second quarter, what is three-quarters of a billion dollars of additional expense really speaks to how we're feeling about the momentum in the business and the strength of the core business overall. We feel really good about that. I know we'll get into that in other questions, Brad, but hopefully, that adequately explains for everybody on the call what this expense is.

Brad Thomas
That is very helpful. We've also been getting questions about everybody's favorite topic, RIM accounting, and hoping you could help us think about, as tariffs have flowed through the business, how has that been playing out on items like gross margin versus what you had initially been expecting? And what does that mean as we think about the second half?

John David Rainey
Sure. We called that out as a risk at the last call, I think appropriately so, given that we were, what, two or three weeks into the new tariff regime and there was a lot unknown about where tariffs would land and the impact on our business. Our merchants did what I would describe as an excellent job through the quarter of trying to minimize the impact of higher costs resulting in higher prices to our customers.

The reason that we called that out is, with the retail method of accounting, and when you're importing and your cost of goods is higher, there's the potential to have a period of higher margins, which could then in a later period be offset by markdowns to the extent that you're not selling that inventory at higher prices. The concern that we had 90 days ago was that that could potentially straddle the second and third quarter where you could see a situation where margins were higher in the second quarter and lower in the third quarter.

The way that our team managed that is we were able to contain a lot of that to the second quarter itself. So said slightly differently, we did have more markups than normal in the second quarter. We also had more markdowns than normal. And so they had a netting effect.

There are still some tariffs that are far from settled when we look at the countries that we import from. So the potential still exists into future quarters, but I don't think to the extent that we originally called it out in the second quarter. And in fact, if we were just starting from scratch today and looking at the third quarter, I don't think we would call RIM out as an issue looking at our forward projections.

Brad Thomas
Very helpful. Switching gears to more of the underlying performance of the business, could you share with us what you're seeing from the consumer right now?

John David Rainey
Sure. The consumer continues to be very consistent, resilient. I feel like we're using the same words that we've used for multiple periods. And I was joking to CNBC yesterday that my answers on this are quite boring because everyone's looking for some change, but there's just not a lot that we can detect. Like Doug mentioned in his prepared remarks yesterday that if you look at the lower income segment, on the margin, you detect some differences, but really not anything that's of a magnitude that makes us think differently about the consumer overall.

We're monitoring the same things that you all monitor when you look at equities at large like what's happening with wage growth, job growth, CPI, all of those things. And they all tend to correlate with what's happening with our customer. But there's nothing at this point that makes us feel very differently about consumer behavior. In fact, you can even argue the other side of that where there are some green shoots in our business with respect to general merchandise and categories like fashion and apparel where we've been really encouraged by what we've seen over the last quarter. In fact, fashion is one where we saw an acceleration in our business as we went through sequential each month of the quarter.

Now, I don't know how accurate it is to extrapolate that into macro trends, because frankly, I think a lot of that is what we're doing. Like we -- our assortment right now I think is as good at any point since I've been here. And because of our appeal to a much broader income cohort, we're seeing people come and shop at Walmart for items that they haven't historically shopped at Walmart for. And so I'm encouraged by that.

And so, you can take that statement around general merchandise or fashion as a macro trend or something specific to Walmart. Maybe it's some of both, but there's, I think, a number of things to be equally excited about with the health of the consumer.

Brad Thomas
That's very helpful and I think does a good job of answering the question that everyone asks about the health of general merchandise. So thank you for that.

Can you talk a bit about what you're seeing in terms of income demographics? In particular, Walmart has done an exceptional job of gaining share in households with income over $100,000 of late.

John David Rainey
Sure. We've been really pleased with what we've seen around gaining share. And I want to pause for a second and remind everyone that we said that we're going to play offense, and

that's what we're doing. And we love what we're seeing in return. We're gaining share across all income tiers, most notably among this upper income tier.

And, Brad, I think the single item that I would point to that I think is most relevant in terms of those share gains is what we're offering in terms of convenience now. We've talked at length about the fact that if your -- convenience is something that matters regardless of how much money you make or what your paycheck is. And we've just upped our game. Like we're -- and look, I don't want to suggest that we're perfect here. We have a long ways to go. We know that. We're very clear on what we need to do, but we've made so much progress with that convenience proposition to customers that you're seeing customers respond. And I think people are coming to Walmart that frankly haven't really thought of us as their go-to for retail in a number of years, and they're just experiencing a different Walmart. It's really encouraging when you hear the feedback from customers and you see the repeat usage or repeat engagement among customers that maybe previously would only go to Walmart on that once a year trip because they needed it; I just think we offer a far different value proposition today.

Brad Thomas
Still going back to the way I kicked off the call, talking about the numbers and how impressive they are, I just wanted to cite a few. I know you don't like to talk about the competition, but I want to highlight some of these - U.S. e-commerce growth accelerating to 26%, the highest in over 2 years, and up twice the rate of Amazon North America, grocery up mid-single digits, well above the industry at 2.6%, the Sam's Club comp of 5.9% coming in for the period above Costco and BJ's, general merchandise, well ahead of Target - just some really impressive stats here in case our audience didn't recognize all of these. I'm wondering if you can just speak a little bit more to the share gains that Walmart is delivering more broadly here.

John David Rainey
Yeah, I'd be happy for you to repeat that one more time. I mean, it's why we're excited about our business. Like, certainly, this wasn't a perfect quarter for us, and we talked about that on the opening question. There were issues on the expense line. But when you look at what's happening to the core of the business, just every single area continues to really perform well.

The step up in e-commerce I think really reflects some of the share gains that we're seeing, the expanded value proposition, how that's resonating with customers. But it's not just the top line e-commerce when you dig into that. Advertising was up 50%. Now, granted, 28 percentage points of that was the acquisition of Vizio, but then you have advertising up 30%. We have our marketplace business that is growing almost 20%, 19%. We increased the penetration of third-party sellers using Walmart fulfillment services by 250 basis points. And you just -- you go line by line. And we can talk about Sam's and international, what we're seeing there. China grew 30% in the period.

And it's just, when you look across the breadth of our business, there's just a whole lot to be encouraged by. And I see nothing that makes me think that this momentum is going to stop.

And so, hopefully, you detected in the tone of our voice, like there's a level of excitement and encouragement. And in fact, I would say in what has been a year filled with a I think trepidation for many companies, given the operating environment and the tariff environment, I'm probably as encouraged about our business than at any point in time this year right now.

Steph Wissink
Brad, it's Steph. I would just layer on top of that. This is a culmination of several years, and you could even argue maybe a decade, of making smart strategic investments in a cadence that resulted in the ability to accelerate the business even at its scale. So I think the teams are incredibly motivated. You've compared some of our stats to some of our competitors. We want strong competitors. It just makes us better. But I would say we're feeling really good about our relative position and the absolute realization of the acceleration potential after many, many, many years of strategic investments in a cadence that has given us the infrastructure, the ecosystem, and the talent to really do this at this level and sustain it.

Brad Thomas
That's great. It's all very, very exciting. I have a last question about kind of the consumer, if you will, and that has to do with SNAP. Can you help us think about the importance of SNAP to Walmart and how you think about the outlook for SNAP and perhaps any other factors that may be impacted by the One Big Beautiful bill?

John David Rainey
Sure, happy to do that, Brad. With respect to SNAP specifically and the Big Beautiful Bill, there is some modest impact on our projections as we look at the impact of SNAP. Historically, what we've seen, very consistently I might add, is that when there have been changes in SNAP, we tend to recapture the vast majority of that, think 85 to 90% of that spend, through other tender types.

And so when you look at the reductions in SNAP projected forward, yes, there is some impact on our business, but it's measured in basis points of growth, so nothing that is that material. On the flip side, of the other items in the bill itself that are impactful to us, I think having certainty is really important. Every business would say that. It's when you're making capital investment decisions that have tax consequences, like having certainty around the long-term impacts of that are really important. So we like that.

But there are some working capital benefits. And so maybe another way of saying that is there's a cash tax benefit to some of the changes in the bill, notably accelerated depreciation, that we think can have a not insignificant impact on our working capital as we look forward. That's important -- excuse me -- because even going back to our investor day, we talked about where we are on a trajectory around free cash flow. We made a lot of years of investment, more capital spending here, but we believe that we're on the cusp of seeing an inflection in free cash flow. And this is just another way to help accelerate that.

Steph Wissink
Brad, I would add on the SNAP question, our merchants are really taking this as an opportunity to reinforce our strength in areas like perishables to take a closer look at our opening price points and our private brands, working with our suppliers to ensure that, not only the dollars and cents of the program, but how the program is being re-architected, that we're in the best position to draw even more dollars even if the program is slightly smaller. So I think the takeaway from SNAP is, to John David's point, not a material impact on the business, but also a challenge to go in and really rethink how do we develop an opening price point in perishable solutions for that customer to be able to spend that money well.

Brad Thomas
That's a very helpful perspective. Thank you. I want to switch gears and ask a few questions about e-commerce, really a bright spot here in the quarter. Can you speak a little bit to the acceleration that we saw on the outlook for e-commerce and delivery?

John David Rainey
Sure. So there are so many exciting parts of this part of our business to talk about, and there are a couple notable things that stood out to me in the quarter. One is the delivery from store and club metrics. Delivery from store for Walmart US increased 50% on what is already a pretty large base. Delivery from club for Sam's increased triple digits, which again, these aren't like small numbers that the growth is coming off of. So -- arguably more so with Sam's. That's a newer part of the value prop there, but certainly not with Walmart US.

But it's just, it's really exciting to see how these -- this aspect of our business is growing. And for me is, maybe being more analytical and numbers oriented, what I'm really starting to enjoy about this part of our business is how we're beginning to understand how behaviors tie to customer performance. Or said differently, like as an example, like we look at fast deliveries. Like a fast delivery, we also call express delivery. So this is when we deliver in less than three hours. And we can see that, as an example, when a customer has their fourth fast delivery, there's an inflection in their spend where they're now spending about three times the amount that they were prior to that.

And so being able to tie these behaviors of customers to performance that translates into an added benefit on the P&L is really exciting. And, look there are others that are probably more sophisticated than us that have had a lot more history in this aspect of our business than we have. But this is exciting for us as we're beginning to understand how to use our data and analytics to do things that translate into more value for shareholders.

And so it's just, to me, it's like a really exciting time to be at this business and seeing the growth here and now it's translating into much higher incremental margins overall for our business.

Steph Wissink
Brad, it's Steph. I would just add a slightly nuanced dimension to that, which is these businesses are increasingly interrelated. That strength in fast delivery, and as John David mentioned, deepening engagement, growing wallet share leads to membership. Your bigger customer segment then draws a larger portion of advertising dollars. Advertising drives marketplace.

And so you're seeing this connective tissue being formed around these maybe what we historically would have thought about as independent businesses; they are incredibly interrelated. And we can see the momentum in one cascading into the momentum in another. And that's, I think, also what gives us conviction that it's not just one part of the business that's growing really well. You're starting to see kind of all of the pieces lighting up and that they're lighting up coincident with one another.

Brad Thomas
To dovetail off of that, you I think answered part of my next question with the answer to the last question here, but we've been getting a lot of questions about the competitive landscape. And I know you won't address competition directly, but maybe more specific to Walmart. And again, you had just addressed some of this in your last answer. But can you talk a little bit more about the investments and capabilities and how to think about those over maybe a longer-term horizon as you continue to improve the business?

John David Rainey
Sure. And maybe I'll make a general comment just about competition. I was asked earlier this week was I surprised by some of the announcements from our competitors, and the answer is, of course not, right? And as Steph alluded to, like we expect our competition to get better. We're getting better. We don't operate in a static environment. So the stakes of the game continue to get raised. And so there's nothing surprising to us about some of the things that have been announced, and that doesn't change how we think about our positioning from a competitive perspective.

Like we have a great value proposition, and perhaps I'll talk more about that in a minute. But with respect to e-commerce just in general and some of what we're doing here around the investment, our cost to serve continues to come down. In fact, I would argue that on a like-for-like basis, there may not be anybody else that has a lower unit cost to serve than what we're experiencing right now. And that's assisted by the fiscal footprint that we have with 5,000 distribution nodes to serve 95% of America in less than three hours by the end of the year. That's a tremendous advantage that we have.

And you overlay on that the densification of our network. We talk about gaining share. We talk about adding more customers. Like when we're delivering that van or truck full of packages, leaving a store, we're now delivering to more people. So it spreads that cost over more volume. It just makes it more economical for us.

The other thing that we've seen is that, as we continue to improve our speed of delivery, there's a very strong correlation with an increase in conversion. So as we go from say three-day delivery to two-day delivery, or two-day delivery to one-day, or one-day to same-day, there's an appreciable uptick that's frankly kind of consistent in each of those in conversion. And as we better serve our customers, as they realize that they can get those things that they want and need right away, we see that repeat purchasing behavior, which makes the share gains that we have very sticky.

And so we really love the progress that we're making in e-commerce. And I know we have a lot of work to do. Like I don't want to suggest that we're the best at any aspect of this, but we're seeing the benefits of these improvements translate into improvements in the P&L, as well, which just makes it pretty exciting.

Steph Wissink
Brad, I would layer on top of that, as we think about the future of commerce, proximity, frequency, fastest speed, the lowest price, we feel really good about our position. And as agents become more of the way in which we think about interacting with our customers, there's a deep understanding of how our customers behave on a weekly cadence. And we think of the combination of the physical infrastructure with the data that we have on the customer and how we can be the most helpful to deliver on a consistent basis what customers need, maybe even before they know they need it.

And so that future really gets us excited, too, about the combination of what we have relative to our competitive set. And I do think that the proximity that John David talked about in combination with the technology that we're building, that there could be a future where we're delivering with speed at a very low cost and keeping people, quote, in stock, on the things that we know that they need when they need them. So that layers on top of, I think, your question, which is the exciting things that are coming with AI and agentic commerce.

Brad Thomas
And of course, in addition to the nice top-line outlook, the profitability has been very encouraging. You mentioned that US e-commerce doubled in profitability in 2Q from 1Q. Can you talk a bit about how investors should think about the outlook for profitability in the e-commerce channel?

John David Rainey
Happy to. Maybe the way to characterize this is the first quarter when we achieved profitability, that was not like the seminal moment where we can sit back and think, OK, our work is done. We continue to expect profitability to increase on the same trajectory that it's been on for multiple years now. What excites me about our business is the line of sight that we have into making the second P&L more profitable than the first P&L.

And for those that are maybe less familiar with those terms, we talked about the first P&L being the core retail business. The second P&L being e-commerce, advertising, data ventures, fulfillment services, marketplace, all these other newer businesses. And today, the margin on that second P&L, those newer businesses, is lower than what it is on retail. So while we're making a profit in e-commerce, it's not at the same level as the profitability of our in-store business. But there will be a point in time when that changes, and it's within our planning horizon.

So that's pretty exciting because these are higher growth businesses, and will eventually be higher margin as well. So I think there's like so much opportunity here as we think about the future of Walmart continuing to expand into these digital channels. And the concern, and we've talked about this with you before, Brad, the concern in any digital business or technology platform is customer acquisition. You can have a great app or a great technology, but if you don't have customer adoption, it's of very little use. And right now, we have hundreds of millions of customers that are coming to our properties each week. And now they have the options to use us in the digital channels like they shop with other people.

Steph Wissink
Brad, we talked yesterday in our earnings call about 50% of our profit growth coming from membership advertising and Marketplace. And you talked about the first quarter being a really important moment of inflection. That stands out to me, too, that half of our profit growth is coming from the interrelated businesses in that second P&L. So we've clipped that halfway mark now, and it's a pretty important signal to the future of how our profits are going to be driven in terms of growth.

Brad Thomas
That's a great segue to Marketplace, which was up 20% in the quarter. How should we think about the outlook for Marketplace as it continues to build?

John David Rainey
I see nothing that makes me think about the rate of growth slowing in the Marketplace from what we've been experiencing. We have an order of magnitude larger than what we were just a couple of years ago, but we still have a long ways to go there. Third-party is a big part of the future for Walmart. And we continue to add more sellers, add more SKUs. And maybe not just focusing on 3P, but 1P and 3P, adding brands is really important to us.

There's been a big focus here, and not just focus, there's been a lot of progress here in adding some of those brands that traditionally haven't been sold at Walmart. And we can do that through 1P, and we're making really good progress there, and we can also do it through 3P. And it allows us to offer a much, much broader assortment to our customers and members, which is one of the key aspects of why someone shops somewhere. You need to have low prices, you want to be a brand that people trust, you want to have a great experience, but you need to have the items. And this has been something that we've really been focused on and we continue to make really strong progress.

Steph Wissink
I would just double click on that. In a year like we're in right now, where managing our owned inventory is incredibly important to thinking about risk, the 3P becomes a very important complement to how our merchants think about managing their category. We can sell what we own, but we can also sell what we borrow from the Marketplace sellers, and those sellers can expand our assortment. And so customers can still access those goods that they want, but that's coming through our Marketplace.

So I think even the way our merchants are thinking about managing their categories, their assortments, their seasonal events, certainly big deals events like we had in July, which were very strong, there's a much stronger connection between 1P and 3P at the category level. And in moments like this that we're in now, where our owned inventory is a really important metric for us, it becomes a real strong complement.

Brad Thomas
Sticking with some of the growth initiatives that are digital or digitally-related, I want to talk about advertising next, which continues to post very strong growth as well. What, if anything, is new in terms of what you're hearing from vendors as they leverage Walmart Connect? And then can you give us an update on how the Vizio integration is going and how that will fit into the business going forward?

John David Rainey
So in terms of advertising, just overall, we continue to see great results there, in part because advertisers want to follow the eyeballs. And as we're gaining share and more people are shopping at Walmart, we see advertisers want to chase that. So again, 30% growth on an apples-to-apples basis in the US year-over-year, that doesn't include Vizio. It's 50% if you include Vizio. And we've talked about Vizio in the past, but that's really exciting for us because that gives us an opportunity to do much more than what we do today.

It gives us an additional channel, so that we can advertise to consumers through streaming media. And what that allows us to do also is think broader than just the endemic advertising that we have for products that we sell today. With streaming media, we could advertise for products that maybe we don't sell at a Sam's or a Walmart, but we can see the attachment from those ads. And so maybe if you're -- I think I've used the example of you can advertise for a Ford F-150 on one of the Vizio channels, and that's something that we don't do today.

And so we have, I think, an ability to think expansively about what advertising can be for us. And still today, I mean, we're relatively -- in terms of our penetration relative to GMV, we have a long ways to go. We're far from what best in class is. And so what's cool about that is we can expand that penetration, while at the same time, expanding the denominator as well, which I think just gives us a ton of opportunity with what advertising can mean to our overall P&L over the coming years.

Steph Wissink
Brad, I would add too, that Marketplace and advertising are two great examples of where we're building really strong central functionality that we can deploy in markets around the world. So Walmart Connect's core engine is now being used in Canada and Mexico. We're learning some things from our Flipkart business in India. We're bringing that into the mix. So these two platforms, think of them as kind of universal global platforms with a core engine, and that gives us even a greater opportunity to scale these faster at a lower cost.

Brad Thomas
That is a great segue to ask about the international side of the business, which is performing very well, in particular China, up 30% in the quarter, a major growth driver for you all. Can you talk more about what you're seeing internationally and the outlook for China in particular?

John David Rainey
Sure. China has been, of all the markets that we operate in internationally, probably the one that has stood out the most for its performance over the last two years, even. There was, I think, a shift, going back the first quarter of last year where we really began to see some outperformance in China that at the time we thought was maybe kind of a one-off and contained to the quarter, but we've continued to perform at that level since that point in time.

The China business, we said, if you look at our Sam's format, we have, I believe, seven clubs there now that are doing in excess of half a billion dollars of revenue a year. We continue to see fantastic growth and membership there. That format works really well in that market. And overall, the e-commerce penetration in that market, it's roughly a 50-50 mix between e-commerce and physical.

There are also some things we're doing in China that we're taking learnings from and applying to other markets like the United States, like India, where we have what we call a cloud store format, or think of this as a dark store with smaller square footage, a more limited number of SKUs, but are those items that are everyday items in baskets that people buy. And these are -- they, in essence, support a club in that geographic area to help us with fast delivery. And I mentioned earlier the impact that fast delivery can have. And so there are a lot of learnings from China that we're taking and applying broadly around the world.

Just stepping back and thinking not just China, but international, the e-commerce penetration in our international business is at 27% right now. So again, you're seeing all the things that we're talking about in the US are happening in other markets around the world. There are markets that haven't been performing as well that we've talked about. So nothing here is new, but just to be balanced with some of the excitement I have. Canada is a market that I think has struggled this year more than some of the other markets. I think part of that is some of the tariff noise that's gone back and forth between the two countries, and so that has not performed as well.

Mexico also probably falls into that category. And Walmex being a public company, they've already talked about some of these issues, but they're important parts of our portfolio. And that's the thing about having a portfolio in markets like this. In any period, some are going to be performing better, some not as well. We see that right now. But overall, when you take the international segment, we continue to say, we've reiterated, this is a segment that is accretive to growth, both on the top line as well as on the bottom line, and excited about what the future holds here in these markets.

Steph Wissink
Brad, I would just add, as you think about the model the first semester and the second semester, there were a lot of incremental investments that were heavily weighted to the front half of the year. And the back half of the year, you're going to see some of the benefits of those investments and the timing of those investments. And we are starting to see some improvement in the Canada business and in the Mexico business, investments in wages and price in particular. So the backside of that is a constructive trend line that we're starting to see.

And also, you should start to see what John David just mentioned, that profits are going to start to grow faster in that business as we get into the back half of the year. A number of conversations we had yesterday, there was some curiosity about Q3 versus Q4. Just know that the timing of seasonal events in our international portfolio plays a big factor in how the sequence of the quarters lays out. And this year, we would expect the fourth quarter to be stronger than the third quarter based on the timing of some of those events and the lapping of some of the starting of those investments that we did late last year.

Brad Thomas
That's very helpful for you to flag. We've been getting questions about that as well. I want to make sure we also ask a question on Sam's that, again, is performing very well. Can you speak a little bit more about any nuances we should think about in modeling, and how you think about the runway for the comp momentum that you all have had at Sam's?

John David Rainey
Sam's has performed exceedingly well over the last four or five quarters, particularly in certain categories. If you just, you think about what happened in Sam's in the most recent quarter, almost the entirety of the comp growth was in units. So when you look at general merchandise, of all the segments, it's performed the best in our Sam's segment. We continue to curate assortment that is relevant to members that we're seeing how they respond to that, and we love the value proposition there.

Again, this is also one that is a little more digital-leaning than some of the other segments, particularly with the scan-and-go penetration. I think Chris mentioned on the call yesterday that in some of the recent weeks, the scan and go penetration among our members reached 40% or surpassed 40%. That's really exciting, and that's a great experience. The MPS on that is over 90. And that's a vision for the future on how all customers will be shopping at Sam's.

We just opened our second club in Tempe, Arizona that is entirely, 100% a digital store, meaning you shop with the scan-and-go app only, and you walk out under the digital arches, or the exit arches, I should say. So Steph, you may have some stuff that you want to add, but we've got some high expectations for Sam's over the coming years. Chris, at Investor Day, laid out some of the bold ambition that we have there, but I see nothing that makes me concerned about our ability to go execute on that.

Steph Wissink
Yeah, I would just add two strategic things. One is that Sam's is back in a growth posture. We opened our first club just very recently in Tempe, and the club opening was very strong. I think the team is getting back onto the growth bandwagon in terms of new clubs. So you're going to start to see it be both an organic story, but also a new club and new member acquisition story. And then secondly, we've seen similar strength in our Sam's business in the fashion category, so we're also interested to see how new brands, new product innovation in that category, similar to what we're seeing in the Walmart US segment, does feel like there's a little bit of momentum in that category of our business overall.

From a modeling perspective, Brad, maybe to your question on just year-over-year comparables, Sam's also has a little bit of a tailwind in the fourth quarter as well. We made a decision to invest in some wages in our Sam's Club associate population in the fourth quarter of last year, so you'll be lapping that. And I would expect the fourth quarter there to also be stronger. So if you're running your models and you're seeing that there's a step up at the enterprise level in the fourth quarter operating income growth, that's the reason, is the combination of international and the Sam's Club business. We'd expect Walmart US be pretty consistent across the two quarters.

Brad Thomas
Very helpful. I want to next ask about automation, and everyone I've talked to that's visited one of the automated facilities is just in awe of what you're doing there. Can you give us an update on the rollout and speak to the ROI that you've been seeing, John David?

John David Rainey
We're roughly halfway through each aspect of our automation. It varies whether we're talking about RDCs or FCs, but when you look across the whole gamut of that investment, we're roughly halfway through most of that. We have increasingly a greater percentage of stores that are being served by some automated facility right now. And the way that that has translated into ROI, we are seeing better productivity benefits than what we had imagined. Now, the offset of that is some of the cost of this automation has gone up with tariffs. And so the net-net on the ROI is relatively unchanged, but if you think about the initial investment, it is maybe a

little bit more because of tariff impacted items that are used for construction, but the productivity benefits are also a little bit better.

Steph Wissink
And Brad, I would add, Sam's, you noticed that we took a restructuring charge in the quarter. That was related to the discontinuation of a facility. Sam's is increasingly leveraging the Walmart US automated investment. So we talk about it very much through the lens of the US segment, but think about it through the investment in our US business overall, Sam's and Walmart US together.

John David Rainey
And that's a great point, Steph. To add to that, I think the posture change at Walmart is a little different today than it has been even maybe two or three years ago in how we think about the synergies between the segments. They have historically operated in a very independent, perhaps even fair to characterize as siloed fashion. And what we're beginning to do a lot more of right now is leverage the expertise and investments from one segment onto the other segments. Chris Nicholas, who runs the SAMS segment, came from the US segment. He was the chief operating officer over there. Prior to that, he was the CFO of the international segment. So he has a strong awareness about some of the opportunities in these other segments, and he's leveraging a lot of that as he's trying to achieve this ambitious growth plan that he has.

Brad Thomas
Wonderful. Well, I think we have time probably for just one last question here. I wanted to talk about the growth in membership and maybe follow up on a comment you were making about the quote, unquote, second P&L. As you see this improvement in profitability in your digital and delivery customers and all this momentum in membership, can you just speak to making investments today that can drive market share gains and the degree to which you are prioritizing new members and future growth versus, perhaps, profitability today, and just how you're balancing that and thinking about playing offense and gaining share right now?

John David Rainey
The way that I think about our membership -- and for purposes of this, I'm going to focus mostly on Walmart US. But I think that our membership program should be the most essential membership program in the United States. When you look at the value proposition and all the things that we offer today, combined with all the things that we're imagining in the future, it's almost as if you're shopping with Walmart in the wrong way if you don't have that membership.

A good example would be the credit card that we're providing right now with our OnePay affiliate, 5% cash back if you're a Walmart+ member. That is as good as anything that is out there in the market. Then you throw on top of that all the benefits that come from Walmart+. I actually think this will be one of the largest acquisition channels for Walmart+ members here in the near future. So I'm really excited about this. The relevance from an investor perspective is we see that the spend of a Walmart+ member is roughly 2X that of someone that's not. then their repeat engagement with us is much greater as well. So there's a whole lot more to do here, and we'll continue to build out the value proposition and add to that, but I'm quite excited about what this can mean for our business longer term.

Brad Thomas
All very helpful. Well, thanks to everyone who joined us today. And John David, and Steph, thanks again for your time.

John David Rainey
All right. Thank you, Brad. Thanks, everyone, for joining the call.

Operator
This concludes today's call. Thank you for your participation. You may now disconnect your lines at this time and have a wonderful day.