Speaker 3
0s

Greetings. Welcome to Walmart's first quarter fiscal year 2026 earnings call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note this conference is being recorded. I'll now turn the conference over to Steph Wissink, Senior Vice President, Investor Relations. Steph, you may begin.

Speaker 1
29s

Thank you. Welcome, everyone. We appreciate you joining us and your interest in Walmart. Joining me today from our home office in Bentonville are Walmart CEO Doug McMillon and CFO John David Rainey. Doug and John David will first share their views on the quarter, and then we'll open up the line for your questions. During the question-and-answer portion, we will be joined by our segment CEOs, John Furner from Walmart US, Kath McLay from Walmart International, and Chris Nicholas from Sam's Club. For additional detail on our results, including highlights by segment, please see our earnings release and accompanying presentation on our website. We will make every effort to answer as many of your questions as we can in the hour we have scheduled for this call. As a courtesy to others, please limit yourself to one question. 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.

Speaker 1
1m 54s

Doug, that concludes my intro. We're ready to begin.

Speaker 4
1m 58s

Good morning, and thanks for joining us. I'll start today by thanking our associates. They continue to drive results for today while changing to strengthen our business for tomorrow. We have more than 475,000 associates participating in our Walmart share purchase plan, and 81% of them are hourly. For all those associates that are listening, nice job, everybody. For our first quarter, we grew sales 4% and profit by 3% in constant currency. We grew international sales by 7.8%. We drove a Sam's US comp of 6.7%, excluding fuel, and a Walmart US comp of 4.5%. Those strong Q1 results were not driven by inflation. Transactions and units drove our top line. Globally, we grew e-commerce 22%, with each segment delivering growth of at least 20%. Inventory is in good shape. The first quarter was what we expected on the top line and better than what we expected on the bottom line. It was a good first quarter. There's a lot to like about how we're changing and where we are. We feel great about our team, our strategy, and our stores and clubs. We feel great about how we're driving e-commerce growth in a way that not only serves customers and members better but reshapes our business model, resulting in a more profitable business with higher returns over time.

Speaker 4
3m 21s

Delivery speed continues to help drive our business. We'll soon reach 95% of the population in the US with delivery options of three hours or less. For Walmart US, the number of deliveries in less than three hours grew by 91% for Q1 versus a year ago. In China and India, we're frequently talking about delivery times that happen in minutes. We're confident in our ability to strengthen this business even as we navigate cost of goods changes. Our short and longer-term opportunities are clear. The immediate challenge is obviously navigating the impact of tariffs here in the U.S. Our mindset and approach haven't changed since our investor conference last month in Dallas. I want to thank President Trump and Secretary Bessent for the progress made recently. We're hopeful that it leads to a longer-term agreement between the U.S. and China that would result in even lower tariffs. We will do our best to keep our prices as low as possible. Given the magnitude of the tariffs, even at the reduced levels announced this week, we aren't able to absorb all the pressure given the reality of narrow retail margins. In retail, managing inventory is always important. In this situation, it's even more important and even more challenging.

Speaker 4
4m 36s

It's helpful that we're entering the second quarter with well-managed inventory. It's helpful that we're crossing the threshold of profitability with e-commerce globally and that we have these newer, higher-margin businesses growing like membership and advertising. It's helpful that we sell a broad assortment that includes food, consumables, and general merchandise. It's helpful that so much of our assortment is replenishable, which means we can flow it. We don't have to make a one-time call on a quantity. Instead, we can adjust a forecast and partner with our suppliers to adjust quantities over time as we navigate tariff impacts on costs. It's helpful that we have so many talented and experienced merchants and replenishment associates. Treating our suppliers well is a priority. We've worked with most of these companies for many years, and we'll be doing business together for many years to come. We'll have that longer-term mindset as we work together through this year. It's helpful that more than two-thirds of what we sell in the US is made, assembled, or grown here. In recent years, our US percentage has grown. Last year, we purchased $296 billion in the United States, and we made a commitment back in 2021 to add another $350 billion in incremental US volume over the following 10 years.

Speaker 4
5m 51s

We recently announced additional support for US businesses in the form of Grow With Us, which will provide small businesses in the US with the education, training, and resources they need to help them get started with us. You might be surprised to know that nearly 60% of our suppliers in the US are small businesses. We'll also continue to hold our open call event in October, where we invite US companies that aren't doing business with us to introduce their company and their products. That is one of the most fun days of the year for us as merchants. The merchandise that we import comes from all over the world, from dozens of countries. Other than the US, the other large markets are China, Mexico, Vietnam, India, and Canada. China, in particular, represents a lot of volume in certain categories like electronics and toys. All of the tariffs create cost pressure for us, but the larger tariffs on China have the biggest impact. The cost pressure from all the tariff-impacted markets started in late April, and it accelerated in May. Let me describe how we think about that and what we're doing about it. First, we want to keep our food and consumables prices as low as we can.

Speaker 4
7m 3s

Food prices in the US have gone up in recent years, and our customers have been feeling that all along. We won't let tariff-related cost pressure on some general merchandise items put pressure on food prices. As it relates to food, tariffs on countries like Costa Rica, Peru, and Colombia are pressuring imported items like bananas, avocados, coffee, and roses. We'll do our best to control what we can control in order to keep food prices as low as possible. An example would be controlling the amount of fresh food waste. In some cases, we're holding our retails where they are despite the tariff cost pressure. Flowers for Mother's Day at Sam's Club US is a good example. When it comes to the general merchandise categories that are impacted, we'll move production where that's possible. That isn't easy or fast, but we've been working on that for years, so it's not like we've just started to make adjustments. In some cases, we'll absorb costs within a category or department and not simply pass on a tariff cost attributable to each item individually. We'll be managing mix across items, categories, and businesses. We also have suppliers shifting materials from tariff-impacted components like aluminum to fiberglass where there is no tariff.

Speaker 4
8m 13s

Our merchants, sourcing team, and suppliers are being creative. It's been impressive to watch our team identify opportunities and adjust. As we continue to diversify our profit streams through our e-commerce offering, our marketplace, and membership and advertising, we have some room to absorb costs. We're committed to growing profit faster than sales. There isn't anything about this quarter or anything about this coming year that shakes our confidence about growing profit faster than sales over the term of our long-range plan. The strategy and business model are set up to do that. In summary, the takeaways from my remarks today are: one, we delivered a good first quarter. Two, our strategy and omnichannel capabilities are strong. We'll keep getting better in terms of assortment, delivery speed, and we'll keep scaling our newer businesses. We'll keep driving growth, and we'll control what we can control. We continue to be confident in our ability to strengthen this business even as we navigate cost of goods changes. Our short and longer-term opportunities are clear. Three, we're positioned to manage the cost pressure from tariffs as well or better than anyone. Even at the reduced levels, the higher tariffs will result in higher prices.

Speaker 4
9m 24s

The timing of the tariffs and our inventory receipts matters as you interpret our results by quarter. John David will say more about how retail accounting and timing will play out through the year. I'll wrap up my remarks today the same way I opened: by thanking our associates. Our store, club, and supply chain associates are working hard and learning new capabilities. Our home office and tech associates are partnering to manage the short term while building for the long term. We've been operating in challenging environments for years now, and we'll come through this one stronger than ever, just as we have before. We have Associate and Children's Week coming up. It's my favorite week of the year. I look forward to seeing so many of our associates and many of you here in Northwest Arkansas. John David, I'll turn it over to you.

Speaker 2
10m 10s

Thanks, Doug. Our first quarter performance demonstrates the strength of our business and the relevance of our omni-strategy in the context of a highly dynamic backdrop. I'm pleased with the continued sales momentum across the company, and it speaks to the competitive advantages that set us apart in the retail marketplace. Our commitment to delivering value and convenience to our customers is resonating more than ever. At the same time, we're driving progress in high-growth areas like advertising, membership, and marketplace services. Our April results were better than we had expected, particularly in Walmart US. Sales across segments improved as the quarter progressed, including strong Easter seasonal events. Our teams did a nice job managing inventory and controllable expenses, leading to a stronger-than-forecasted performance in both gross profit and SG&A. Consolidated revenue increased 4% in constant currency despite lapping last year's leap date, driven by strong growth in e-commerce of 22%. Currency headwinds reduced reported sales results by $2.4 billion, or 150 basis points of growth. Walmart US comp sales grew 4.5%, aided by strong e-commerce sales growth of 21%. Momentum in grocery sales continued with a mid-single-digit comp and ongoing share gains. Health and wellness sales increased high teens, reflecting higher prescription volumes and over-the-counter sales, while general merchandise sales declined slightly with softness in electronics, home products, and sporting goods.

Speaker 2
11m 46s

We're focused on value and managing our relative price position while also saving customers time with our e-commerce options. In Walmart US, we have more than 5,000 price rollbacks across our assortment, and we've seen private brand sales outperform, with grocery private brand penetration up 60 basis points versus last year. Our international business grew sales 7.8% in constant currency, reflecting strength in China and Flipkart. E-commerce was strong with double-digit growth across markets led by pickup and delivery in marketplace. We're increasing speed of delivery for customers. In international, items delivered same or next day increased by 35%, with about 45% of those items delivered in under three hours. At Walmart, lapping last year's government stimulus payments, the Easter shift, and some early quarter softness tied to a weaker and uncertain macro environment led to slightly softer sales than anticipated. We're encouraged by the pickup in business more recently, with sales back in line with our expectations. Sam's Club US comp sales ex-fuel increased nearly 7%, with strong growth in transactions, including strength in Members Mark. E-commerce grew 27%, led by triple-digit growth in club-fulfilled delivery and double-digit growth in pickup. Members value the convenience of Scan&Go, and their usage of this tool continues to grow, with penetration increasing 600 basis points versus last year.

Speaker 2
13m 19s

Over 50% of our members now transact digitally in some form with Sam's, online, or using digital solutions in club. From a margin standpoint, consolidated gross margin increased 12 basis points due to better-than-expected results at Walmart US, partially offset by lower-than-expected results in international, which saw increased pressure from channel and format mix changes. Gross margins in Walmart US increased 25 basis points, reflecting continued disciplined inventory management, including a lower level of markdowns and improvements in business mix that have offset increased pressure from merchandise category mix. As our business model evolves, contributions to profitability are increasingly influenced by a diverse set of drivers, including improved e-commerce economics and business mix. We achieved e-commerce profitability both in the US as well as for the global enterprise in Q1 for the first time, an important milestone for our company. In the US, e-commerce net delivery costs have declined as we've continued to densify our last-mile deliveries and as customers pay fees for faster delivery. Business mix, most notably from higher margin areas like advertising and membership fees, also contributed to the improvement in Q1 profitability. Our advertising business across markets increased 50%, including Vizio. Walmart Connect in the US, which doesn't include Vizio, grew 31%.

Speaker 2
14m 50s

Sam's Club US ad business was up 21%, and we saw 20% growth in our international markets led by Flipkart. Membership fee income was up nearly 15% across the enterprise. In the US, Sam's Club continued to see steady growth in member counts, renewal rates, and increased penetration of Plus members, resulting in membership income growth of 9.6%, while Walmart Plus membership income grew double digits. Within international, membership income from Sam's Club China grew more than 40% as member counts continued to increase. SG&A expenses deleveraged 6 basis points, including the benefit from lapping last year's business reorganization cost. As expected, international and Sam's Club US expense deleverage reflects planned investments in associate wages. Walmart US deleverage reflected increased depreciation expense as well as Vizio operating costs post-acquisition. As we previewed at our investor day, we experienced higher-than-expected casualty claims expense. We're accruing a higher rate for claims costs based on the industry trends that point to higher risk adjustment factors. We expect this trend to persist for at least a few quarters. Adjusted operating income was better than expected with growth of 3% in constant currency, and adjusted EPS of $0.61 was higher than our guided range. Importantly, our inventory is at a healthy level, up 3.8%.

Speaker 2
16m 18s

That's obviously as important as ever as we head into a tariff-impacted period where cost pressures will impact item pricing and make it more challenging to anticipate demand by item. This is a highly fluid situation, and we'll need to manage quantity decisions as we measure the price elasticity of impacted items. I'm grateful that we have a team of experienced merchants, various levers we can pull, and the tools available to manage this in a thoughtful and proactive way. Our cash position provides the flexibility we need to lean into opportunities to grow share while also continuing to invest in areas with long-term strategic value, such as supply chain automation, store growth, remodels, and tech. In April, we completed an approximately $4 billion debt issuance at attractive terms. We continue to expect FY26 CapEx to be in the range of 3-3.5% of sales. During Q1, we repurchased $4.6 billion in stock, an amount equivalent to our share repurchases for the entire year last year. We have a lot of confidence in our business, and we'll continue to be opportunistic with buybacks if share price dislocations occur. Now, turning to guidance. As a matter of practice, we provide an update on our full-year outlook at the end of the second quarter if appropriate, but I'd like to give some color on how we're thinking about the impact from tariffs.

Speaker 2
17m 42s

I want to start with reiterating our message from our investor day in early April. We have a lot of confidence in our strategy, and there is nothing about this current period that makes us feel differently about anything we've previously said about our long-term financial framework to grow annual sales about 4% and operating income faster than sales. We've seen during periods of economic uncertainty in the past, we tend to gain share and come out of the other side in an even stronger position. We expect this period to be no different. We'll play offense and may opportunistically invest in areas to improve our value proposition, but we're not fully immune from the financial impacts in the short term. We've done work internally to model various scenarios related to the ongoing trade policy discussions. These scenarios involve making assumptions about how long tariffs persist at certain levels versus coming down to some lower level once bilateral trade deals are completed. We also must make assumptions about the elasticity of demand as well as the overall macro backdrop in this environment. Perhaps it's obvious, but worth stating: the range of possible outcomes is much greater than when we originally provided our annual guidance.

Speaker 2
18m 51s

That said, in what we believe are the most likely scenarios that we've modeled, we still have the ability to achieve our full-year guidance for both sales and operating income. These scenarios involve the belief that trade policy discussions will result in bilateral agreements, agreements in principle, or the existence of good faith discussions moving toward agreements that could result in tariff levels lower than those initially proposed in early April. However, if we see a restoration of dramatically higher tariff levels, the impact on our financials could be significant and even jeopardize our ability to grow earnings year over year. In any case, we're comfortable with our ability to grow sales in the range we've guided for the year, though the mix of AUR versus units may be much different in these scenarios. While the swings from quarter to quarter could be large, we still think we can achieve our operating income guidance for the year given what we know and our assumptions that I referenced. Should more progress on trade in the next several weeks be favorable, there could be upside. If elevated tariffs remain in place for an elongated period, there would be downside risk. We will know a lot more in a couple of months, but we are equipped to manage this as well or better than other retailers.

Speaker 2
20m 6s

Turning to the second quarter, the operating environment is highly fluid, and it makes the very near term exceedingly difficult to forecast. The level and speed at which tariff-impacted prices could go up is more extreme than in normal periods. The U.S. is, by far, our number one market for sourcing. For the less than a third of what we sell in the U.S. that's imported, China, Mexico, Canada, Vietnam, and India are our largest markets. As Doug noted, we're encouraged by the recent trade negotiations, especially concerning China. The level of tariffs that result from those discussions and the timing of when they ultimately become final may cause larger swings in our financial performance from one quarter to the next. Moreover, there are two specific accounting methods that make these swings more difficult to forecast. I want to take the time to explain these because they may impact the second and future quarters given cost pressures caused by tariffs. The first relates to our method of accounting for the cost of inventory for the majority of our US business, the retail inventory method, or RIM for short. We've always used RIM in Walmart US. It's not new for us, and it's a common method of accounting in the retail industry.

Speaker 2
21m 19s

RIM accounting applies a ratio of the actual cost of the inventory to its retail price to calculate ending inventory and therefore derive cost of goods sold. As prices go up, this can result in the potential for markups on our inventory and increased merchandise margin gains relative to periods of more constant price levels. To the extent that later markdowns need to be recorded, it can have an offsetting effect. The magnitude of these swings, both positive and negative, given the level of additional costs that could be applied to the inventory that we're purchasing right now, are unprecedented in our business and could result in swings in margin and earnings by quarter. The second is the possibility of LIFO-related charges as prices go up, which we experienced in Sam's Club US during a sustained inflationary period in fiscal year 2024. We currently expect that sales growth on a constant currency basis will be in the range of 3.5%-4.5% for the second quarter, though the composition of sales through AUR versus units may be different than what we expect today. Notably, if current exchange rates were to stay where they are right now for the entire second quarter, we would expect a headwind of approximately 120 basis points to reported sales growth.

Speaker 2
22m 33s

For operating income, the range of outcomes for the quarter is much wider. The information related to the trade discussions taking place is changing by the week and in some cases by the day. Importantly, we also want to provide flexibility for us to play offense in this environment. Lastly, our method of accounting for inventory could have a larger impact on our earnings than in normal quarters. For these reasons, the range of outcomes for the quarter is so wide that it would be impractical to provide a range of operating income guidance that investors could credibly rely upon. I want to encourage you to think about the next couple of quarters in the aggregate. We may experience larger gains related to markups in the second quarter, and some of those may be offset by markdowns in the third and fourth quarters. It is why we've underscored the importance of managing inventory well in this environment. In total, though, we believe that we can still achieve our operating income guidance for the year. In closing, as we look ahead, while operating conditions are expected to remain dynamic, our strategy is clear, our top-line momentum is strong, and we're flexing into our advantages to protect margins as we grow.

Speaker 2
23m 43s

History tells us that when we lean into these times of economic uncertainty, we emerge on the other side as a stronger company. We expect this time to be no different. We appreciate your interest in our company and are now ready to take your questions. Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question today, please press Star 1 from your telephone keypad, and a confirmation tone to indicate your line is in the question queue. You may press Star 2 if you'd like to withdraw your question from the queue. For participants who are using speaker equipment, it may be necessary to pick up your handset before pressing the Star keys. We may address questions for as many participants as possible. We ask that you please limit yourself to one question. One moment, please, for our first question. First question today is from the line of Paul Lejuez with Citigroup. Please proceed with your question. Hey, thank you, guys. Thanks for the detail on your pricing philosophy tied to tariffs. Very helpful. My question is on e-com. Big milestone for the company, achieving profitability in the e-com business. Just curious what finally got you over the hump and where to from here in terms of where margins in that business can go relative to the rest of the business, and what do you see as the key drivers of further improvement to e-com profitability from here?

Speaker 2
25m 7s

Thanks. Paul, thank you for your question. This is John David. Let me start with just giving a little bit more detail on the global e-com profitability. We noted that we achieved it on an enterprise basis globally as well as for the US segment. For you to break that down by segment, the US was profitable, Sam's was profitable, and the international was slightly unprofitable. If you take all of those together, we had a profit for the quarter, so we're really pleased with that. There are a few things that have driven the performance, notably in the US, and John will talk more about this, but one is the densification of our network. What I mean by that is we have more customers that are coming to Walmart now and taking advantage of our e-commerce offerings. We're able to spread those deliveries over multiple households. Think about the opportunity to deliver a package to five houses on a street versus one house on a street. As we grow, we continue to spread those costs over more volume. The second is delivery cost, and this is where John and his team have made a tremendous amount of progress in reducing the unit costs, and this is a lot of the supply chain infrastructure that we've implemented.

Speaker 2
26m 18s

Part of that too is the willingness that customers have shown to be able to pay for expedited delivery. What I mean by that is delivery within one hour, within three hours. We noted in the last quarter that fully a third of our customers are taking advantage of that option, and it shows the relevance of convenience. We've seen an uptick in that even in the most recent period. John, maybe you want to add a little bit more, but to me, those are a couple of things that stand out to help improve the profitability. Yeah, thanks, John David. Paul, a few things. If you look back over the last few years, I think it's a combination of investments we made for about the last decade, and those investments would include getting our applications to a single app, building new fulfillment centers, enabling stores to be part of the Omni solution. The speed of delivery has been encouraging the last year. Our sub-three-hour deliveries are up about 91% year on year. John David mentioned also the scale of the operation. It has taken a number of years, but we're pleased with the progress and the growth. We've been running 21% growth for multiple quarters in a row.

Speaker 2
27m 28s

For customers in particular, what the team has done that I've been really impressed with is providing customers flexibility to serve customers when they want to be served the way they want to be served. A Walmart customer can shop at the counter, they can shop with curbside pickup. We have in-home delivery. Our first and third-party delivery options, including fulfillment services for our sellers, have been on a strong growth rate for the last few years, and that has resulted in, as John David said, lower delivery costs due to density and frequency. All of that put together has enabled helped us enable business mix with advertising our data businesses. When you put it all together, just really proud of the team to be able to sit here today and announce a quarter of profitability for the first time, as we told you just a month ago when we were together in Dallas. Importantly, the team has exited the quarter with momentum. There was a strong April, we had a strong Easter. Our Omni capabilities enabled us to deliver floral and other things that people need last minute for the Easter holiday and Mother's Day. We'll keep working on better ways to serve customers, improving speed, improving density, and working efficiently across all the channels.

Speaker 2
28m 40s

Thank you, guys. Good luck. Our next question is coming from the line of Simeon Gutman with Morgan Stanley. Please proceed with your question. Hey, good morning, everyone, and good quarter. Doug and John David, you both touched on this. You built this business and financial model now that your margins could go up and invest faster for growth at the same time. I've asked you in the past about the toggling that balance, and I kind of heard some of the prepared remarks on this. I'll push back and say, why not toggle it in favor of investments even more in this environment? We know how much or how important it is getting more gross profit dollars, especially in GenMerge. Why not lean into there? You said it yourselves, Walmart should be better positioned than most to navigate this environment. Thanks. Yeah, thanks, Simeon. This is Doug. I'll go first, and then John David can comment. I think with our guidance, where it is for the year, we positioned ourselves to be appropriately aggressive. I think as the quarters play out, we may make different choices depending on what's happening with pricing. It is fluid. We're watching what's happening with cost of goods.

Speaker 2
29m 48s

There are a lot of moving parts as it relates to merchandising these days. As it relates to the retail prices, we'll watch where our price gaps are, but we'll also watch what customers are telling us and the response that we get from them and the pressure that they're feeling. The bottom line is if we need to invest more, we can. Having said that, I really want to grow profit faster than sales. We've been working on this for a long time. I think we deserve that. You guys deserve that. If we can navigate this in a way as we balance all the interests between customers, shareholders, and everyone else such that we can keep prices low enough to help people and grow profit faster than sales, that's what winning looks like to me. I would underscore the points that Doug made. I feel, Simeon, that we are striking the right balance between investment and growing profits. If you look over the last two years, we grew operating income about 10% on average. Our guidance is, let's call it roughly half of that this year. This is a year of investment. Even while doing that, we are hopeful to be able to grow profits faster than sales.

Speaker 2
30m 53s

If there's, to me, a story about the quarter from a financial perspective, it's really one of the diversification of our income streams. You are seeing all these things play out. If you were to just take advertising and membership as an example, that's a quarter of our profits. Membership was really strong in the quarter. We grew each segment. Membership, double digits. International was north of 20%. You are seeing this diversification of our income streams that allows us to continue to take a very long-term perspective and invest in this business. These are always a little tricky in terms of striking that right balance, but we feel like the plan that we have right now is the right one for us. Thanks. Good luck. Our next question comes from the line of Christopher Horvers with JP Morgan. Please proceed with your question. Thanks. Good morning, everybody. I wanted to ask a question about the consumer and the upper and lower end. You called out strong gains with upper-income households. Is that coming through on the e-commerce side mainly in addition to what's going on in the store? On the other side, there's been a dialogue in the market that maybe the lower-end consumer is getting weaker and seeing some incremental pressure and perhaps leading to some bottom-of-funnel loss where they're trading out of Walmart to lower sort of unit, lower average cost locations and doing smaller shops.

Speaker 2
32m 21s

Can you talk about what you're seeing on both sides in terms of the health as well as the share performance? Thank you. Christopher, it's John. I'll first anchor on comments that John David made early this morning, which are that customers, in some cases, we've heard of some concern. They remain choiceful and consistent, and we continue to see customers prioritizing value and speed of delivery. We have seen growth across all income cohorts in the quarter. Fortunately, and proud of the fact that in April we saw a number of new customers, and it's probably a good time to remind you just the shape of the quarter in terms of the calendar. This is a calendar where we had leap year last year, and then we had a very late Easter. February was softer than we expected. March was back to normal, and we exited the quarter with a very strong April, including a strong Easter holiday, which is a reminder that customers are prioritizing seasonal events, getting together, having meals at home. Importantly, we want to be very flexible for our customers. If customers choose to shop in-store, we want to have a great store experience. We are very pleased with our remodel program.

Speaker 2
33m 34s

We continue to see accelerated results and high NPS scores after remodel. Our fast delivery scores are some of the highest scores that we have in the company. Over the course of the rest of the year, you will continue to see us expand our capacity and capability to deliver from FCs quickly, including same day, next day, and two days. We are growing our fast delivery options almost 100% year on year. You heard that this morning, growing 91%. We will continue to focus on value with great products in meat, produce, our Better Goods line. Really proud of the progress in apparel. Toys has had a strong quarter, particularly the holiday. We will remain very, very flexible for our customers as we move throughout the year. I think from a Sam's Club point of view, I underline everything that John just said. I think that right now, I think we are leaning into the power of the model of the membership warehouse retail model. We have incredible prices because we have curated items for members. What we find is that this resonates whether you are earning a lot of money or whether you are working through how you spend your money each toward the end of your pay packet. We are seeing growth in convenience.

Speaker 2
34m 49s

We really see that convenience is something that resonates for everybody. In fact, what we give them back is the power of time. If we make things easier for people, they have more time, and that's incredibly valuable to people. I would just close by saying that the growth in our membership, the 5%-10% growth in our membership income is driven by more people renewing, more new members, and a higher mix of plus participation. We're seeing that across all of our income cohorts. Our next question is from the line of Peter Benedict with Baird. Please proceed with your question. Hey, good morning, guys. Thanks for taking the question. Mine's kind of on capital allocation. You talked about CapEx, 3%-3.5% of sales. Sounds like that probably trends towards the upper end of that range this year. I'm wondering if you could frame where we stand with the automation investment and the spend on that front. Should we be thinking CapEx in dollars is kind of at a peakish level here, at least for the intermediate term. On the buyback, great to see in the first quarter, it looks like you spent, as you said, more than last year, but also more than two years ago.

Speaker 2
36m 3s

Any way we should be thinking about that going forward and your willingness to commit more to buyback? Thanks so much. Sure, Peter. Thank you for the question. On capital allocation, I'll start with CapEx. The right way to think about that level for our business is in the 3-3.5% of sales. That should grow with revenue as we go forward. It may vacillate a little bit between the top end and the bottom end of that. Given what we know and the opportunities that we have to drive improved returns through some of this investment, we're not shying away from this. We're taking a very long-term perspective, even in this current operating environment where we see some of those costs are coming in higher. We look at capital allocation as every dollar has to fight for its highest return. This is one of the best ways that we can spend a dollar. That said, we saw significant price dislocation in the quarter as some of the uncertainties filtered through the market. We are very aggressive in our share buyback, as I noted, buying back more than we did in the entirety of last year. We will continue to do that as we see price dislocation because we have a lot of conviction in our strategy.

Speaker 2
37m 13s

We have a lot of confidence in the plan that we have. We believe there is a lot of shareholder value to be created here. As we see these types of dislocations, you are going to see us be more aggressive. I think it is fair to say, obviously, we are going to use, we are going to spend more in share buyback this year than we did last year, given that we have already done that one quarter into the year. The total amount of that is to be determined. We will see where prices are. We need to balance this with both increasing our dividend as well as investing in ourselves through CapEx. Our next question is from the line of Brad Thomas, Key Bank Capital Markets. Please proceed with your question. Thanks. Good morning. The Walmart Connect growth was particularly impressive this quarter and showed some acceleration for you. I was wondering if you could comment a bit more on the strength in advertising and any incremental learnings you've had so far as you continue to integrate Vizio. Thanks. Hey, Brad. It's John. We had a good quarter with Walmart Connect, as you mentioned, up 31% year on year and also a strong quarter around the world and the other advertising businesses that we operate.

Speaker 2
38m 21s

We're in the initial stages of integrating Vizio. I'm excited about the plans we have for Vizio the rest of the year. It's a great operating system, very frictionless, easy to sign up, and we're looking forward to the contributions of the Vizio team going forward. In terms of the core advertising business, we've had strength with the growth of advertising with our marketplace sellers. Our GMV and marketplace has been very consistent in the mid to high 20s. Last quarter was in the mid 20s as well. We also have had continued strength with first-party and third-party suppliers. It is a broad mix of capabilities. Additionally, this quarter, we launched pharmacy delivery, and that is another opportunity for our customers to enjoy the flexibility that we offer. There will be new opportunities, I think, as we go forward and look ahead. In general, we're really pleased with the progress, the momentum, and the team that we've established in Walmart Connect. Our next question is from the line of Michael Lasser with UBS. Please proceed with your question. Good morning. Thank you so much for taking my question. John David, in your remarks, you said if elevated tariffs remain in place for an elongated period, there would be downside risk.

Speaker 2
39m 38s

You guys are astute poker players and probably will not clearly define what elevated tariff rates are, but would you consider the current level of tariffs to be elevated, meaning that there could be downside risk if they do not come down? More importantly, over the long term, is there anything about this tariff situation that would existentially impact Walmart's margins, meaning that given the opportunity of time and flexibility, you would be able to fully mitigate all that you see in front of you and such that you would be able to have margin rates that are consistent with what you would expect to do over the longer term? Thank you very much. Thanks for the question, Michael. Let me start with the second part of your question first. We do not see anything, and we indicated this in our prepared remarks. We do not see anything that changes the way that we think about our business long-term related to the current environment that we are in. We think that we can navigate this. I think the thing that everyone is focused on, certainly the Fed, is to make sure that these are a one-time price increase and not something that persists and bleeds into wage growth and other things that have a more longer-term effect.

Speaker 2
40m 57s

In terms of the first part of your question, what I was referring to is the level of tariffs that were announced at the beginning of April. Keep in mind, a week ago, we were at 145% tariffs in China. Certainly, you know, as well as anyone, the preparation that goes into this day for us. When we started the preparation around earnings, that's the construct that we were working under. A 145 tariff environment and tariffs at a level that are approaching 50% for other countries is not a good outcome for retailers. It's not a good outcome for the economy. We're very pleased and appreciative of the progress that's been made by the administration to bring tariffs down to this level. The guidance that we gave today, the affirmation of our full-year guidance, is with tariffs at this level. Let me emphasize, we still think that's too high. There are certain items, certain categories of merchandise that we're dependent upon to import from other countries. Prices of those things are likely going to go up, and that's not good for consumers. The next question is from the line of Edward Kelly with Wells Fargo. Please proceed with your question.

Speaker 2
42m 10s

Hi. Good morning, everyone. I wanted to follow up on another tariff question and inventory planning. As you've stated, it's a difficult backdrop for planning inventory. Tariffs, obviously, moving target. I think uncertainty around elasticities. Against that backdrop, how are you thinking about the planning of the inventory? Do you stay lean, hoping that tariffs come down? Do you get aggressive because we're on a 90-day pause? Bigger picture question that I have related to this is, can you avoid the risk of another 2022 scenario given the dynamic backdrop? Do you think that that's a risk for retail? Thank you. Yeah, thanks for the question, Edward. This is Doug, and you guys can chime in if you want to. I think the way to start is to remind you, as I said in my prepared remarks, that we have a lot of replenishable items at Walmart. It's such a strength to be operating off the side counters rather than some sort of high-low marketing-driven model where we're focused on features and the actionality and the in-caps, for example. On replenishable goods, we have the opportunity to partner with our suppliers to see what happens with sales as costs and then eventually retails adjust and then manage that through the weeks and months ahead.

Speaker 2
43m 29s

That's a great position to be in. Our merchants and our replenishment team are really good at that, and they're managing that on a daily basis. As tariff numbers have changed, they've done a great job of pivoting, recalculating quantities, and thinking through it again. Where it can get more challenging is we make decisions related to things like Halloween and Christmas farther out. How do you make a quantity call? What tariff number do you use? The best answer we can give you is we've got a sales plan. We're operating against that sales plan. Some of the quantities will be adjusted based on what we think the tariffs are going to be. We've made some tariff assumptions, and then we'll partner with our suppliers to flow that. If we need to chase goods, chase some goods. The bottom line is, yeah, we want to avoid what happened back in 2022. By paying close attention to our unit decisions, that's how we'll do it. Our next question comes from the line of Kate McShane with Goldman Sachs. Please proceed with your question. Hi, good morning. Thanks for taking our question. We wondered if you could talk about how the tariff situation is impacting your sellers on marketplace, both from an inventory standpoint and how you think about the contribution to advertising as a result of this more difficult environment.

Speaker 2
44m 46s

Hi, Kate. It's John. In terms of overall inventory management, Walmart, along with our capability to serve sellers, we've built a number of tools in the last three years that are particularly helpful. For sellers in particular, having services like Walmart Fulfillment Services with heightened visibility of their inventory, where it is, our ability to move around the country is particularly helpful. As we sit here today, the ports are flowing, inventory is moving. We don't have any concerns at this point about port backups in the United States. Our inventory is flowing through. I did mention earlier that our GMV growth rates in marketplace, in particular, have been consistent over the last few quarters. You saw that in the release. We are also seeing that again as you exit the quarter. We had a strong April in e-commerce. This is a big contributor to the overall health of the e-commerce business with the 21% growth rate that has been in place for some time, which we are pleased to see. Finally, adding together our stores, our first-party e-commerce business, our new automated fulfillment centers, distribution capabilities, our third-party business and fulfillment services, that has enabled us to have this ad business and data business, which has helped us mix out to achieve our first quarter of profitability in the US.

Speaker 2
46m 9s

The next question is from the line of Scott Schiccarelli with Truist Securities. Please proceed with your question. Good morning, everyone. I know you talked about 50% growth in advertising and 15% in membership. Can you help reconcile those figures against what looks like just under 4% growth in the membership and other line in the P&L, just so we can better understand the components there? Secondly, now that e-com has turned positive, can you provide any color on the magnitude of losses you had incurred over the last, call it, year or two, just so we can better understand the size of the profit improvement? Thanks. Sure. I'll take the question. First, on advertising, really pleased with the growth that we've seen there. It was inflated this period because we've got VIZIO in there versus comparing against a period that we don't. Our overall advertising on an apples-to-apples basis was 27%. We feel really good about that. On membership, we felt really good about the progress there. As I noted, we had international that grew north of 20%. Both Sam's and US grew double digits. The line that we have in our P&L includes other. It says membership and other.

Speaker 2
47m 19s

That includes things like sustainability income. Think about recycling revenue, things like that. That is probably a larger figure than what some people expect. That is the reconciliation to, I think, the 4% number that you quoted there. Overall membership is actually, it is really one of the shining points of the quarter. We are doing really well there. On e-com losses, I do not think I want to get into the magnitude of some of the losses that we have had historically. We have consistently, though, for years, seen improvements there. You'd have to go back several years to see the depth of sort of where losses topped out. John and his team, and it's really all segments. If you look at what Flipkart's doing in India, look at what Sam's has been doing, we've continued to see contribution profit be positive. With a digital platform, as you grow that at a positive contribution profit, you ultimately get to overall profitability, which is where we are today. This is kind of a milestone moment for us as a company. Hopefully, we don't talk about it every single quarter, but I think it's notable this quarter that we've reached this milestone and we've achieved this level of profit.

Speaker 2
48m 28s

We're looking forward to continuing to have that grow into the future. The next question is from the line of Robbie Ohmes with Bank of America. Please proceed with your question. Hey, good morning. Thanks for taking my question. I was wondering if you guys could talk, give a little more detail on general merchandise. You guys had deflation in general merchandise in the first quarter. Can you help us think about deflation versus inflation and tariffs for the outlook here for the next three quarters? Also, are there pretty significant differences between mix of general merchandise or changing in mix of general merchandise for in-store versus what you guys are doing in e-commerce? Robbie, thanks for the question. I'll start, and some of the others may want to jump in. General merchandise has been deflationary for over a year right now, and we've seen the impact of that. Think of it as deflationary and low single digits in the quarter. Importantly, though, we grew units in the quarter. We continue to see progress there. The consumer is pressured. We've seen for a couple of years now a shift in the baskets away from general merchandise to those items that are more necessities versus discretionary.

Speaker 2
49m 52s

People are spending more on food. We'll continue to monitor that going forward. The team, in particular, has made really good progress on the assortment that we have and really advancing general merchandise there. John, you want to? Sure. Sure. Robbie, good morning. We did see strong growth in categories like toys, kids' apparel, and our baby categories, and others across the business. We do have stronger growth rates in e-commerce. In the total, you can see that as well with 21% growth rates, which would reflect really a strong mix across categories. As we look at where we ended the quarter, we were softer in February. Just a reminder, we had really tough weather. It was lapping leap year. We had snow across the country, including the southeast and on beaches across the southeast. We had unusual weather in February. Mentioned this earlier, March felt like more of a normalized month, closer to what we expected given the flip in leap year and a much later Easter. As we got to Easter holiday, the units strengthened pretty significantly. We reported this morning that we were slightly negative in general merchandise with deflation, but was really encouraged by the results that we had from the Easter holiday until the end of the quarter.

Speaker 2
51m 11s

In Sam's Club, we hit a positive quarter of GM sales back to back in a deflated environment. Units are the driver of that performance. Our next question comes from the line of Rupesh Parikh with Oppenheimer. Please proceed with your question. Good morning, and thanks for taking my question. I just want to go back to the strong momentum in the health and wellness category. I just want to get a sense of how you guys feel about the sustainability of the momentum. As you look at the pharmacy rollout, how is that trending versus expectation? Any sense of whether it's driving new customer acquisition at this point? Hey, Rupesh, thanks for the question. When we look at the pharmacy business, and you saw in the reported results this morning growth in the mid-20s, when you strip out the impact of GLP-1s, we saw prescription growth, over 10% growth in the quarter, which is very encouraging. That result is inclusive of market share gains. It's driven by a few things. First, I would just like to compliment our pharmacists, our pharmacy techs, the team in the field who do such a great job helping customers and patients with whatever they need help with.

Speaker 2
52m 21s

The second was the initiative of pharmacy delivery, which we launched in the first quarter, which has been helpful not only for customers to receive their prescriptions the way they want to receive them, but it has resulted in growth of new digital users in our e-commerce business. We have had a digital business with text message for some time where you could renew. Now that you can deliver, we see people signing up for an account on walmart.com in our app. We are looking forward to being able to serve them in more ways across categories. I think it's worth mentioning that Sam's, once again, for the ninth year in a row, won the J.D. Power Pharmacy Company of the Year. The ex-GLP growth is still double digits, so it's over 10%. We're feeling really good about that business. Our next question is from the line of David Bellinger with Mizuho Securities. Please proceed with your question. Hey, good morning. Thanks for the question. First of all, just on understanding outcomes for Q2 are so wide on the guidance right now, and you can't give us a definitive range there on profitability. Can you just walk us through your positioning on the full-year guide?

Speaker 2
53m 31s

Why are you still confident to keep that range? Do you expect these wide swings you talked about on margins and operating income, could those be contained within the combined Q2 and Q3 timeframe? Definitely anything on the international and the momentum you're seeing there, especially on the operating income side. Thank you. I'll start with the first part of your answer, then kick it over to Kath to talk about international. It's hard to predict. We don't know the level of tariffs or where the bilateral agreements are going to finalize at. We do know that we're probably going to be in a period in the second quarter where we're going to see more markups than normal. It's why Doug and others have mentioned that it's so important to get inventory right in this environment because that reduces the likelihood of taking markdowns in the third quarter and potentially even into the fourth. It remains to be seen what the elasticity of demand is. It's something that's 30% higher or, in other cases, 10% higher in certain items. We have to see that. We've got a really, really good team of merchants, and we have a lot of confidence in their ability to navigate this environment.

Speaker 2
54m 44s

Fortunately or unfortunately, depending upon how you look at it, we've got some experience here from a couple of years ago. We will try to navigate this. As Doug said, I like our hand here. I think we can navigate this as well or better than anyone. There is a lot of uncertainty, a lot of volatility. It's a dynamic and fluid environment. We feel confident that we can land the year in the range that we've talked about. The swings from quarter to quarter are a little harder to predict. We have to see how that comes. Yeah. If I pick it up from there because definitely foreshadowed that we have swings by quarter in international when we're together in Dallas. If I was to characterize the quarter, I would say it was a good result, but I think we can still do better. I do not think my team would be surprised to hear me say that because I think that's the constant posture we typically have. When I look across the composition of the markets, we had a couple that had a weaker backdrop, which would be more Mexico and Canada. I think we made strategic investments in high-growth markets like India.

Speaker 2
55m 45s

You heard Kalyan, our CEO at Flipkart, talk about that when we were together at ICM. I think we also had some choppy calendar results, leap year, Easter, etc. When I step back and kind of look at the overall result, I think we're in high-growth markets. We've got really strong businesses, and we're in a leading omnichannel position in those markets. I think, holistically, still feel really good about leading the enterprise from a growth perspective and growing profit faster than sales across the full year. This is Doug. It's probably worth just repeating one more time the point about retail accounting as it relates to the timing between Q2, Q3, Q4. In Q2, if we have a markup, we take it on all the inventory we have on hand, even if we don't sell it in that quarter and even if we don't ultimately sell it at that price. You could get a situation where Q2 earnings look unusually high and the range of outcomes is wider, which is why we're not providing guidance for the quarter. Think about Q3 and Q4. Can you sell it at the price that you marked it up to? Yes or no?

Speaker 2
56m 55s

What do the resulting margins look like? How do you manage markdowns? How do you manage inventory effectively through the Q3 and Q4 period? There may be more markups in Q3 and Q4. We do not know right now because this environment is so fluid. I hope that helps everybody. I just want to make sure that you all understand this is an accounting issue, a timing issue, but it ultimately boils down to how well we forecast sales, manage inventory, and make quantity decisions. Our next question is from the line of Greg Mellick with Evercore ISI. Please proceed with your question. Hi. Thanks for all the detail on the tariffs. I guess, Doug, I just want to follow up on that last point. Given where we are today with the tariff rate, the 30% incremental China and then the 10% seems to be the baseline, what's the time lag that you would expect to see that show up on the shelf? Is it three months, six months is when the peak effect would be? As another question to that, what's the sort of magnitude? Are we talking 50 or 100 basis points if it had to pass through at current rates?

Speaker 2
57m 58s

Greg, it happens gradually. As we mentioned earlier, we started to see increases happen in April and through May. We've been really focused on back-to-school receipts. When you have an imported item, you pay the tariff at the time it comes through customs. The cost is higher. Even if the tariff rate comes down later, the cost has been elevated. I would not think of this as a moment in time necessarily, except when you think about seasonal things like back-to-school. I think it will feel more gradual. As we have been saying to everyone, the first thing that goes through my mind is food inflation. We have been through a number of years here where prices have gone up on food, and our customers have felt that, and they do not want any more food inflation. What we hope happens is that there are changes from a policy point of view that help us get prices back ex tariffs on bananas and things that we do not grow here. Food inflation is very much on our mind. As it relates to GM, it will vary by category. Which country is it? If it's from China, obviously, it'll have a higher amount. This reset of costs will play out through the year.

Speaker 2
59m 6s

We'll have seasonal items that'll be higher than they would have been otherwise. I think what we're looking at is upward pressure that began in April and plays through the entire year on things that are imported. Again, we've been working for years to try and make sure that we've got surety of supply, we're sourcing from the right places, create a more flexible supply chain, and we've made progress on that. I think relative to others, we're well positioned. Our next question comes from the line of Christina Katae with Deutsche Bank. Please proceed with your question. Hi. Good morning, and thank you for taking my question. I wanted to ask about the evolution of marketplace and specifically what your strategic priorities are for the current fiscal year as it relates to seller additions, where you are looking to expand the depth or breadth of the assortment. Just given the cost of tariffs, how are you thinking about general merchandise elasticity for the in-store business versus marketplace in the back half of the year? Thank you. Hey, Christina, it's John. I think the first thing that is important to note is we want to be flexible for our customers and deliver what they want, when they want it, however they want it to be delivered.

Speaker 2
1h 0m

What you'll see in the coming months, quarters, and years is a continued focus on expanding our assortment to be able to deliver our customers what they're looking for without the need of looking at another app or going to another location. Our supply chain capabilities that include our new next-generation fulfillment centers, our ability to use our stores for delivery in a very dense, local, low-cost way are all parts of the solution to be able to serve customers flexibly. Assortment would be first. Second, we want to ensure that we have the right suite of services available to our sellers. Our sellers need to know where their inventory is, their rate of sale. We have an application they can look at on their phone that tells them a lot of the critical information that they're going to need. Third, our sellers who are launching brands, developing brands, or selling someone else's product, they're looking for ways to connect to relevant customer cohorts that are interested in their products. Being able to use our data to help them access cohorts who are interested in their categories and then advertise through Walmart Connect is a big part of the solution that all of our sellers are going to need.

Speaker 2
1h 1m

In terms of elasticity, we watch elasticity, and we are constantly reforecasting quantities, placement. This is something that we do each and every day, every week, every month, every quarter. There will be a period here where we will be watching this, and we are watching this very closely with much better tools and visibility to know what we own, where it is, and where it is moving. We will continue to ensure that, just as we talked about earlier, the supply chains continue to flow. We are in stock for our customers in the store at the counter. We have great quality produce and fresh. Finally, our fulfillment center inventory is placed well so that if a customer places an order, we will be able to deliver it in a very fast manner and meet the promise that we told them. If I can just chime in from an international perspective, we are very proud of the progress we are making in Flipkart. If I focus on our other marketplace businesses in Canada, Chile, and Mexico, our total marketplace GMV grew over 30% year on year. A lot of that is because in this quarter, we signed up over 4,000 new sellers in Mexico and Canada.

Speaker 2
1h 2m

We also launched Walmart Connect for our marketplace sellers in Canada and have seen really high engagement with that. Our SKU count grew over 80% in Canada and Mexico over this last quarter. A lot of upside and a lot of growth and momentum in our marketplace business across international. Thank you. At this time, we have reached the end of the question-and-answer session. I will now turn the call over to Doug McMillon for closing remarks. Thanks again for dialing in and asking great questions. We have momentum, and that momentum continues. We feel good about our ability to win with customers, to serve them how they want to be served. We are encouraged by the fact that e-commerce growth across all three segments continues to be strong, all three segments growing more than 20%. Secondarily, we are strengthening our business model, playing that through regardless of what is happening with tariffs. The 50% growth in advertising, the 15% growth in membership, I think, are really encouraging. Thirdly, as it relates to the short-term environment, we think we are positioned to manage this as well or better than anybody. We will do our best to serve our customers well, to help keep prices low. That is really important in an environment like this, and it is our purpose. That is what we are here to do.

Speaker 2
1h 3m

We believe we can do that while continuing to execute the strategy, change the business model, and grow profit faster than sales. That is our consistent message, and we are confident in our plan. This will conclude today's conference. Let me disconnect your lines at this time. Thank you for your participation.